Centrica plc
Preliminary results for the year ended 31 December 2005

Financial overview:

- Turnover^ up 18% at £13.4bn.
- Operating profit*^ increased by 11% to £1,513m.
- Earnings*^ down 4% to £661m due to higher tax and interest charges.
- Adjusted basic earnings per share up 1% to 18.2p.
- Cash inflow from continuing operating activities £1,131m.
- Ordinary final dividend of 7.4p per share, making a full year dividend of 10.5p per share.

Operating overview:

- British Gas Residential Energy profitable in the year but losses in the second half
- British Gas Services turnover exceeds £1bn – 54% increase in operating profit
- Storage operating profits more than doubled
- North American turnover in excess of £3.5bn - operating profits up 40%
- Expanded footprint in Europe with two acquisitions
- Strengthened upstream asset position with further gas and power acquisitions
- Successful first large-scale customer migration to new billing system
- Sale of Onetel complete, reinforcing focus on energy

Statutory results:

- Operating profit^ £1,957m, after exceptional charges of £11m net and credits relating to certain re-measurements of £455m (2004: £1,263m, after exceptional charges of £99m).
- Earnings from continuing and discontinued operations of £1,012m, after exceptional charges from continuing operations of £11m, exceptional credits from discontinued operations of £34m, credits relating to certain re-measurements of £455m, and associated tax charge of £138m (2004: £1,591m, after exceptional charges from continuing operations of £99m, exceptional credits from discontinued operations of £906m and associated tax credit of £26m).
- Basic earnings per share 27.4p (2004: 38.0p).

"Market conditions are volatile but our priorities remain unchanged. In this challenging environment we will search out opportunities to advance our wider strategic aims while we continue to drive through operational improvements which will enhance service, reduce costs and aid customer retention. Centrica may face further turbulence in the commodity markets, but the results of 2005 clearly show a strong underlying business."

Sir Roy Gardner, Chief Executive

* including joint ventures and associates net of interest and taxation, and before exceptional items and certain re-measurements
^ from continuing operations

CHAIRMAN'S STATEMENT

Wholesale commodity prices escalated to unprecedented levels in 2005 creating considerable challenges for management in an increasingly competitive marketplace.

Against this background we delivered a strong financial performance in the year. The executive team focused on vigorously reducing those costs within their control and developing attractive propositions for both new and existing customers in a difficult market, resulting in improved levels of customer retention.

In the UK, growth opportunities in services and commercial markets were targeted by more focused management teams, whilst in both continental Europe and North America we made good progress in expanding our footprint.

Cost control remains a high priority for the Company. Key system developments and process improvements which reduce costs both in the near and medium term were successfully progressed by dedicated and professional teams. In parallel, a review of our central overhead costs was undertaken in the continued pursuit of achieving the efficiencies necessary to meet our objective to be the lowest cost-to-serve energy supplier.

Undoubtedly the benefits of both system evolution and corporate cost contraction will serve to underpin our 2006 performance in what will be a year of further challenge.

We continued to search for value-creating opportunities upstream and successfully acquired gas and oil assets in the UK with an attractive earnings profile to enhance our ability to deliver a competitive cost of goods. We remain committed to deploying our cash to create value for shareholders and throughout the year applied our strict financial disciplines to the evaluation of acquisition and investment opportunities.

We reinforced our absolute focus on energy and related services with the disposal of Onetel, our last remaining peripheral business, at the end of 2005. This additional clarity of focus will be beneficial in the year ahead to ensure that all management endeavours and financial resources are channelled to our core business.

Our lobbying in Europe started to show signs of success with some clear moves towards greater transparency and market access which we believe will be instrumental in ensuring our international competitiveness in the years ahead.

Returns to shareholders

The Board of Directors is proposing a final dividend of 7.4 pence per share to be paid in June 2006, bringing our full year dividend to 10.5 pence per share. This represents a 22% year-on-year increase and is in line with our previous commitment to increase the payout ratio.

As previously stated, for the period 2006 and beyond the Board intends to deliver real growth per annum in the ordinary dividend per share. Going forward the interim dividend will be set at a level equivalent to 30% of the prior full-year dividend.

We concluded our first £500 million share repurchase programme in September 2005 and immediately commenced our second £500 million programme. In total during 2005 we bought back £385 million of shares. However, in the light of current market conditions the increased working capital requirements associated with higher wholesale costs, and the potential impact of our retail price increase on our cash profile, together with the recent volatility in our share price, has caused us to pause the share buyback programme until calmer and more predictable conditions prevail. The Board remains committed to the principle of capital discipline and it believes this move is prudent in the current circumstances. It will monitor the position with a view to recommencing the programme at an appropriate time.

Management

During 2005 we continued to strengthen our Board. In January Jake Ulrich, Managing Director of Centrica Energy, was appointed as an Executive Director and in September the Board was joined by Andrew Mackenzie as a Non-Executive Director. Both Jake and Andrew have brought an upstream expertise to the Board which is crucial as we continue to develop our upstream portfolio in the UK and overseas.

The organisational changes announced in September have now been fully implemented. We have a strong and experienced team fully focused on the varied challenges and opportunities facing our business.

We remain on track with our process to select a successor to Sir Roy Gardner. We expect to be able to make an announcement by the end of the first quarter and it is our intention that the successful candidate will take up the reins at the half year.

Our employees

This was another difficult year for our people. Our drive for cost reduction has inevitably created a tough environment and staff have acted professionally to produce high levels of customer service, to retain current and attract new customers, and to support one another in the delivery of stretching business targets. I am grateful for their continued dedication and commitment.

Outlook

The items that were on our agenda in 2005 will remain as important in 2006 and will continue to be driven by Sir Roy during his remaining months as Chief Executive.

Our pricing policy seeks to recover the wholesale cost of gas over time and acknowledges that the long-term strength of the Group is dependent on British Gas delivering a fair and reasonable profit. We will manage our sales, marketing and customer service activities to reduce the impact of competitor activity and minimise customer churn resulting from the recent retail price increase. Cost reduction remains key to maintaining margins in this continued environment of high commodity prices. We look forward to the expansion of the infrastructure that brings gas into the UK and hope to see downward pressure on prices in the latter part of the year which could protect consumers from further retail price increases across the industry. However, the additional tax on upstream profits announced by the Government in December and effective from 1 January 2006 is applying further pressure in an already difficult year.

Continuing to seek out and evaluate opportunities for upstream investment will be a priority. As in 2005 this will include the consideration of opportunities outside the UK Continental Shelf and in fields which have so far remained undeveloped. Patience and discipline will remain our watchwords and as always we will manage our business with shareholder value firmly at the top of our agenda. Market conditions are volatile and will remain challenging in 2006 but management resolve to deliver a strong performance remains unchanged.

Roger Carr
Chairman **23 February 2006**

Earnings and operating profit numbers are stated, throughout the commentary, before exceptional items and certain re-measurements where applicable – see note 13 for definitions. The Directors believe this measure assists with better understanding the underlying performance of the Group. The equivalent amounts after exceptional items and certain re-measurements are reflected in note 1 and are reconciled at group level in the group profit and loss account. Certain re-measurements and exceptional items are described in note 2. Adjusted earnings and adjusted basic earnings per share are reconciled to their statutory equivalents in note 6.

The prior year results have been restated to comply with the adopted International Financial Reporting Standards which exclude IAS32 and IAS39. All current financial results listed are for the 12 months ended 31 December 2005. All references to ‘the prior-period’, ‘the prior-year’, ‘2004’ and ‘last year’ mean the 12 months ended 31 December 2004 unless otherwise specified.

CHIEF EXECUTIVE'S REVIEW

Overview of the year

In 2005 we saw the highest wholesale gas and power prices since Centrica was formed in 1997 and the greatest year-on-year rises in the cost of both fuels. This clearly presented a massive challenge for all energy retailers and in particular for British Gas, as the largest supplier of both gas and electricity to the residential marketplace. The result was the unfortunate but inevitable round of tariff increases across the industry. British Gas's innovative product propositions and the marketing and selling efforts of the team minimised the impact on our customer base, with customer losses in the second half of the year substantially lower than the first half. With the unprecedented rise in commodity costs we chose not to pass through the full impact immediately to our customers. This led to a substantial fall in British Gas operating profits*, down by 63% on the previous year, with an operating loss* in the second half. We managed to offset some of the commodity impact on the business by fundamentally reviewing and streamlining all non-customer-facing activities and at the end of the year we achieved a major goal in the transformation of British Gas with the first large-scale migration of 1.25 million customer accounts to our new billing system. We also laid out a cost reduction plan which will take us to 2007 and beyond with the aim of becoming the lowest cost-to-serve provider.

We continued to sharpen our strategic focus during the year culminating in the sale of Onetel. We are proud of the fact that we built Onetel into a strong business that is a serious competitor to BT. The ability to offer a competitive telecoms product remains important but our priority is to deploy our capital closer to the energy core of our business.

We successfully strengthened our upstream business by acquiring interests in three North Sea gas and oil fields that have a production profile which maximises value during this high commodity price environment. We acquired the remaining 40% of the Humber power station in a further move towards our optimal vertical integration position in electricity.

The other businesses in the Group contributed over a third of the total operating profit* in the year. The results of Centrica Storage were particularly impressive with operating profit* in the year equivalent to half of the original acquisition price in 2002. The field delivered almost 100% reliability, testament to the enhanced level of investment from Centrica. Reflecting the greater appreciation of the value of storage, standard bundled units (SBUs) for the 2006/07 storage year were entirely sold out by December 2005.

In British Gas Services we continued to invest for future growth. By the end of the year we had more than 300 new fully qualified engineers and had also completed the nationwide roll-out of the engineer deployment system to all central heating engineers. Even against this backdrop of investing for growth, operating profit rose by 54%. British Gas Business managed to strengthen its position in an environment of rising input costs in the UK.

The North American business once again proved an extremely valuable asset with continued growth. We also extended the reach of our energy business in continental Europe with the acquisition of Oxxio BV, an innovative low-cost organic growth business in The Netherlands, and a 25.5% stake in SPE SA, a Belgian generator into which we rolled our Luminus energy retailing operation. This provides us with a substantial platform for growth in this strategically important area.

In summary it was a year in which our fundamental view of the value of gas enabled us to optimise our portfolio. I am pleased that once again we delivered a robust set of results.

Group financial summary

Group turnover from continuing operations was up 18% at £13.4 billion (2004: £11.4 billion). The growth was driven primarily by North America with the full-year effect of the ATCO and RSG acquisitions, growth in business markets and higher retail prices across our key markets. British Gas Business revenue increased significantly due to the combination of higher overall consumption and price increases, with lower customer numbers and lower average consumption offsetting the effect of the retail price increase in British Gas Residential Energy.

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

Group operating profit* from continuing operations was up 11% at £1,513 million (2004: £1,362 million), with most business areas ahead of last year. The residential energy business was loss-making in the second half as our price rise did not cover the full extent of wholesale price increases.

Group earnings* on a continuing basis were down by 4% to £661 million (2004: £691 million) with the rise in operating profit more than offset by the increase in the tax charge. The taxation charge** of £706 million in 2005 represents an effective 52% rate on profits* (2004: £547 million, representing an effective rate of 43%). This increase is due to petroleum revenue tax (PRT) rising by £81 million to £373 million due to the increase in gas prices and the year-on-year movement in deferred tax balances. Under IFRS, PRT is no longer shown as a cost of goods under gas production but is now shown as a tax in the Group results for 2004 and 2005. In addition, the overall tax charge reflects rates greater than 30% for offshore gas production and North America.

Group net cash inflow from operating activities was down 10% at £1,144 million (2004: £1,269 million). This was driven primarily by the full-year effect of the sale of the AA with year-on-year cash inflow from continuing operating activities down 2% at £1,131 million (2004: £1,157 million). The net cash inflow from investing activities of £497 million in 2004 moved to a net cash outflow of £529 million in 2005. The year-on-year movement was due primarily to the disposal of the AA in 2004 partially offset by the sale of other financial assets to pay off debt in 2005. The net cash outflow from financing activities fell 79% to £335 million (2004: £1,588 million) due mainly to the inclusion of the special dividend in the prior year and an increase in debt in 2005 partially offset by increased buyback expenditure.

