Centrica plc

Preliminary Results
for the year ended 31 December 1999
(unaudited)

SUMMARY

	Year ended 31 December 1999	Year ended 31 December 1998 as restated
Turnover	**£7,217m**	£7,481m
Operating profit from continuing operations	**£365m**	£162m
Profit before tax, exceptionals and goodwill amortisation	**£417m**	£252m
Earnings before exceptionals and goodwill amortisation	**£331m**	£176m
Operating cash flow before exceptionals	**£1,453m**	£870m
Earnings per share	**4.3p**	2.1p
Earnings per share before exceptionals and goodwill amortisation	**7.9p**	4.0p
Special dividend per share	**-**	12.0p
Ordinary dividend per share	**2.5p**	-

- Domestic electricity targets exceeded
- AA acquisition completed
- Home Services sales growth of 13%
- Earnings per share doubled.

Commenting on the results, Chairman Sir Michael Perry said:

"1999 was a year of significant progress towards our vision of becoming the leading supplier of products and services in and around the home. The acquisition of the Automobile Association has added another dimension to the range of services we can offer to customers. Earnings growth was encouraging and operating cash flow was once again strong. The Board proposes a final dividend of 1.5p per share in addition to the interim dividend of 1p per share paid in December. A special dividend of 12p per share was paid in June, combined with a share consolidation.

CHAIRMAN'S STATEMENT

In 1999 we made significant progress towards our vision of becoming the leading supplier of products and services in and around the home. We were satisfied with the levels of retention of domestic gas customers, which stood at 73% at the end of December 1999, particularly against a background of intensive competition in the market place. At the end of 1999 we had 2.6 million electricity customers who had signed to take supply, exceeding our growth target for the year. Our Home Services business continued to grow strongly, stimulated by new product introductions. In addition the acquisition of the Automobile Association (AA) provides us with an excellent base for growth into the future.

Financial Performance

I am pleased to report a substantially improved financial performance compared with 1998. Earnings before exceptional charges and amortisation of goodwill were £331 million compared with £176 million last year, an increase of 88%. Lower gas costs, a large part resulting from contract renegotiation in previous years, and a higher level of own gas production contributed to this improved performance. Operating cash flow before exceptionals at £1,453 million was £583 million ahead of 1998 of which £450 million came from a change in timing of transportation payments. At 31 December 1999 our net debt was £127 million compared with net cash of £223 million at the previous year-end, after a net cash outlay of £780 million to acquire the AA and payment of the special dividend of £530 million.

Customer Service

Customer service and satisfaction continues to be a prime area of focus and I am pleased to report that we have continued to make good progress during 1999. However there is still much to be done and we will be re-doubling our effort to raise standards once again in 2000.

Board

During the year Sir Sydney Lipworth and Sir Brian Shaw joined the Board as non-executive directors. Bill Cockburn stood down as a non-executive director and we are grateful for his valuable contribution during an important period of our development.

Dividend

The Board proposes a final dividend of 1.5 pence per share, payable in June 2000. When combined with the interim dividend of 1 penny per share paid in December 1999, this gives a total ordinary dividend in respect of 1999 of 2.5 pence. The Company also paid a special dividend of 12 pence per share in June 1999, combined with a share consolidation.

Strategy

The acquisition of the AA was an important milestone in the development of our strategy. It provides the opportunity to forge new relationships with over 10 million AA customers and brings the considerable strength of the AA brand alongside British Gas and Goldfish. Across the whole Group we will continue to invest for growth, increasing our sales and developing a range of services that will further secure mutually rewarding relationships with both new and existing customers.

Sir Michael Perry, CBE
Chairman
24 February 2000

CHIEF EXECUTIVE'S REVIEW

Group Results

Turnover from continuing operations at £7,134 million was £178 million lower in 1999, compared with 1998. Domestic gas sales volumes were down by 14% due to market share reductions, following the full opening up of competition in May 1998. This decrease was partly offset by revenue growth in the Home Services business, the build up of electricity sales and the post acquisition turnover of the AA of £150 million. The discontinued operations turnover of £83 million related to the Energy Centres' retail activity that was closed during the second half of the year.

Operating profit from continuing operations of £365 million was £203 million better than in 1998. Most of the profit improvement was in Energy Supply due to lower third party gas and storage costs and higher gas production from our own field interests. In 1999 the average unit cost of externally purchased gas was 15.6p compared with 18.3p during 1998. Much of this reduction came about as a result of the long-term take or pay gas contract renegotiations we concluded over the last 3 years, and which largely took effect from October 1998. Gas production volumes from our own field interests were up by approximately 25% compared with 1998. This displaced more expensive externally purchased gas which had the effect of improving Group profit by approximately £50 million.

Progress continued in our Home Services business where operating profit before exceptionals was £20 million, an improvement of £11 million compared with 1998. Following a strategic review, the closure of the Energy Centres was announced in July 1999.

Inclusion of the AA for the last three months of the year and further investment in growing our electricity business were the primary reasons why underlying operating costs increased from £1,055 million in 1998 to £1,249 million in 1999. In our gas supply business operating costs reduced by 10% in the second half compared to those incurred in the six months to June 1999.

Exceptional charges were £136 million (1998: £85 million) of which £60 million was the cost of closing our Retail operations. Restructuring costs of £36 million (1998: £3 million) comprised £18 million in Energy Supply, £16 million in the AA and £2 million in Home Services. In addition £10 million (1998: £19 million) was incurred on Year 2000 computer system compliance preparations and £30 million (1998: £63 million) in relation to gas contract renegotiations.

Net interest payable was £7 million (1998: £39 million receivable), after taking account of notional charges of £24 million (1998: £26 million) in connection with the unwinding of discounted long-term liabilities. The switch to net interest payable reflects the Group's move to a net debt position following the acquisition of the AA and the payment of the special dividend.