The Group's net debt level (excluding the £532 million of non-recourse debt in respect of The Consumers' Waterheater Income Fund) at 31 December 2005 was £1,060 million, up from £508 million in 2004. Under IFRS the debt level includes £828 million of finance lease commitments on the Humber and Spalding power stations. Net interest payable was £145 million (2004: £104 million) and was covered 10 times by operating profit* (2004: 13 times). Net assets increased by 6% to £2,442 million (2004: £2,308 million) mainly due to retained earnings partially offset by the share buyback activity in the year and the adoption of IAS 32 and IAS 39 on the first of January 2005.

Certain re-measurements
The statutory results benefited from certain re-measurements of £455 million in the year, primarily from marking to market, under the new IFRS rules, some contracts relating to our energy procurement activities. On conversion to IFRS on 1 January 2005, a net out-of-the-money position was charged against reserves. As gas and power were delivered, the related contracts were partially executed and the net positions unwound, generating a credit through the income statement in the period of £140 million. The balance of £315 million reflects the impact of higher future energy prices on the remaining contracts, new contracts signed during the period and proprietary trading positions which contain cross border capacity. We have reported this separately because we do not believe that it reflects underlying business performance.

2006 operating plan

Looking forward it is already clear that the year will once again be dominated by the cost of sourcing gas and electricity for customers. The increases in the market forward curve forced our decision on customer tariffs last week, with demand-weighted market costs of gas and electricity already 68% and 49% respectively up on 2005. In British Gas we will be concentrating our efforts in the first half of the year on minimising the impact of the pricing decision on the customer base. The size and strength of our sales force and the new propositions we are offering will support these efforts. While there can be no guarantees in such a volatile wholesale market we hope to avoid any need for further price rises this year. We will concentrate on controlling both our cost of goods and the operating cost base of our entire business in a year when the British Gas cost base will be challenged by the need to dual-run systems and train our customer service agents as we complete the roll-out of the billing platform.

Upstream we will continue to pursue the ideal integration position to support a business with our levels of demand in gas and electricity. We will maintain our disciplined approach to value creation as we investigate the opportunities to source commodity for the long term. We expect these opportunities to include asset positions as well as further contracts and we will seek to add further fuel diversity to our electricity portfolio. We will complete the construction of our second wind farm, our first offshore, at Barrow, giving us access to the total offtake from a 90MW source of green power. With the relevant

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** Excluding tax on share of profits in joint ventures and associates, and before exceptional items and certain re-measurements

permission, we, along with our partners, expect to move our plans for another LNG terminal for the UK at Canvey Island to the next stage; a terminal which could be capable of delivering an annualised gas capacity of 5.4 billion cubic metres (BCM) by the winter of 2010/11. We will carry out the initial seismic surveys to establish the feasibility of our licence blocks in Nigeria which, if viable, we could begin to develop as early as 2008.

We expect the overall profitability of our upstream business to be ahead of the previous year with a reduction in volumes from Morecambe of around 20% being more than offset by the still-rising gas price and increased production from other fields of around 20%. We expect the losses on the large legacy sales contracts to increase, leading to an operating loss* in the industrial and wholesaling segment currently forecast to be in excess of £300 million. The 10% additional supplementary tax charge on gas production profits was effective from 1 January 2006. Towards the end of 2005 we reviewed and restructured some aspects of our upstream operations which may reduce the overall Group tax charge. Assuming no positive impact of this restructuring, the 2006 charge would be in the region of 58%.

In British Gas Services the new team will be establishing the optimal structure and growth plans for the business to maximise the opportunities in a wider customer arena while maintaining a close link to the residential energy business. Although the rate of bottom-line growth of 2005 may not be repeatable we expect operating profit to continue to grow at a rate commensurate with the market opportunities.

In British Gas Business we will concentrate on the development of a new systems solution which will enable the operation to take full control of its pricing structures by migrating all of its customers from the legacy British Gas Residential Energy systems. We would expect the system to roll-out in 2007. Even after the anticipated increase in expensed spend of £14 million in 2006 we anticipate being able to keep operating profits broadly flat year-on-year.

Following a satisfactory resolution of the current outage, Centrica Storage is forecast to have another year of improved financial performance, with all 2006/07 SBUs sold out at substantially higher prices. The multiplier within the SBU pricing formula rose by almost 10% from 2.3 to 2.5 between the 2005/06 and 2006/07 storage years, reflecting increasing recognition of the value of storage. We will continue to invest in the maintenance and upgrade of the field with a view to creating further storage space going forward.

In North America there are many opportunities to develop our business. We will continue to grow our electricity and gas sales to business customers in Canada, Northern US and Texas, and in Ontario the re-opened residential electricity market offers good growth potential. Upstream we will expand our coal bed methane operations in Alberta and integrate our third Texas power station, which was acquired early in 2006. We will work to minimise any impact of the transition out of the Price-to-Beat (PtB) mechanism in Texas at the end of 2006. This will include the re-shaping of our organisation to reduce the overall cost base and lay foundations for further growth.

Further expansion in Europe remains high on our management agenda. We will continue to lobby heavily for increased transparency and open access to the wholesale markets and faster progress towards real competition in the retail markets, building on our successes to date. We intend to investigate all opportunities to grow in areas close to our current retail positions although it is not yet clear whether deregulation will occur rapidly enough to present meaningful opportunities in 2006.

In summary the year ahead will be difficult but we have laid firm foundations. The inroads we have already made into the cost base of our business, the clear roadmap to a lower-cost environment, the systems solutions we are successfully putting in place, the continued growth in services and internationally and the progress in our upstream business, all give us reason to be positive about the future of Centrica. Market conditions are volatile but our priorities remain unchanged. In this challenging environment we will search out opportunities to advance our wider strategic aims while we continue to drive through operational improvements which will enhance service, reduce costs and aid customer retention. Centrica may face further turbulence in the commodity markets, but the results of 2005 clearly show a strong underlying business.

Sir Roy Gardner
Chief Executive **23 February 2006**

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SEGMENTAL BUSINESS COMMENTARY

British Gas Residential Energy

2005 was another very challenging year for the industry with the demand-weighted month-ahead market price of gas for 2005 at 40.15p/therm, 43% up on the prior year and electricity at £35.82/MWh, 47% higher than 2004. These increases in turn forced all suppliers, including British Gas, to announce customer tariff rises. The pilot of our billing system which began in August was completed in November and towards the end of December we successfully completed the first large-scale migration of 1.25 million customer accounts to the new system. The total invested in the transformation programme to the end of the year was £386 million, with £25 million spent during the year of which £8 million was expensed.

Turnover rose by 2.2% to £6.0 billion (2004: £5.9 billion) with the price increase in September 2005 and the full-year effect of the prior-year price increase almost entirely offset by lower customer numbers and lower average consumption levels. Following the price increase in September 2005, the level of customer losses was minimised by a high-profile marketing campaign and a suite of new propositions, including an innovative price protection product which offered customers the opportunity to fix their energy costs until 2010. Within five months we had sold over one million of this product. Reduction in churn and average gross account sales levels of around 60,000 per week resulted in heavily-reduced customer losses in the second half of the year; only 165,000 accounts were lost during this time. Total customer account numbers for the year were down by 670,000 although electricity account numbers were broadly flat and actually grew by 66,000 in the second half.

Gross margin fell by £266 million compared to the prior year. The effect of the price rises and the fall in transportation and distribution charges were more than offset by the rise in the cost of goods, lower customer numbers and the fall in average consumption caused by warmer weather during the critical decision periods for switching off and on central heating systems. The weighted average cost of gas (WACOG) rose by 33% to 35.04 p/therm, slightly below the market increases, reflecting the benefits of the legacy gas purchase contracts and the procurement and optimisation skills of Centrica Energy. The weighted average cost of electricity (WACOE) was £37.7/MWh, 30% above last year, reflecting the higher price of the fuel gas for the power station portfolio required to meet the peak power requirements and generally higher market electricity costs. In order to maximise long-term value we chose not to pass through the entire increase in commodity costs during the year. WACOG and WACOE for 2005 contain a charge of £85m for the excess cost of energy which the system operator deemed us to have used.

Operating profit* for the year fell by 63% to £90 million (2004: £242 million) with a second half operating loss* of £75 million. The year-on-year reduction in the operating cost base of £138 million was partially offset by an increase in the obligatory investment in energy savings measures for customers, Energy Efficiency Commitment (EEC), which rose by £24 million to £112 million (2004: £88 million).

In December we announced our intention to deliver an operating cost base in 2007 which is £180 million lower in absolute terms than the 2004 baseline. As part of the ongoing transformation of the cost base of the business and enabled by the new systems infrastructure, in July we announced our intention to outsource certain elements of our support functions to India. The outsourced activity did not include any customer-facing staff and is now operational.

Following a strategic review of the business we sold British Gas Connections Limited in May realising an exceptional profit on disposal of £47 million. We retained the siteworks business which manages the relationships required to support the sale of energy and related services to housing developers and new homeowners.

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

For the period ended 31 December	**FY 2005**	**FY 2004**	**Δ%**	**H2 2005**	**H2 2004**	**Δ%**
Customer numbers (period end) (000):						
Residential gas	11,131	11,771	(5%)	11,131	11,771	(5%)
Residential electricity	5,920	5,950	(0.5%)	5,920	5,950	(0.5%)
Estimated market share (%):						
Residential gas	54	57	(3 ppts)	54	57	(3 ppts)
Residential electricity	23	23	-	23	23	-
Average consumption:						
Residential gas (therms)	597	637	(6%)	244	262	(7%)
Residential electricity (kWh)	4,146	4,186	(1.0%)	2,097	2,082	0.7%
Weighted average sales price:						
Residential gas (p/therm)	61.16	53.16	15%	66.41	57.47	16%
Residential electricity (p/kWh)	7.54	6.76	12%	7.88	6.97	13%
Weighted average unit costs:						
Residential gas (WACOG, p/therm)	35.04	26.32	33%	40.17	28.06	43%
Residential electricity (WACOE, p/kWh)	3.77	2.90	30%	4.08	3.07	33%
Transportation & distribution costs (£m):						
Residential gas	1,146	1,256	(9%)	528	552	(4.3%)
Residential electricity	493	489	0.8%	261	245	7%
Total	**1,639**	**1,745**	**(6%)**	**789**	**797**	**(1.0%)**
Operating costs (£m):						
Residential energy	974	1,088	(10%)	480	598	(20%)
Turnover (£m):						
Residential gas	4,196	4,170	0.6%	1,841	1,833	0.4%
Residential electricity	1,836	1,731	6%	972	885	10%
Total	**6,032**	**5,901**	**2.2%**	**2,813**	**2,718**	**3.5%**
Operating profit/(loss) (£m)*						
Residential energy	90	242	(63%)	(75)	25	n/m
Operating margin (%)						
Residential energy	1.5	4.1	(2.6 ppts)	(2.7)	0.9	(3.6 ppts)
British Gas product holding**						
Average British Gas products per customer (period end)	1.67	1.66	0.6%	1.67	1.66	0.6%

** British Gas brand

British Gas Services

During the year direct management responsibility for British Gas Services was split from British Gas Residential Energy, recognising the different challenges and opportunities that each business faces. It continues to have a strong link with the energy business to maximise growth potential and brand synergies.

British Gas Services continued to grow both its top and bottom line. Turnover was up by 9% at £1,024 million (2004: £943 million) as the total number of product relationships increased by 6% to just under 7 million. Operating profit* rose by 54% to £111 million (2004: £72 million), with strong growth in the newer products of plumbing and drains care, home electrical care and kitchen appliance care. There were also one-off positives in the year of £9 million relating to training academy grants and the release of restructuring provisions. The operating margin, excluding these one-offs, widened to 10% (2004: 8%).

Turnover in the central heating installations business is broadly in line with 2004. During the year we released new products in our central heating installation business giving us greater access to the mid-range market.

We completed the roll-out of the engineer deployment system which provides a robust platform for growth and additional flexibility. By the end of the year all of our 6,550 Central Heating Care engineers were using the system.

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

For the period ended 31 December	FY 2005	FY 2004	Δ%	H2 2005	H2 2004	Δ%
Customer product holdings (period end) (000):						
Central heating service contracts	3,476	3,363	3.4%	3,476	3,363	3.4%
Other central heating service contracts	861	843	2.1%	861	843	2.1%
Kitchen appliances care (no. of customers)	365	331	10%	365	331	10%
Plumbing and drains care	1,307	1,199	9%	1,307	1,199	9%
Home electrical care	860	740	16%	860	740	16%
Home security	25	26	(3.8%)	25	26	(3.8%)
Total holdings	**6,894**	**6,502**	**6%**	**6,894**	**6,502**	**6%**
Central heating installations	92	92	0%	45	50	(10%)
Turnover (£m)						
Central heating service contracts	478	436	10%	252	222	14%
Central heating installations	251	244	2.9%	125	133	(6%)
Other	295	263	12%	151	136	11%
Total	**1,024**	**943**	**9%**	**528**	**491**	**8%**
Engineering staff employed	8,348	8,033	3.9%	8,348	8,033	3.9%
Operating profit (£m)*						
British Gas Services	111	72	54%	52	31	68%
Operating margin (%)						
British Gas Services	11	8	3 ppts	10	6	4 ppts

British Gas Business

In a difficult year for energy suppliers British Gas Business maintained its position as number one supplier (measured by number of supply points) to the commercial sector in Britain. The year was dominated by rising wholesale energy costs which were reflected in increased weighted average input costs for gas and electricity of 49% and 33% respectively. This in turn led to increases in customer prices. Despite this, total supply points rose by 2.9% to 909,000 and gross churn rates fell in both fuels, driven particularly by record SME contract renewal levels of well over 90%.

The combination of price rises, higher customer numbers and higher average consumption after winning electricity contracts for several large corporate accounts increased turnover by 26% to £1.5 billion (2004: £1.2 billion). Operating profit* rose by 13% to £77 million (2004: £68 million).

During the year we maintained our focus on controllable costs, resulting in a 9% reduction in our total operating expenses. We made further progress on our customer service initiative and the deployment of new technology and processes which will rationalise our invoicing and collection systems. Total spend in the year was £22 million, of which £3 million was expensed.

For the period ended 31 December	FY 2005	FY 2004	Δ%	H2 2005	H2 2004	Δ%
Customer supply points (period end) (000):						
Gas	394	368	7%	394	368	7%
Electricity	515	515	0%	515	515	0%
Total	**909**	**883**	**2.9%**	**909**	**883**	**2.9%**
Average consumption:						
Gas (therms)	3,492	3,420	2.1%	1,517	1,456	4.2%
Electricity (kWh)	27,512	24,752	11%	14,178	12,663	12%
Weighted average sales price:						
Gas (p/therm)	51.87	41.21	26%	56.60	43.71	29%
Electricity (p/kWh)	5.79	5.08	14%	6.17	5.14	20%
Weighted average unit costs:						
Gas (WACOG, p/therm)	36.63	24.51	49%	43.58	26.59	64%
Electricity (WACOE, p/kWh)	3.25	2.45	33%	3.59	2.49	44%
Transportation & distribution (£m):						
Gas	124	122	1.6%	60	58	3.4%
Electricity	217	210	3.3%	113	106	7%
Total	**341**	**332**	2.7%	**173**	**164**	5%
Turnover (£m):						
Gas	692	523	32%	336	237	42%
Electricity	818	675	21%	449	346	30%
Other	-	2	n/m	-	2	n/m
Total	**1,510**	**1,200**	**26%**	**785**	**585**	**34%**
Operating profit (£m)*						
British Gas Business	77	68	13%	22	22	0%
Operating margin (%)						
British Gas Business	5.1	5.7	(0.6 ppts)	2.8	3.8	(1.0 ppts)

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

Centrica Energy

Gas production

Once again we witnessed sharp increases in the wholesale price of gas with the residential demand-weighted month-ahead market price of gas for 2005 at 40.15p/th, 43% above 2004. In this environment operating profit* rose by 31% to £1,020 million (2004: £779 million) as the average sales price to the downstream business increased. This was partially offset by the 29% reduction in gas production levels at Morecambe. Our decision to switch off the field for a period in the summer and autumn in response to low intraday prices was responsible for approximately one third of this reduction. Under IFRS, petroleum revenue tax is no longer shown as a cost of goods under gas production but is now shown as a tax in the corporate results for 2004 and 2005.

We made good progress on increasing our gas reserves and production levels from fields outside the Morecambe Bay area. In October we acquired equity in three North Sea gas and oil fields for £268 million. This brought us a further 1.1 billion therms (bnth) of gas and 8 million barrels of oil. The development of the Horne and Wren fields, in which we acquired a 50% share in 2004, was completed with first gas being delivered in June. The fields produced over 132 million therms (mmth), reaching a flow rate of 1.1mmth per day (mmth/d). In February, the partners in the Statfjord field approved a programme of depressurisation to increase the level of recoverable gas reserves and extend field life. Approval from the UK and Norwegian governments was given in June. Centrica's share of any capital expenditure is expected to be around £50 million. This is estimated to add at least 500mmth of gas, one million barrels of oil and three million barrels of condensate to the portfolio.

In March we successfully bid for import capacity in the expansion of the Isle of Grain LNG terminal. From 2008 we will have access to regasification capacity of 3.4mmth/d, equivalent to 3.4 billion cubic metres (BCM) per annum. In July we announced our involvement in a partnership to construct a modern LNG reception facility at Canvey Island, with an annual import capacity of around 5.4BCM. In early 2006 the partnership lodged a planning application with the local authority.

During 2005 we continued to expand our range of potential sources of gas. In August, during the 2005 licensing round, we gained two licence blocks in Nigeria and have developed a relationship with local partners to assist in the surveying and potential future development of these sites. 2005 also saw the start of a focused gas exploration programme in the UK.

Industrial sales and wholesaling

The industrial sales and wholesaling segment made an operating loss* of £156 million (2004: £20 million loss*). This was mainly due to the sales contracts which posted an operating loss* of £173 million (2004: £42 million loss*). A 38% rise in the average input gas price for these contracts was only partially offset by a 13% year-on-year rise in the average selling price and a 14% decrease in delivered volumes. The balance of the segment includes certain operating costs of the Centrica Energy business unit which were more than offset by other credits. These credits were the results of the Humber power station joint venture, net of interest and tax, until the full acquisition in September and, under IFRS, the element of the tolling fees for the Humber and Spalding power stations which is classified as an interest payment on finance leases rather than an operating cost and recovered from the downstream businesses.

Electricity generation

In September 2005 we acquired the remaining 40% of the Humber power station, taking our total number of owned stations to seven and our total installed technical capacity to 3.4GW. We generated 11,641GWh of power from our owned stations in the year, marginally higher than 2004 (11,554GWh) due to the full year impact of Killingholme and the 40% Humber acquisition being largely offset by a significant King's Lynn outage and lower running due to negative spark spreads. Total fleet load factor was 49% (2004: 58%) reflecting generally lower spark spreads. During the year the UK government confirmed that new build stations will receive carbon emission allowances; the exact level is still to be clarified. In the last quarter we received tenders which are currently being evaluated for the engineering, procurement and construction (EPC) contract on the CCGT station option at Langage in Devon.

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

Renewables

In May we produced our first green power from our 26MW onshore wind farm at Glens of Foudland, Aberdeenshire. We also made good progress with the construction phase at our 90MW joint venture Barrow offshore wind farm and expect first power in the first half of 2006. The award of construction contracts for the wind farms at Inner Dowsing and Lynn has been delayed with Centrica intending to manage several contracts rather than a single EPC contract. First power from the project is now expected to be delivered in 2008. For the supply year April 2004 to March 2005, Centrica fulfilled its obligation to source sufficient renewable obligation certificates (ROCs) to cover 4.9% (1.87TWh) of all electricity supplied.

Energy procurement

In February 2005 we agreed an innovative coal-linked power purchase agreement with International Power for the supply of 250MW of peak power over a three-year period with the power price indexed to international traded coal prices.

In October we started receiving gas under the Statoil contract signed in June 2002. Centrica will receive up to 5BCM of gas every year. In December we entered into a further contract with Statoil for the delivery of 550mmth of 2006/07 winter gas. Both of these contracts use prices linked to the UK market gas price.

Accord energy trading

Under IFRS the reported Accord turnover is now the gross margin for the year and the results for 2005 reflect the adoption of IAS 39 from 1 January 2005. Operating profit* was up by 179% at £39 million (2004: £14 million) while maintaining historical value at risk limits. The profit uplift was primarily due to the volatile conditions in the energy markets, particularly towards the end of the year.

For the period ended 31 December	FY 2005	FY 2004	Δ%	H2 2005	H2 2004	Δ%
Gas production:						
Production volumes (mmth)						
Morecambe	2,445	3,444	(29%)	816	1,473	(45%)
Other	612	494	24%	313	254	23%
Total	**3,057**	**3,938**	**(22%)**	**1,129**	**1,727**	**(35%)**
Average sales price (p/therm)	39.4	26.4	49%	49.4	30.0	65%
Turnover (£m)	1,365	1,150	19%	659	595	11%
External turnover (£m)	183	109	68%	113	78	45%
Operating costs (£m):						
Volume related production costs	215	240	(10%)	107	119	(10%)
Other production costs	130	131	(0.8%)	72	82	(12%)
Total	**345**	**371**	**(7%)**	**179**	**201**	**(11%)**
Operating profit (£m)*	1,020	779	31%	480	394	22%
Power stations						
Power generated (GWh)	11,641	11,554	0.8%	6,423	6,905	(7%)
Industrial & wholesale:						
External sales volumes (mmth)	3,081	3,601	(14%)	1,467	1,823	(20%)
Average sales price (p/therm)	24.8	22.0	13%	26.4	22.8	16%
Turnover (£m)	786	805	(2.4%)	400	421	(5%)
Operating profit / (loss) (£m)*	(156)	(20)	(680%)	(136)	(45)	(202%)
Accord						
Margin (£m)	42	17	147%	21	6	250%
Operating profit (£m)*	39	14	179%	16	4	300%
Centrica Energy operating profit (£m)*	**903**	**773**	**17%**	**360**	**353**	**2.0%**

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

Centrica Storage

Operating profit* at the Rough gas storage operator, Centrica Storage, increased by 123% to £154 million (2004: £69 million). This strong performance was due to the combination of the increase in the market price of storage capacity, reflecting widening summer/winter gas price differentials, excellent levels of operational reliability and the first benefits of Centrica's investment in enhancing Rough's capacity.

The average price of standard bundled units (SBUs) for the 2005/06 storage year rose by 33% to 37.8 pence (2004/05: 28.5 pence), and the average SBU price for the calendar year by 41% to 34.8 pence (2004: 24.6 pence).

As a result of improved operational performance, customers enjoyed almost 100% reliability in both withdrawal and injection. An early start to the injection season and improved injection performance enabled the sale of 170mmth of additional space for the 2005/06 storage year at high market prices, compared to 147mmth in the prior storage year. The extra volume and higher average prices produced revenue from additional space sales for the year of £19 million (2004: £8 million). The field achieved a record daily delivery rate of 492GWh, 8% above the historic capacity of 455GWh. The enhanced deliverability allowed 30mmth of native Rough gas to be sold, along with the associated incremental delivery capacity, generating a one-off operating profit of £20 million in the year.

Further project investment in the year of £23 million, of which £7 million was expensed, brought total investment in the plant since acquisition in 2002 to £45 million. The work completed to date has allowed this investment to be increasingly focused on enhancing the capacity of the facility rather than solely maintenance and renewal.

For the period ended 31 December	**FY 2005**	**FY 2004**	**Δ%**	**H2 2005**	**H2 2004**	**Δ%**
Average SBU price (calendar year) (pence)	34.8	24.6	41%	37.8	28.5	33%
Turnover (£m)						
Standard SBUs	159	113	41%	87	66	32%
Extra space	19	8	138%	13	6	117%
Native gas sales	20	0	-	20	0	-
Gas sales	30	21	43%	15	4	275%
Other	25	22	14%	12	10	20%
Total	**253**	**164**	**54%**	**147**	**86**	**71%**
External turnover (£m)	195	133	47%	109	70	56%
Cost of gas (£m)	35	33	6%	17	9	89%
Operating profit (£m)*	**154**	**69**	**123%**	**97**	**43**	**126%**

Centrica North America

In a challenging year of extreme weather events and volatile wholesale energy markets, we once again delivered strong year-on-year growth. Turnover grew by 58% to £3,552 million (2004: £2,242 million). The positive full-year effect of the 2004 acquisitions of ATCO Retail and Residential Services Group (RSG) (£742 million) was complemented by growth in our business markets revenues and in the Texas customer base. Operating profit* grew by 40% to £185 million (2004: £132 million) with an improvement in the Canadian residential and small commercial energy business due to the higher price environment and the absence of the one-off reconciliation of 2003 data in Texas which reduced the 2004 result.

Canada residential and small commercial energy

Turnover increased by 87% to £1,533 million (2004: £819 million) due to the full-year effect of ATCO Retail acquired in May 2004 and further sales and renewals being made at higher prices. Operating profit* grew by 62% to £47 million (2004: £29 million) as percentage operating margins were maintained in the higher price environment and the upstream gas asset contribution increased.

The regulatory environment in Ontario improved during the year. In gas we held the customer base flat during the second half of the year with higher sales levels and lower customer churn. In electricity the market once again opened fully to competition giving us the opportunity to restart our selling programme.

* including joint ventures and associates, stated net of interest and taxation, and before exceptional items and certain re-measurements

Initially we sold contracts mainly to higher demand customers but have now also begun to move back into the residential space.

The competitive market in Alberta proved increasingly difficult in 2005 with regulatory and pricing regimes conspiring against the selling of competitive tariffs. At the end of December we had sold 59,000 unregulated contracts, primarily on a dual-fuel basis.

Texas residential and small commercial energy

Turnover grew by 28% to £953 million (2004: £744 million). This was driven by customer growth of 8% and higher prices following upwards Price-to-Beat (PtB) filings late in 2004 and in the second and fourth quarters of 2005. Operating profit* was up by 20% at £72 million (2004: £60 million) with the positive year-on-year effect of the tariff refilings, increased customer numbers, the prior-year market reconciliation and a successful procurement and hedging policy partially offset by higher commodity prices and the up-front customer acquisition costs.

Despite the requirement for two PtB refilings during the year, we still reduced customer churn in our incumbent territories, particularly during the second half of the year, and continued to grow our organic base steadily. We now have over 300,000 customers on deregulated tariffs outside our original territories.

Other USA residential and small commercial energy

Turnover grew by 9% to £208 million (2004: £190 million) driven by the higher retail price environment and growth in customer numbers in part through our activity in the aggregation market, partially offset by our withdrawal from Georgia in 2004. Operating profit* was up by £13 million to £16 million as a result of higher margins and the benefits from improved portfolio management and procurement processes which led to a one-off gain of around £5 million.

Home services

Turnover increased by 95% to £360 million (2004: £185 million) mainly due to the acquisition of RSG in October 2004 and growth in the core protection plan business in Ontario. Operating profit* was 42% higher at £51 million (2004: £36 million). Integration of RSG is now complete and trading results are meeting expectations. With the successful launch of services in Alberta and Manitoba and continued growth in Ontario, we now have more than half a million protection plan policy holders across Canada and a business model which is capable of supporting significant further growth. Overall customer numbers rose by 5% to almost 1.9 million, with more than half of this due to underlying organic growth.

Business markets

Turnover grew by 135% to £481 million (2004: £205 million) with rapid growth in gas volumes in Ontario, Alberta and British Columbia and power volumes in Ontario, Alberta and Texas. We also now account for our large commercial customers within this segment. In the United States we entered the Connecticut, Massachusetts, Rhode Island and Illinois gas markets as well as the Maryland and New Jersey electricity markets. In the year we delivered volumes of 504mmth and 4.9TWh, up on 2004 by 101% and 81% respectively. We also commenced roll-out of our services and technology offer in Texas. The business made an operating loss* of £8 million in the year (2004: operating profit* of £1 million) reflecting the expensed start-up and acquisition costs associated with such rapid growth.

Energy trading & wholesale

Our focus on trading and wholesale business to support our downstream positions, with less emphasis on proprietary trading activities, was the primary driver in turnover falling by 83% to £17 million (2004: £99 million). The business registered an operating profit* of £7 million in the year (2004: £3 million).

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

For the period ended 31 December	FY 2005	FY 2004	Δ%	H2 2005	H2 2004	Δ%
Customer numbers (period end) (000):						
Canada energy	2,130	2,129	-	2,130	2,129	-
Texas energy	898	829	8%	898	829	8%
Other USA energy	335	305	10%	335	305	10%
Home services	1,885	1,800	4.7%	1,885	1,800	4.7%
Volumes:						
Gas production (mmth)	308	334	(8%)	153	170	(10%)
Electricity generation (GWh)	3,212	1,176	173%	1,770	1,014	75%
Turnover (£m):						
Canada residential and small commercial energy	1,533	819	87%	827	544	52%
Texas residential and small commercial energy	953	744	28%	543	412	32%
Other USA residential and small commercial energy	208	190	9%	97	68	43%
Home services	360	185	95%	197	112	76%
Business markets	481	205	135%	282	112	152%
Energy trading & wholesale	17	99	(83%)	6	40	(85%)
Total	**3,552**	**2,242**	**58%**	**1,952**	**1,288**	**52%**
Operating profit/(loss) (£m)*:						
Canada residential and small commercial energy	47	29	62%	18	10	80%
Texas residential and small commercial energy	72	60	20%	47	44	7%
Other USA residential and small commercial energy	16	3	433%	7	(1)	n/m
Home services	51	36	42%	30	19	58%
Business markets	(8)	1	n/m	(7)	(4)	(75%)
Energy trading & wholesale	7	3	133%	3	1	200%
Total	**185**	**132**	**40%**	**98**	**69**	**42%**
Operating margin (%)*						
Total North America	5.2	5.9	(0.7 ppts)	5.0	5.4	(0.4 ppts)

Europe

In the European competitive market, we strengthened our position in continental Europe with acquisitions in Belgium and Holland.

In September we acquired, in partnership with Gaz de France, a 51% controlling stake in SPE SA, a Belgian generator. After rolling the Luminus business into the entity we have a 25.5% share in around 1.6GW of electricity generation capacity and 850,000 energy accounts, with default supplier rights to a further 550,000 when the market opens fully in 2007. SPE is now the credible number two competitor in the Belgian market.

In July we acquired Oxxio BV, the fourth largest energy retailer in Holland, which now has 600,000 relationships across gas and electricity. As well as the growth opportunities, this also provides an opportunity for knowledge sharing across the group as Oxxio operates a low-cost supply model.

In Spain, the electricity supply market is effectively closed to competition with the regulated tariff retail price set by the Spanish government lower than the wholesale commodity market price. Luseo continues to be active in energy management and related business but currently cannot compete profitably in the supply market. We are therefore reviewing our continued presence in the supply market. Live supply points peaked at 6,200 but by December this had fallen to 5,300.

For the full year our European business made an operating loss* of £9 million, including £14 million of amortisation charges on the fair value of in-the-money contracts recognised as intangible assets on the acquisitions of Oxxio and SPE.

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

Discontinued Business

Onetel

In December we completed the sale of the Onetel business to Carphone Warehouse for a consideration of up to £154 million, of which £22 million will be contingent on certain sales criteria being met in the ongoing commercial relationship between Carphone Warehouse and British Gas. Of the total consideration, £130 million of cash was received before the end of the year. This resulted in a loss on disposal of £5 million.

We built Onetel into a strong business that is a serious competitor to BT. However in the past two years we have increasingly moved towards an absolute focus on energy and related services and successfully divested both Goldfish and the AA. Whilst telecoms remains an important part of our overall product offering, we no longer needed to own the business in order to provide the product to our energy customers. Having reviewed our options we concluded that our capital and resources are better deployed in pursuit of our focused strategic aims.

In the year the business made an operating profit* of £12 million on turnover of £342 million.

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements

Group Income Statement

Year ended 31 December	Notes	2005 Results for the year before exceptional items and certain re-measurements (i) £m	2005 Exceptional items and certain re-measurements (i) £m	2005 Results for the year £m	2004 Results for the year before exceptional items and certain re-measurements (i) £m	2004 Exceptional items and certain re-measurements (i) £m	2004 Results for the year £m
Continuing operations							
Group revenue	1	**13,448**	**–**	**13,448**	11,361	–	11,361
Cost of sales		**(9,793)**	**–**	**(9,793)**	(7,962)	–	(7,962)
Re-measurement of energy contracts (i)	2	**–**	**456**	**456**	–	–	–
Gross profit		**3,655**	**456**	**4,111**	3,399	–	3,399
Operating costs before exceptional items		**(2,180)**	**–**	**(2,180)**	(2,093)	–	(2,093)
Contract renegotiation	2	**–**	**42**	**42**	–	–	–
Profit on disposal of business	2	**–**	**47**	**47**	–	–	–
Business restructuring costs	2	**–**	**(100)**	**(100)**	–	(100)	(100)
Gas field impairment	2	**–**	**–**	**–**	–	(50)	(50)
Renegotiation provision	2	**–**	**–**	**–**	–	51	51
Operating costs		**(2,180)**	**(11)**	**(2,191)**	(2,093)	(99)	(2,192)
Share of profits in joint ventures and associates, net of interest and taxation	1	**38**	**(1)**	**37**	56	–	56
Group operating profit	1	**1,513**	**444**	**1,957**	1,362	(99)	1,263
Interest income		**102**	**–**	**102**	82	–	82
Interest expense (i)		**(247)**	**–**	**(247)**	(186)	–	(186)
Net interest expense	3	**(145)**	**–**	**(145)**	(104)	–	(104)
Profit from continuing operations before taxation		**1,368**	**444**	**1,812**	1,258	(99)	1,159
Taxation on profit from continuing operations	4	**(706)**	**(138)**	**(844)**	(547)	26	(521)
Profit from continuing operations after taxation		**662**	**306**	**968**	711	(73)	638
Profit from discontinued operations		**11**	**–**	**11**	67	(5)	62
Gain on disposal of discontinued operations	2	**–**	**34**	**34**	–	911	911
Discontinued operations		**11**	**34**	**45**	67	906	973
Profit for the year		**673**	**340**	**1,013**	778	833	1,611
Attributable to:							
Equity holders of the parent		**672**	**340**	**1,012**	758	833	1,591
Non-equity minority interests		**–**	**–**	**–**	18	–	18
Minority interests		**1**	**–**	**1**	2	–	2
		673	**340**	**1,013**	778	833	1,611
		Pence		**Pence**	Pence		Pence
Earnings per ordinary share							
From continuing and discontinued operations:							
Basic	6			**27.4**			38.0
Adjusted basic	6	18.2			18.1		
Diluted	6			**27.0**			37.4
From continuing operations:							
Basic	6			**26.2**			14.8
Adjusted basic	6	17.9			16.5		
Diluted	6			**25.8**			14.5

Details of dividends paid and proposed are provided in note 5.

(i) Certain re-measurements included within gross margin comprise re-measurement arising on our energy procurement activities and on proprietary trades in relation to which cross-border transportation or transmission capacity is held (but not on the other activities of our proprietary trading businesses). Certain re-measurements included within interest comprise re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund (£nil at 31 December 2005). All other re-measurement is included within results before exceptional items and certain re-measurements. IAS 39 was adopted from 1 January 2005 and therefore there is no comparative for certain re-measurements for 2004.

Group Balance Sheet

31 December	Notes	2005 £m	2004 £m
Non-current assets			
Goodwill		**1,170**	1,049
Other intangible assets		**569**	518
Property, plant and equipment		**3,670**	3,169
Interests in joint ventures and associates	7	**223**	206
Deferred tax assets		**296**	311
Trade and other receivables		**25**	68
Financial assets:			
Derivative financial instruments		**231**	–
Other financial assets		**45**	37
		6,229	5,358
Current assets			
Inventories		**196**	165
Current tax assets		**–**	5
Trade and other receivables		**3,421**	2,929
Financial assets:			
Derivative financial instruments		**2,159**	121
Other financial assets		**46**	204
Cash and cash equivalents		**1,239**	966
		7,061	4,390
Total assets		**13,290**	9,748
Current liabilities			
Trade and other payables		**(3,541)**	(3,186)
Current tax liabilities		**(269)**	(305)
Financial liabilities:			
Derivative financial instruments		**(1,787)**	(106)
Bank overdrafts and loans	8	**(655)**	(487)
Provisions		**(143)**	(151)
		(6,395)	(4,235)
Net current assets		**666**	155
Non-current liabilities			
Trade and other payables		**(102)**	(94)
Financial liabilities:			
Bank loans and other borrowings	8	**(2,267)**	(1,445)
Derivative financial instruments		**(52)**	–
Deferred tax liabilities		**(743)**	(524)
Retirement benefit obligation	11	**(807)**	(705)
Provisions		**(482)**	(437)
		(4,453)	(3,205)
Net assets		**2,442**	2,308
Equity			
Called up share capital	9	**224**	233
Share premium account	9	**595**	575
Merger reserve	9	**467**	467
Capital redemption reserve	9	**15**	5
Other reserves	9	**1,085**	809
Shareholders' equity	9	**2,386**	2,089
Minority interests (2004 including non-equity)	9	**56**	219
Total minority interests and shareholders' equity	9	**2,442**	2,308

Group Statement of Recognised Income and Expense

Year ended 31 December	Notes	2005 £m	2004 £m
Profit for the year		**1,013**	1,611
Gains on revaluation of acquired assets	9	**14**	–
Gains on revaluation of available-for-sale investments	9	**2**	–
Gains on cash flow hedges	9	**408**	–
Exchange differences on translation of foreign operations	9	**13**	–
Actuarial (losses)/gains on defined benefit pension schemes	9	**(126)**	90
Tax on items taken directly to equity	9	**(109)**	(27)
Net income recognised directly in equity		**202**	63
Transferred to income and expense on cash flow hedges	9	**(74)**	–
Tax on items transferred from equity	9	**25**	–
Transfers		**(49)**	–
Total recognised income and expense for the year		**1,166**	1,674
Change in accounting policy – adoption of IAS 32 and IAS 39		**(343)**	-
Total recognised income and expense since last report		**823**	1,674
Total recognised income and expense recognised in the year is attributable to:			
Equity holders of the parent		**1,165**	1,654
Non-equity minority interests		**–**	18
Minority interests		**1**	2
		1,166	1,674

Group Cash Flow Statement

Year ended 31 December	Notes	2005 £m	2004 £m
Cash generated from continuing operations		**1,944**	1,656
Interest received		**16**	32
Interest paid		**(13)**	(26)
Tax paid		**(768)**	(480)
Payments relating to exceptional charges		**(48)**	(25)
Net cash flow from continuing operating activities	10	**1,131**	1,157
Net cash flow from discontinued operating activities		**13**	112
Net cash flow from operating activities	10	**1,144**	1,269
Purchase of interests in subsidiary undertakings and businesses net of cash and cash equivalents acquired		**(130)**	(590)
Disposal of interests in subsidiary undertakings and businesses net of cash and cash equivalents disposed		**184**	1,404
Purchase of intangible assets		**(160)**	(182)
Disposal of intangible assets		**36**	41
Purchase of property, plant and equipment		**(593)**	(276)
Disposal of property, plant and equipment		**13**	20
Dividends received from joint ventures and associates		**16**	28
Investments in joint ventures and associates		**(122)**	(25)
Disposal of interests in associates		**11**	–
Interest received		**70**	66
Net sale of other financial assets		**146**	11
Net cash flow from investing activities	10	**(529)**	497
Re-purchase of ordinary share capital		**(388)**	(205)
Issue of ordinary share capital		**17**	24
Interest paid in respect of finance leases		**(95)**	(88)
Other interest paid		**(66)**	(61)
Distribution to unit holders of The Consumers' Waterheater Income Fund		**(20)**	–
Interest paid		**(181)**	(149)
Cash inflow from additional debt		**799**	65
Cash outflow from payment of capital element of finance leases		**(50)**	(33)
Cash outflow from repayment of other debt		**(126)**	(9)
Net cash flow from increase in debt		**623**	23
Realised net foreign exchange (loss)/gain on cash settlement of derivative contracts		**(66)**	51
Equity dividends paid		**(340)**	(1,314)
Distribution to non-equity minority interests		**–**	(18)
Net cash flow from financing activities	10	**(335)**	(1,588)
Net increase in cash and cash equivalents		**280**	178
Cash and cash equivalents at 1 January (i)		**885**	705
Effect of foreign exchange rate changes		**12**	(2)
Cash and cash equivalents at 31 December (i)		**1,177**	881

(i) Cash and cash equivalents are stated net of overdrafts of £62 million (2004: £85 million). The value was adjusted by £4 million on 1 January 2005 after the adoption of IAS 32 and IAS 39. The balance at 31 December 2004 does not reflect this re-measurement adjustment.

1. Segmental analysis

a) Revenue	2005 Gross segment revenue £m	2005 Less inter-segment revenue £m	2005 Group revenue £m	2004 Gross segment revenue £m	2004 Less inter-segment revenue £m	2004 Group revenue £m
Continuing operations:						
British Gas Residential Energy	**6,032**	**–**	**6,032**	5,901	–	5,901
British Gas Services	**1,024**	**–**	**1,024**	943	–	943
British Gas Residential	**7,056**	**–**	**7,056**	6,844	–	6,844
British Gas Business	**1,510**	**–**	**1,510**	1,200	–	1,200
Industrial sales and wholesaling	**1,460**	**(674)**	**786**	1,961	(1,156)	805
Gas production	**1,365**	**(1,182)**	**183**	1,150	(1,041)	109
Accord energy trading	**42**	**–**	**42**	17	–	17
Centrica Energy	**2,867**	**(1,856)**	**1,011**	3,128	(2,197)	931
Centrica Storage	**253**	**(58)**	**195**	164	(31)	133
North American Energy and Related Services	**3,552**	**–**	**3,552**	2,242	–	2,242
European Energy	**119**	**–**	**119**	10	(2)	8
Other operations	**5**	**–**	**5**	3	–	3
	15,362	**(1,914)**	**13,448**	13,591	(2,230)	11,361
Discontinued operations:						
The AA	**–**	**–**	**–**	637	–	637
Onetel	**344**	**(2)**	**342**	283	(3)	280
	344	**(2)**	**342**	920	(3)	917

b) Operating profit	Operating profit/(loss) before exceptional items and certain re-measurement year ended 31 December 2005 £m	2004 £m	Exceptional items and certain re-measurement year ended 31 December 2005 £m	2004 £m	Operating profit/(loss) after exceptional items and certain re-measurement year ended 31 December 2005 £m	2004 £m	Share of result of joint ventures and associates included within operating profit year ended 31 December 2005 £m	2004 £m
Continuing operations:								
British Gas Residential Energy	**90**	242	**570**	(6)	**660**	236	**2**	3
British Gas Services	**111**	72	**(15)**	–	**96**	72	**–**	–
British Gas Residential	**201**	314	**555**	(6)	**756**	308	**2**	3
British Gas Business	**77**	68	**166**	–	**243**	68	**–**	–
Industrial sales and wholesaling	**(156)**	(20)	**(382)**	–	**(538)**	(20)	**29**	48
Gas production	**1,020**	779	**(28)**	(51)	**992**	728	**–**	–
Accord energy trading	**39**	14	**17**	–	**56**	14	**–**	–
Centrica Energy	**903**	773	**(393)**	(51)	**510**	722	**29**	48
Centrica Storage	**154**	69	**1**	–	**155**	69	**–**	–
North American Energy and Related Services	**185**	132	**138**	–	**323**	132	**–**	–
European Energy	**(9)**	5	**–**	–	**(9)**	5	**6**	5
Other operations	**2**	1	**(23)**	(42)	**(21)**	(41)	**–**	–
	1,513	1,362	**444**	(99)	**1,957**	1,263	**37**	56
Discontinued operations:								
The AA	**–**	80	**39**	911	**39**	991	**–**	12
Onetel	**12**	3	**(5)**	(5)	**7**	(2)	**–**	–
	12	83	**34**	906	**46**	989	**–**	12

2. Exceptional items and certain re-measurements

	2005 £m	2004 £m
a) Exceptional items recognised in continuing operations		
Contract renegotiation (i)	**42**	–
Profit on disposal of business (ii)	**47**	–
Business restructuring costs (iii)	**(100)**	(100)
Gas field impairment (iv)	**–**	(50)
Renegotiation provision (v)	**–**	51
Total exceptional items recognised in continuing operations	**(11)**	(99)
b) Exceptional items recognised in discontinued operations		
Business restructuring costs (iii)	**–**	(5)
Profit on disposal of the AA (vi)	**39**	911
Loss on disposal of Onetel (vii)	**(5)**	–
Total exceptional items recognised in discontinued operations	**34**	906

	2005 £m	2004 £m
c) Certain re-measurements recognised in continuing operations (viii)		
Net gains arising on delivery of contracts	**140**	–
Net gains arising on market price movements and new contracts	**299**	–
Net gains arising on proprietary trades in relation to which cross border transportation or transmission capacity is held (ix)	**17**	–
Total certain re-measurements recognised in continuing operations	**456**	–

(i) The profit in 2005 arises on the renegotiation of certain long-term take-or-pay contracts during the period. A benefit of £42 million has been recognised. A deferred tax charge of £12 million has been recognised in respect of the gain.

(ii) The profit in 2005 arises on the disposal of British Gas Connections Limited on 20 May 2005 for which cash consideration of £90 million was received, resulting in a pre-tax operating profit of £47 million. The disposal of shares qualifies for substantial shareholding exemption and consequently no tax charge has arisen in relation to the profit.

(iii) Business restructuring costs in 2005 comprise £100 million resulting from staff reductions at the corporate centre (£23 million), British Gas Residential Energy (£43 million), British Gas Services (£15 million), British Gas Business (£1 million) and changes to the property portfolio (£18 million). A tax credit of £23 million has been recognised in respect of these costs. Business restructuring costs in 2004 comprise £105 million resulting from staff reductions at the corporate centre (£23 million), Onetel (£5 million) and Centrica Energy (£1 million), changes to the property portfolio (£19 million) as well as the acceleration of elements of the British Gas transformation programme (£57 million). A tax credit of £26 million was recognised in connection with these costs and those discussed in (iv) and (v) below.

(iv) In 2004 unforeseen water break-through into the Rose well resulted in the well being shut in. A work over of the well to isolate the water producing zone was successful. Due to water ingress it was anticipated that the maximum recoverable volume is 25bcf. This resulted in an impairment charge of £50 million.

(v) The provision reduction in 2004 related to certain long-term take-or-pay contracts renegotiated in 1997 by Centrica, which would have resulted in commitments to pay for gas that would be excess to requirements and/or at prices above likely market rates. A provision was made covering the net present cost of estimated further payments resulting from those renegotiations including one due for future settlement in 2008 based on the reserves in a group of third-party fields. Published estimates of these reserves during 2004 indicated a reduction from the 1997 forecast level of reserves. The provision was reduced by £51 million based on a conservative view of the revised reserve levels.

(vi) Adjustments to finalise the consideration received by the Group on the disposal of the AA have led to the recognition of a further £39 million profit in 2005, net of a tax charge of £11 million. The profit on disposal of discontinued operations in 2004 relates to the disposal of 100% of the share capital of the AA, net of a £13 million tax credit, which arose on certain costs qualifying for tax relief.

(vii) The Group disposed of its 100% shareholding in Centrica Telecommunications Limited, Onetel Limited, Telco Holdings Limited and Awardmodel Limited and their subsidiaries (Onetel), on 30 December 2005 realising a loss of £5 million. No tax charge has arisen in relation to the loss.

(viii) Certain re-measurements included within gross margin comprise re-measurement arising on our energy procurement activities and on proprietary trades in relation to which cross-border transportation or transmission capacity is held (but not on the other activities of our proprietary trading businesses). IAS 39 was adopted from 1 January 2005 and therefore there is no comparative for certain re-measurements for 2004.

(ix) Under IAS 39, cross-border trades are marked to prices in the local market as opposed to prices in the most favourable market which could be accessed through the cross-border transmission and transportation capacity held against such trades. The associated capacity has not been marked to market.

3. Net interest

	2005			2004		
	Interest expense £m	**Interest income £m**	**Total £m**	Interest expense £m	Interest income £m	Total £m
Cost of servicing net debt (excluding non-recourse debt)						
Interest income	**–**	**60**	**60**	–	67	67
Interest expense on bank loans and overdrafts [(i)]	**(87)**	**–**	**(87)**	(56)	–	(56)
Interest expense on finance leases (including tolling agreements)	**(97)**	**–**	**(97)**	(88)	–	(88)
Fair value (losses)/gains on hedges	**(5)**	**5**	**–**			
Fair value (losses)/gains on other derivatives	**(11)**	**25**	**14**	–	–	–
	(200)	**90**	**(110)**	(144)	67	(77)
Interest arising on non-recourse debt						
Interest expense on non-recourse debt	**(11)**	**–**	**(11)**	(10)	–	(10)
Distributions to unit holders of The Consumers' Waterheater Income Fund	**(20)**	**–**	**(20)**	–	–	–
	(31)	**–**	**(31)**	(10)	–	(10)
Other interest						
Notional interest arising on discounted items	**(14)**	**–**	**(14)**	(28)	–	(28)
Interest on supplier early payment arrangements	**–**	**12**	**12**	–	15	15
Interest on customer finance arrangements	**(2)**	**–**	**(2)**	(4)	–	(4)
	(16)	**12**	**(4)**	(32)	15	(17)
Interest (expense)/income	**(247)**	**102**	**(145)**	(186)	82	(104)

(i) Includes £19 million (2004: £nil) interest payable on borrowings related to South Morecambe production.

4. Tax

Analysis of tax charge for the year	**2005 £m**	2004 £m
The tax charge comprises:		
Current tax		
UK corporation tax	**368**	280
UK petroleum revenue tax	**400**	328
Tax on exceptional items [(i), (ii)]	**(23)**	(17)
Foreign tax	**22**	22
Adjustments in respect of prior years	**(62)**	(44)
Total current tax	**705**	569
Deferred tax		
Current year	**10**	(16)
Prior year	**(22)**	27
Tax on exceptional items and certain re-measurements [(ii), (iii), (iv)]	**161**	(9)
UK petroleum revenue tax	**(27)**	(36)
Foreign deferred tax	**17**	(14)
Total deferred tax	**139**	(48)
Total tax on profit on ordinary activities	**844**	521

(i) The tax credit arising on the business restructuring costs in 2005 recognised in continuing operations was £23 million (note 2).
(ii) The tax credit arising on the exceptional items in 2004 recognised in continuing operations was £26 million (note 2).
(iii) The tax charge arising on the re-measurement of energy contracts was £149 million (note 2).
(iv) The tax charge arising on contract renegotiation in 2005 was £12 million (note 2).

5. Dividends

	2005 £m	2004 £m
Prior year final dividend of 6.1p (2004: 3.7p) per ordinary share	**220**	230
Interim dividend of 3.1p (2004: 2.5p) per ordinary share	**120**	105
Special dividend of 25.0p per ordinary share	**–**	1,051
	340	1,386

The prior year final dividend was paid on 15 June 2005. The interim dividend was paid on 16 November 2005. The prior year special dividend was paid on 17 November 2004.

The Directors propose a final dividend of 7.4 pence per share (totalling £268 million) for the year ended 31 December 2005. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 19 May 2006. This financial information does not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2006.

6. Earnings per ordinary share

a) Continuing and discontinued operations

	2005 £m	2005 Pence per ordinary share	2004 £m	2004 Pence per ordinary share
Earnings – basic	**1,012**	**27.4**	1,591	38.0
Exceptional items after tax (note 2)	**(34)**	**(0.9)**	(833)	(19.9)
Certain re-measurement gains and losses after tax (note 2) (i)	**(306)**	**(8.3)**	–	–
Earnings – adjusted basic	**672**	**18.2**	758	18.1
Earnings – diluted (ii)	**1,012**	**27.0**	1,591	37.4

b) Continuing operations

	2005 £m	2005 Pence per ordinary share	2004 £m	2004 Pence per ordinary share
Earnings – basic	**967**	**26.2**	618	14.8
Exceptional items after tax (note 2)	**-**	**–**	73	1.7
Certain re-measurement gains and losses after tax (note 2) (i)	**(306)**	**(8.3)**	–	–
Earnings – adjusted basic	**661**	**17.9**	691	16.5
Earnings – diluted (ii)	**967**	**25.8**	618	14.5

c) Discontinued operations

	2005 £m	2005 Pence per ordinary share	2004 £m	2004 Pence per ordinary share
Earnings – basic	**45**	**1.2**	973	23.3
Earnings – diluted (ii)	**45**	**1.2**	973	22.9

(i) Certain re-measurements within gross margin comprise re-measurement arising on our energy procurement activities and proprietary trades in relation to which cross-border transportation or transmission capacity is held (but not on the other activities of our proprietary trading businesses). Certain re-measurements included within interest comprise re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund. All other re-measurement is included within results before exceptional items and certain re-measurement.

(ii) The weighted average number of shares used in the calculation of earnings per ordinary share was as follows:

	2005 million shares	2004 million shares
Weighted average number of shares used in the calculation of basic earnings per ordinary share	**3,688**	4,184
Estimated vesting of Long Term Incentive Scheme shares	**24**	26
Dilutive effect of shares to be issued at a discount to market value under the Sharesave Schemes	**34**	37
Potentially dilutive shares issuable under the Executive Share Option Scheme	**5**	4
Weighted average number of shares used in the calculation of diluted earnings per ordinary share	**3,751**	4,251

7. Interests in joint ventures and associates

	Barrow Offshore Wind Limited £m	Segebel SA £m	2005 Total £m	2004 Total £m
Interests in joint ventures				
Share of current assets	1	108	**109**	143
Share of non-current assets	54	255	**309**	401
	55	363	**418**	544
Share of current liabilities	(19)	(50)	**(69)**	(54)
Share of non-current liabilities	–	(138)	**(138)**	(311)
	(19)	(188)	**(207)**	(365)
Share of net assets of associates	–	–	**–**	3
Shareholder loans	12	–	**12**	24
Interests in joint ventures and associates	48	175	**223**	206
Net debt included in share of gross liabilities	(12)	(30)	**(42)**	(240)

8. Bank overdrafts and loans

Amounts falling due	2005 Within one year £m	2005 After one year £m	2004 Within one year £m	2004 After one year £m
a) Business' recourse borrowings				
Bank loans and overdrafts (i)	**71**	**55**	90	33
Other bank loans (ii)	**188**	**449**	–	–
Sterling bonds (iii)	**–**	**422**	125	410
Commercial paper (iv)	**377**	**–**	220	–
Loan notes	**–**	**–**	2	–
Obligations under finance leases (including power station tolling arrangements)	**19**	**809**	50	785
	655	**1,735**	487	1,228
b) Business' non-recourse borrowings				
Canadian dollar bonds (v)	**–**	**250**	–	217
Units of The Consumers' Waterheater Income Fund (vi)	**–**	**282**	–	–
	655	**2,267**	487	1,445

(i) Includes bank overdrafts of £62 million (2004: £85 million) which are repayable on demand. Overdrafts bear interest at floating rates based on bank base rate plus 1% margin. Bank loans repayable after one year comprise £52 million repayable within two to five years, and £3 million repayable after more than five years.
(ii) Other bank loans represent borrowings relating to South Morecambe gas field production.
(iii) Sterling bonds were repayable as follows: less than one year £nil (2004: £125 million) and after five years £422 million (2004: £410 million). The bonds bear interest at fixed rates of 5.875% (2004: 5.375% and 5.875%). The bonds have a face value of £415 million (2004: £540 million) and are stated at amortised cost net of £4 million (2004: £5 million) issuance discount, and at fair value where hedged.
(iv) Commercial paper has a face value of £382 million (2004: £221 million).
(v) Canadian dollar bonds have a face value of £250 million (2004: £217 million). This debt is issued by The Consumers' Waterheater Income Trust, a wholly owned subsidiary of The Consumers' Waterheater Income Fund (the Fund), which is consolidated in the Group Financial Statements. The debt is secured solely on the assets of the Fund and its subsidiaries, without recourse to the Group. These bonds were issued in two series and have a maturity date between two and five years bearing interest between 4.700% and 5.245% respectively.
(vi) Units of the Fund are traded on the Toronto Stock Exchange and are treated as debt in the Group Financial Statements from the date of adoption of IAS 32 on 1 January 2005. The units were treated as non-equity minority interests of the Group prior to the adoption of IAS 32.

9. Reserves

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Other reserves £m	Total £m	Minority interest £m	Total equity £m
	Attributable to equity holders of the Company							
31 December 2004	233	575	467	5	809	**2,089**	219	**2,308**
Adoption of IAS 32 and IAS 39	–	–	–	–	(179)	**(179)**	(164)	**(343)**
1 January 2005	233	575	467	5	630	**1,910**	55	**1,965**
Exchange differences on translation of foreign operations	–	–	–	–	13	**13**	–	**13**
Actuarial losses on defined benefit pension schemes	–	–	–	–	(126)	**(126)**	–	**(126)**
Gains on revaluation of acquired assets	–	–	–	–	14	**14**	–	**14**
Gains on revaluation of available for sale investments	–	–	–	–	2	**2**	–	**2**
Cash flow hedges								
Net fair value gains	–	–	–	–	408	**408**	–	**408**
Transfers to income statement	–	–	–	–	(74)	**(74)**	–	**(74)**
Tax on items taken directly to equity	–	–	–	–	(84)	**(84)**	–	**(84)**
	233	575	467	5	783	**2,063**	55	**2,118**
Profit for the year	–	–	–	–	1,012	**1,012**	1	**1,013**
Employee share option schemes								
Purchase of treasury shares	–	–	–	–	(3)	**(3)**	–	**(3)**
Share issue	1	20	–	–	–	**21**	–	**21**
Value of services provided	–	–	–	–	21	**21**	–	**21**
Repurchase of shares	(10)	–	–	10	(388)	**(388)**	–	**(388)**
Dividends	–	–	–	–	(340)	**(340)**	–	**(340)**
31 December 2005	224	595	467	15	1,085	**2,386**	56	**2,442**

Other reserves can be further analysed as follows:

	Revaluation reserve £m	Foreign currency translation reserve £m	Cash flow hedging reserve £m	Profit and loss reserve £m	Total other reserves £m
31 December 2004	–	–	–	809	**809**
Adoption of IAS 32 and IAS 39	–	–	68	(247)	**(179)**
1 January 2005	–	–	68	562	**630**
Exchange differences on translation of foreign operations	–	(3)	16	–	**13**
Actuarial losses on defined benefit pension schemes	–	–	–	(126)	**(126)**
Gains on revaluation of acquired assets	14	–	–	–	**14**
Gain on revaluation of available for sale investments	–	–	–	2	**2**
Cash flow hedges					
Net fair value gains	–	–	408	–	**408**
Transfers to income statement	–	–	(74)	–	**(74)**
Tax on items taken directly to equity	(4)	–	(117)	37	**(84)**
	10	(3)	301	475	**783**
Profit for the year	–	–	–	1,012	**1,012**
Employee share option schemes:					
Purchase of treasury shares	–	–	–	(3)	**(3)**
Value of services provided	–	–	–	21	**21**
Repurchase of shares	–	–	–	(388)	**(388)**
Dividends	–	–	–	(340)	**(340)**
31 December 2005	10	(3)	301	777	**1,085**

10. Notes to the Group Cash Flow Statement

a) Reconciliation of Group operating profit to net cash flow from operating activities	2005 £m	2004 £m
Continuing operations		
Group operating profit before share of joint ventures and associates	**1,920**	1,207
Add back:		
Amortisation of intangible assets	**76**	37
Depreciation and impairment	**406**	490
Employee share scheme costs	**17**	13
Profit on sale of businesses	**(53)**	–
Profit on sale of property, plant and equipment, and other intangible assets	**(17)**	(13)
Movement in provisions	**42**	(76)
Re-measurement of energy contracts	**(455)**	–
Operating cash flows before movements in working capital	**1,936**	1,658
(Increase) / decrease in inventories	**(22)**	10
Increase in receivables	**(269)**	(356)
Increase in payables	**299**	344
Cash generated by operations	**1,944**	1,656
Income taxes paid	**(320)**	(217)
Petroleum Revenue Tax paid	**(448)**	(263)
Net interest received	**3**	6
Payments relating to exceptional charges	**(48)**	(25)
Net cash flow from operating activities: continuing operations	**1,131**	1,157

	2005 £m	2004 £m
Discontinued operations		
Operating profit before share of joint ventures and associates	**12**	71
Add back:		
Amortisation of intangible assets	**1**	3
Depreciation and impairment	**6**	8
Employee share scheme costs	**1**	5
Profit on sale of property, plant and equipment, and other intangible assets	**–**	(1)
Movement in provisions	**(4)**	(2)
Operating cash flow before movements in working capital	**16**	84
Decrease in inventories	**–**	1
(Increase)/decrease in receivables	**(3)**	6
Increase in payables	**–**	43
Cash generated by operations	**13**	134
Income taxes paid	**–**	(22)
Net interest received	**–**	–
Payments relating to exceptional charges	**–**	–
Net cash flow from operating activities: discontinued operations	**13**	112
Total cash inflow from operating activities	**1,144**	1,269

b) Net cash flow from investing activities	2005 £m	2004 £m
Continuing operations	**(520)**	497
Discontinued operations	**(9)**	–
Net cash flow from investing activities	**(529)**	497

c) Net cash flow from financing activities	2005 £m	2004 £m
Continuing operations	**(356)**	(1,515)
Discontinued operations	**21**	(73)
Net cash flow from financing activities	**(335)**	(1,588)

11. Pensions

Substantially all of the Group's UK employees at 31 December 2005 were members of one of the three main schemes: the Centrica Pension Scheme (formerly the Centrica Staff Pension Scheme), the Centrica Engineers' Pension Scheme and the Centrica Management Pension Scheme (the approved pension schemes). These schemes are defined benefit schemes and are subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contributions which, together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes.

The Centrica Unapproved Pension Scheme is an unfunded arrangement which provides benefits to certain employees whose benefits under the main schemes would otherwise be limited by the earnings cap. The Group also has a commitment to provide certain pension and post retirement benefits to employees of Direct Energy Marketing Limited (Canada).

The latest full actuarial valuations were carried out at the following dates: the approved pension schemes at 31 March 2004, the Unapproved Pension Scheme at 6 April 2005 and the Direct Energy Marketing Limited pension plan at 14 June 2005. These have been updated to 31 December 2005 for the purposes of meeting the requirements of IAS19. Investments have been valued, for this purpose, at market value.

Major assumptions used for the actuarial valuation	31 December 2005 %	31 December 2004 %
Rate of increase in employee earnings	**4.35**	4.30
Rate of increase in pensions in payment and deferred pensions	**2.85**	2.80
Discount rate	**4.85**	5.40
Inflation assumption	**2.85**	2.80

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions are equivalent to future longevity for members in normal health at age 65 approximately are as follows:

	31 December 2005 years	31 December 2004 years
Currently aged 65 – range	**18 – 23**	18 – 23
Currently aged 45 – range	**20 – 25**	20 – 25

The market value of the assets in the schemes, the present value of the liabilities in the schemes and the expected rate of return at the balance sheet date were:

31 December	Expected rate of return per annum 2005 %	Valuation 2005 £m	Expected rate of return per annum 2004 %	Valuation 2004 £m
Equities	**7.9**	**2,023**	8.1	1,590
Bonds	**4.5**	**391**	5.0	336
Property	**6.3**	**83**	6.9	62
Cash and other assets	**3.7**	**73**	3.6	53
Total fair value of plan assets	**7.3**	**2,570**	7.4	2,041
Present value of defined benefit obligation		**(3,390)**		(2,760)
Net liability recognised in the Balance Sheet (i)		**(820)**		(719)
Associated deferred tax asset recognised in the Balance Sheet		**249**		212
Net pension liability		**(571)**		(507)

(i) £13 million of the liability relates to restructuring costs arising in the year and is included within the restructuring provision on the balance sheet (2004: £14 million).

The overall expected rate of return on assets is a weighted average based on the actual plan assets held and the respective expected returns on separate asset classes. The returns on separate asset classes were derived as follows: The expected rate of return on equities is based on the expected median return over a ten year period, as calculated by the independent company actuary. The median return over a longer period than ten years was not expected to be materially dissimilar. The expected rate of return on bonds was measured directly from actual market yields for UK gilts and corporate bond stocks. The rate above takes into account the actual mixture of UK gilts, UK corporate bonds and overseas bonds held at the balance sheet date. The expected rate of return on property takes into account both capital growth and allowance for expenses, rental growth and depreciation. The expected rate of return on cash is comparable to current bank interest rates.

Included within schemes' liabilities above are £32 million (31 December 2004: £26 million) relating to unfunded pension arrangements.

The amounts recognised in the Income Statement and in the Statement of Recognised Income and Expense are set out below:

Analysis of the amount charged to operating profit	2005 £m	2004 £m
Current service cost	**122**	148
Past service cost	**–**	4
Loss on curtailment	**14**	16
Net charge to operating profit	**136**	168

Analysis of the amount (credited)/charged to interest	2005 £m	2004 £m
Expected return on pension scheme assets	**(153)**	(173)
Interest on pension scheme liabilities	**150**	178
Net (credit)/charge to interest	**(3)**	5

Analysis of the actuarial gain/(loss) recognised in the Statement of Recognised Income and Expenses	2005 £m	2004 £m
Actual return less expected return on pension scheme assets	**307**	64
Experience gains and losses arising on the scheme liabilities	**21**	134
Changes in assumptions underlying the present value of the schemes' liabilities	**(454)**	(108)
Actuarial (loss)/gain to be recognised in the Statement of Recognised Income and Expense before adjustment for tax	**(126)**	90

12. Events after the Balance Sheet date

The Directors propose a final dividend of 7.4 pence per share (totalling £268 million) for the year ended 31 December 2005. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 19 May 2006. These Financial Statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2006.

The second share repurchase programme of up to £500 million, announced on 24 June 2005, commenced on 3 October. Between 1 January and 21 February 2006, a further 8,950,000 shares of $6^{14}/_{81}$ pence each were repurchased and cancelled for an aggregate consideration of £22.4 million, representing 0.25% of the company's issued share capital. This makes a total since October 2005 of 45,688,436 shares for an aggregate consideration of £58.4 million. The share repurchase programme has currently been paused.

On 24 January 2006 the Group completed the disposal of its 49% share of the Chiswick field. Cash proceeds of £8 million were received from CH4 resulting in a net profit on the disposal of £4 million.

On 31 January 2006 the Group completed the disposal of its 19% share of the Ensign field. Cash proceeds of £2 million were received from Venture Production resulting in a net profit on disposal of £2 million.

On 1 February 2006 the Group acquired 100% of the partnership interests in Tenaska III Texas Partners (TP) for consideration of US$ 48 million (£27 million) in cash, and 100% of the equity interests in WillowTex pipeline Co. for consideration of approximately US$ 8 million (£4 million) cash. Management considers it impracticable to disclose information about the fair value of the net assets acquired since the valuation exercise has not yet been completed.

13. Basis of preparation

(i) The preliminary results for the year ended 31 December 2005 have been extracted from audited accounts which have not yet been delivered to the Registrar of Companies. The financial information set out in this announcement does not constitute statutory accounts for the year ended 31 December 2005 or 31 December 2004. The financial information for the year ended 31 December 2005 is derived from the statutory accounts for that year, except that comparative information has been restated as a result of the adoption of International Financial Reporting Standards (IFRS) described below. The report of the auditors on the statutory accounts for the year ended 31 December 2005 was unqualified and did not contain a statement under Section 237 of the Companies Act 1985.

(ii) The Group's income statement and segmental note separately identifies the effects of re-measurement of certain financial instruments, and items which are 'exceptional', in order to provide readers with a clear and consistent presentation of the Group's underlying performance.

(iii) The re-measurement items which are separately identified within gross profit are the re-measurements of contracts related to our energy procurement activities, which are classified as derivatives under IAS 39, Financial instruments: recognition and measurement, due to the nature of the contractual terms. It also includes re-measurement of proprietary trades in relation to which cross-border transportation or transmission capacity is held. The re-measurement under IAS 39 of the remaining activities of our proprietary trading businesses is included in results for the year, before exceptional items and certain re-measurements. Separately identified within interest is the re-measurement under IAS 39 of the publicly traded units of The Consumers' Waterheater Income Fund. Re-measurement movements reflect changes in external market prices and exchange rates. The treatment has no impact on the on-going cash flows of the business and management believes that these unrealised movements are best presented separately from underlying business performance.

(iv) In accordance with IAS 1 'Presentation of Financial Statements', certain items which are material to the result for the period and are of a non-recurring nature are presented separately. Items which have been considered material and non-recurring in nature include disposals of businesses, business restructuring and the renegotiation of significant gas contracts. Such a presentation will be followed on a consistent basis in future periods. Items are considered material if their omission or misstatement, could in the opinion of the Directors, individually or collectively, affect the true and fair presentation of the financial statements.

(v) Centrica plc is required to prepare its consolidated financial statements in accordance with international accounting standards as adopted by the European Union, with effect from 1 January 2005. On 4 May 2005 the Group issued a statement providing information on the impact of IFRS in advance of the publication of results under IFRS. It included details of the Group's principal accounting policies under IFRS, and the financial information set out in the preliminary results has been prepared in accordance with those accounting policies. The directors have applied those policies in the preparation of the financial statements for the year ended 31 December 2005.

(vi) On 4 May 2005 the Group issued a statement which presented and explained the consolidated results of the Centrica Group restated from UK GAAP onto an IFRS basis for the year ended 31 December 2004, the six months ended 30 June 2004 and the balance sheet as at 1 January 2004. This statement was neither audited nor reviewed. The Group has adopted IAS 39 and IAS 32 prospectively from 1 January 2005. A reconciliation of the Group's IFRS balance sheet from 31 December 2004 to 1 January 2005 was presented with our restated results on 4 May 2005, which was neither audited nor reviewed. An archived webcast and transcript of the seminar held for analysts and institutional investors, and the statement issued on 4 May are available at www.centrica.co.uk/investors .

Group Income Statement for the six months ended 31 December

	Notes	2005 Results for the year before exceptional items and certain re-measurements (i) £m	2005 Exceptional items and certain re-measurements (i) £m	2005 Results for the year £m	2004 Results for the year before exceptional items and certain re-measurements (i) £m	2004 Exceptional items and certain re-measurements (i) £m	2004 Results for the year £m
Continuing operations							
Group revenue	14	**6,832**	**-**	**6,832**	5,663	-	5,663
Cost of sales		**(5,175)**	**-**	**(5,175)**	(4,014)	-	(4,014)
Re-measurement of energy contracts (i)	15	**-**	**(20)**	**(20)**	-	-	-
Gross profit		**1,657**	**(20)**	**1,637**	1,649	-	1,649
Operating costs before exceptional items		**(1,127)**	**-**	**(1,127)**	(1,132)	-	(1,132)
Business restructuring costs	15	**-**	**(100)**	**(100)**	-	(1)	(1)
Operating costs after exceptional items		**(1,127)**	**(100)**	**(1,227)**	(1,132)	(1)	(1,133)
Share of profits in joint ventures and associates, net of interest and taxation		**14**	**-**	**14**	29	-	29
Group operating profit	14	**544**	**(120)**	**424**	546	(1)	545
Interest income		**55**	**-**	**55**	45	-	45
Interest expense (i)		**(125)**	**4**	**(121)**	(90)	-	(90)
Net interest expense		**(70)**	**4**	**(66)**	(45)	-	(45)
Profit from continuing operations before taxation		**474**	**(116)**	**358**	501	(1)	500
Taxation on profit from continuing operations		**(260)**	**23**	**(237)**	(220)	-	(220)
Profit from continuing operations after taxation		**214**	**(93)**	**121**	281	(1)	280
Profit from discontinued operations		**13**	**-**	**13**	29	(5)	24
Gain on disposal of discontinued operations		**-**	**8**	**8**	-	911	911
Discontinued operations		**13**	**8**	**21**	29	906	935
Profit/(loss) for the period		**227**	**(85)**	**142**	310	905	1,215
Attributable to:							
Equity holders of the parent		**227**	**(85)**	**142**	299	905	1,204
Non-equity minority interests		**-**	**-**	**-**	9	-	9
Minority interests		**-**	**-**	**-**	2	-	2
		227	**(85)**	**142**	310	905	1,215

	Notes	2005 Pence		2005 Pence	2004 Pence		2004 Pence
Earnings per ordinary share							
From continuing and discontinued operations:							
Basic	16			**4.1**			28.9
Adjusted basic	16	6.3			7.3		
Diluted	16			**4.1**			28.5

(i) Certain re-measurements included within gross margin comprise re-measurement arising on our energy trading procurement activities and on proprietary trades in relation to which cross-border transportation or transmission capacity is held (but not on the other activities of our proprietary trading businesses). Certain re-measurements included within interest comprise re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund. All other re-measurement is included within results before exceptional items and certain re-measurements. IAS 39 was adopted from 1 January 2005 and therefore there is no comparative for certain re-measurements for 2004.

Group Cash Flow Statement for the six months ended 31 December

	Notes	2005 £m	2004 £m
Cash generated from continuing operations		**738**	816
Interest received		**5**	16
Interest paid		**(9)**	(18)
Tax paid		**(473)**	(293)
Payments relating to exceptional charges		**(11)**	(18)
Net cash flow from continuing operating activities	17	**250**	503
Net cash flow from discontinued operating activities	17	**16**	24
Net cash flow from operating activities		**266**	527
Purchase of interests in subsidiary undertakings, net of cash and cash equivalents acquired		**(35)**	(420)
Disposal of interests in subsidiary undertakings, net of cash and cash equivalents disposed		**84**	1,401
Purchase of intangible assets		**(90)**	(88)
Disposal of intangible assets		**26**	39
Purchase of property, plant and equipment		**(451)**	(169)
Disposal of property, plant and equipment		**14**	11
Dividends received from joint ventures and associates		**1**	22
Investments in joint ventures and associates		**(104)**	(25)
Disposal of interests in associates		**11**	-
Interest received		**48**	48
Net sale of other financial assets		**(16)**	(88)
Net cash flow from investing activities	17	**(512)**	731
Re-purchase of ordinary share capital		**(156)**	(205)
Issue of ordinary share capital		**1**	17
Interest paid in respect of finance leases		**(40)**	(46)
Other interest paid		**(50)**	(42)
Distribution to shareholders of The Consumers' Waterheater Income Fund		**(11)**	-
Interest paid		**(101)**	(88)
Cash inflow from additional debt		**638**	18
Cash outflow from payment of capital element of finance leases		**(23)**	(18)
Cash (outflow)/inflow from repayment of debt		**(126)**	72
Net cash flow from increase in debt		**489**	72
Realised net foreign exchange (loss)/gain on cash settlement of derivative contracts		**(35)**	15
Equity dividends paid		**(120)**	(1,156)
Distribution to unitholders of The Consumers' Waterheater Income Fund		**–**	(10)
Net cash flow from financing activities	17	**78**	(1,355)
Net increase in cash and cash equivalents		**(168)**	(97)
Cash and cash equivalents at 1 July		**1,335**	978
Effect of foreign exchange rate changes		**10**	-
Cash and cash equivalents at 31 December		**1,177**	881

14. Segmental analysis for the six months ended 31 December

a) Revenue	2005 Gross segment revenue £m	2005 Less inter-segment revenue £m	2005 Group revenue £m	2004 Gross segment revenue £m	2004 Less inter-segment revenue £m	2004 Group Revenue £m
Continuing operations:						
British Gas Residential Energy	**2,813**	**-**	**2,813**	2,718	-	2,718
British Gas Services	**528**	**-**	**528**	491	-	491
British Gas Residential	**3,341**	**-**	**3,341**	3,209	-	3,209
British Gas Business	**785**	**-**	**785**	585	-	585
Industrial sales and wholesaling	**831**	**(431)**	**400**	1,014	(593)	421
Gas production	**659**	**(546)**	**113**	596	(518)	78
Accord energy trading	**21**	**-**	**21**	6	-	6
Centrica Energy	**1,511**	**(977)**	**534**	1,616	(1,111)	505
Centrica Storage	**147**	**(38)**	**109**	86	(16)	70
North American Energy and Related Services	**1,952**	**-**	**1,952**	1,288	-	1,288
European Energy	**106**	**-**	**106**	6	(1)	5
Other operations	**5**	**-**	**5**	1	-	1
	7,847	**(1,015)**	**6,832**	6,791	(1,128)	5,663
Discontinued operations:						
The AA	**-**	**-**	**-**	217	-	217
OneTel	**181**	**(1)**	**180**	151	(2)	149
	181	**(1)**	**180**	368	(2)	366

b) Operating profit	Operating profit/(loss) before exceptional items and certain re-measurement Six months ended 31 December 2005 £m	2004 £m	Exceptional items and certain re-measurement Six months ended 31 December 2005 £m	2004 £m	Operating profit/(loss) after exceptional items and certain re-measurement Six months ended 31 December 2005 £m	2004 £m	Share of result of joint ventures and associates included within operating profit Six months ended 31 December 2005 £m	2004 £m
Continuing operations:								
British Gas Residential Energy	**(75)**	25	**63**	(3)	**(12)**	22	**1**	2
British Gas Services	**52**	31	**(15)**	-	**37**	31	**-**	-
British Gas Residential	**(23)**	56	**48**	(3)	**25**	53	**1**	2
British Gas Business	**22**	22	**61**	-	**83**	22	**-**	-
Industrial sales and wholesaling	**(136)**	(45)	**(272)**	2	**(408)**	(43)	**11**	24
Gas production	**480**	394	**(23)**	(1)	**457**	393	**-**	-
Accord energy trading	**16**	4	**40**	-	**56**	4	**-**	-
Centrica Energy	**360**	353	**(255)**	1	**105**	354	**11**	24
Centrica Storage	**97**	43	**(2)**	-	**95**	43	**-**	-
North American Energy and Related Services	**98**	69	**51**	-	**149**	69	**-**	-
European Energy	**(12)**	3	**-**	-	**(12)**	3	**2**	3
Other operations	**2**	-	**(23)**	1	**(21)**	1	**-**	-
	544	546	**(120)**	(1)	**424**	545	**14**	29
Discontinued operations:								
The AA	**-**	32	**12**	911	**12**	943	**-**	5
OneTel	**14**	3	**(4)**	(5)	**10**	(2)	**-**	-
	14	35	**8**	906	**22**	941	**-**	5

15. Exceptional items and certain re-measurements for the six months ended 31 December

	2005 £m	2004 £m
a) Exceptional items recognised in continuing operations		
Business restructuring costs (i)	**(100)**	(1)
Total recognised in continuing operations	**(100)**	(1)
b) Exceptional items recognised in discontinued operations		
Business restructuring costs (i)	**-**	(5)
Profit on disposal of the AA (ii)	**13**	911
Loss on disposal of Onetel (iii)	**(5)**	-
Total recognised in discontinued operations	**8**	906

	2005 £m	2004 £m
c) Certain re-measurements recognised in continuing operations (iv)		
Net gains arising on delivery of contracts	**57**	–
Net losses arising on market price movements and new contracts	**(116)**	–
Net gains arising on proprietary trades in relation to which cross border transportation or transmission capacity is held (v)	**39**	–
Total certain re-measurements recognised in continuing operations	**(20)**	–

(i) Business restructuring costs in 2005 comprise £100 million resulting from staff reductions at the corporate centre (£23 million), British Gas Residential Energy (£43 million), British Gas Home Services (£15 million), British Gas Business (£1 million) and changes to the property portfolio (£18 million). A tax credit of £23 million has been recognised in respect of these costs.

(ii) Adjustments to finalise the consideration received by the Group on the disposal of the AA have led to the recognition of a further £13 million profit, net of a tax charge of £11 million. The profit on disposal of discontinued operations in 2004 relates to the disposal of 100% of the share capital of the AA, net of a £13 million tax credit.

(iii) The Group disposed of its 100% shareholding in Centrica Telecommunications Limited, Onetel Limited, Telco Holdings Limited and Awardmodel Limited and their subsidiaries (Onetel), on 30 December 2005 realising a loss of £5 million.

(iv) Certain re-measurements included within gross margin comprise re-measurement arising on our energy procurement activities and on proprietary trades in relation to which cross-border transportation or transmission capacity is held (but not on the other activities of our proprietary trading businesses). IAS 39 was adopted from 1 January 2005 and therefore there is no comparative for certain re-measurements for 2004.

(v) Under IAS 39, cross-border trades are marked to prices in the local market as opposed to prices in the most favourable market which could be accessed through the cross-border transmission and transportation capacity held against such trades. The associated capacity has not been marked to market.

16. Earnings per ordinary share for the six months ended 31 December

a) Continuing and discontinued operations	2005		2004	
	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings – basic	**142**	**4.1**	1,204	28.9
Exceptional items after tax	**69**	**1.9**	(905)	(21.6)
Certain re-measurement gains and losses after tax (i)	**16**	**0.3**	-	-
Earnings – adjusted basic	**227**	**6.3**	299	7.3
Earnings – diluted	**142**	**4.1**	1,204	28.5

(i) Certain re-measurements within gross margin comprise re-measurement arising on our energy procurement activities and proprietary trades in relation to which cross-border transportation or transmission capacity is held (but not on the other activities of our proprietary trading businesses). Certain re-measurements included within interest comprise re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund. All other re-measurement is included within results before exceptional items and certain re-measurement.

17. Notes to the Group Cash Flow Statement for the six months ended 31 December

a) Reconciliation of Group operating profit to net cash flow from operating activities	2005 £m	2004 £m
Continuing operations		
Group operating profit before share of joint ventures and associates	**453**	522
Add back:		
Amortisation of intangible assets	**51**	26
Depreciation and impairment	**206**	248
Employee share scheme costs	**8**	7
Profit on sale of businesses	**(6)**	–
Profit on sale of property, plant and equipment and other intangible assets	**(17)**	(11)
Movement in provisions	**36**	(105)
Re-measurement of energy contracts	**21**	–
Operating cash flows before movements in working capital	**752**	687
Decrease in inventories	**(26)**	(42)
Increase in receivables	**(1,084)**	(730)
Increase in payables	**1,096**	901
Cash generated by operations	**738**	816
Income taxes paid	**(181)**	(82)
Petroleum Revenue Tax paid	**(292)**	(211)
Net interest paid	**(4)**	(2)
Payments relating to exceptional charges	**(11)**	(18)
Net cash flow from operating activities: continuing operations	**250**	503

	2005 £m	2004 £m
Discontinued operations		
Operating profit before share of joint ventures, associates and exceptional items	**14**	24
Add back:		
Amortisation of intangible assets	**–**	1
Depreciation and impairment	**2**	(1)
Employee share scheme costs	**1**	3
Profit on sale of property, plant and equipment, and other intangible assets	**–**	(1)
Movement in provisions	**(2)**	–
Operating cash flow before movements in working capital	**15**	26
Increase in receivables	**(1)**	(4)
Increase in payables	**2**	24
Cash generated by operations	**16**	46
Income taxes paid	**–**	(22)
Net cash flow from operating activities: discontinued operations	**16**	24
Total cash inflow from operating activities	**266**	527

b) Net cash flow from investing activities	2005 £m	2004 £m
Continuing operations	**(495)**	736
Discontinued operations	**(17)**	(5)
Net cash flow from investing activities	**(512)**	731

c) Net cash flow from financing activities	2005 £m	2004 £m
Continuing operations	**64**	(1,337)
Discontinued operations	**14**	(18)
Net cash flow from financing activities	**78**	(1,355)

Disclaimers

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

This announcement contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of Centrica plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements and forecasts.

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

Financial Calendar

Ex-dividend date for 2005 final dividend	26 April 2006
Record date for 2005 final dividend	28 April 2006
Annual General Meeting	19 May 2006
2005 final dividend payment date	14 June 2006
Pre-close Trading Update	16 June 2006
2006 interim results announcement	27 July 2006

For further information

Centrica will hold a presentation on its 2005 Preliminary Results for analysts and institutional investors at 9.30am (GMT) on Thursday 23 February 2006. The presentation and slides will be webcast live from 9.30am at www.centrica.com/investors.

A live broadcast of the presentation will also be available by dialling in using the following numbers:

From the UK	0845 245 3471	} password "2005 Preliminary Results Announcement"
From overseas	+44 1452 542 300	}

An archived webcast and full transcript of the presentation and the question and answer session will be available on the website on Friday 24 February 2006.

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