The tax charge of £86 million (1998: £76 million) mainly related to offshore gas production activities which are ring-fenced for tax purposes. Taxable profits in other businesses are largely offset by tax losses brought forward from earlier years.

Operating cash flow before exceptionals amounted to £1,453 million, an increase of £583 million compared with 1998, of which £450 million arose on changes in payment arrangements for transportation costs. In June a special dividend of £530 million was paid to shareholders and £780 million, net of cash and money market investments acquired, was paid in September 1999 to acquire the AA. Net debt at the end of 1999 was £127 million, compared with net cash of £223 million at the end of 1998.

Customer Service

We place the highest priority on quality of service to our customers and track their perception of service delivery. In addition to customer satisfaction tracking, undertaken by an external market research agency, we closely monitor the level of complaints received.

For British Gas as a whole, complaints to the Gas Consumers Council (GCC) decreased by 3%. Complaints in our gas supply business, excluding those relating to the switching of suppliers, fell by 18% compared with last year. Including change of supplier complaints, the overall levels of gas supply complaints rose in 1999 by 1% compared with those in 1998.

During 1999, with the growth in British Gas Trading’s electricity customer base, complaints to the local offices of Ofgem (formerly Offer) began to increase; however, over 80% of these complaints resulted from the change of supplier process.

In our Home Services business the downward trend in complaints to the GCC has continued, with a further fall of 11% in 1999. The AA Roadside and Insurance businesses maintained their high standards of customer satisfaction, with complaint levels remaining in line with 1998 levels.

Pricing Initiatives

Over the course of the year we reduced our prices to customers on our Standard, Prompt and Prepayment gas tariffs. We also introduced an Advance Payment tariff which offers customers a 15% saving from standard prices.

We have guaranteed cheaper electricity prices than the local electricity supplier until 2002 and by supplying both fuels we are passing on administrative savings to customers.

Acquisitions

The acquisition of the AA gives us an excellent opportunity to implement a key element of our strategy. The AA fits extremely well with our other businesses, with its core activity of managing a mobile patrol force having many parallels with our Home Services business. The range of related financial services also complements those we have been growing organically. We are honouring our pledge to build on the AA’s reputation for reliability and to invest in its future as the ‘fourth emergency service’.

Year 2000

Our computer system preparations for Year 2000 were completed on schedule and we are pleased to report that as a result we have not experienced any disruption to operations or customer service.

From commencement of the programme in 1997, we spent a total of £36 million on potential Year 2000 computer based issues, of which £29 million was treated as exceptional costs.

PERFORMANCE BY BUSINESS

Energy Supply

Operating profit for the year, before exceptional charges and goodwill amortisation, was £461 million (1998: £248 million). This improvement was largely achieved through lower unit gas and storage costs, and a higher level of own gas production.

In the domestic gas sector, the operating profit before exceptionals was £269 million (1998: £82 million). Higher margins from lower gas and storage costs more than outweighed the financial impact of a 14% volume reduction due to the effects of competition. Our supply base in the domestic gas market at the end of December 1999 was 14.8 million homes, compared with 15.9 million homes at the end of 1998.

Gas sales to the domestic market are particularly sensitive to weather, which in turn can have a material impact on profits in our gas business. In the past we have disclosed the estimated financial impact of weather upon our performance using a long-term (65-year) temperature average. In recent years there has been a shift in UK weather patterns, with a tendency for average temperatures to be generally warmer than experienced over the long-term. Accordingly we now consider that a ten-year rolling average is more representative of seasonally normal temperature. Using this as a benchmark, the weather in each of the last two years was still nevertheless regarded as 'warm'. Had the weather been normal as defined by the ten-year rolling average, we estimate that our operating profit in 1999 would have been £24 million higher (1998: £10 million higher), and on a 65-year basis, operating profits would have been £109 million higher in 1999 compared with £77 million higher in 1998.

The domestic electricity market was fully opened to competition on 24 May 1999. By 31 December 1999 we had signed up 2.6 million customers, an increase of 1.7 million in the year. The operating loss sustained in 1999 of £156 million (1998: £86 million) partly reflected our policy of expensing the costs of building up our customer base.

In the non-domestic gas market we made an operating profit before exceptionals of £20 million compared with a loss of £129 million in 1998. This substantial improvement reflected the benefit of lower unit gas costs. Our Accord subsidiary made a profit of £26 million from wholesale energy trades, £5 million lower than in 1998. Volumes of gas traded by Accord increased by 50% but margins declined as the UK market continued to mature.

Our own gas production contributed £302 million (1998: £350 million) to operating profits. Production volumes from our South Morecambe field were up substantially, resulting in total own gas production being 25% higher than in 1998. The average unit price at which these volumes were charged to our gas supply business was materially lower than in the previous year. Whilst this has had a downward effect on operating profits from gas production, there have been corresponding benefits in terms of increased profitability in gas supply and lower taxation on ring-fenced gas production. We have continued to enhance our portfolio of equity gas by the purchase of further field interests at a cost of £33 million. In January 1999, £113 million of finance was raised from the sale and leaseback of platform assets (1998: £92 million).

Home Services

The improvement in Home Services' financial performance continued into 1999 with sales increasing by 13% compared with 1998. An operating profit of £20 million before exceptionals was achieved during 1999, compared with £9 million in 1998. This increase was realised despite further significant levels of revenue investment in new business ventures, including home security, electrical appliance maintenance and plumbing cover.

In Great Britain, through our three star service product, we are the market leader for gas appliance service and repair and we install more monitored home security systems than any other supplier. In

1999 over 220,000 customers came to us for plumbing repair cover and over 160,000 kitchen appliances are now protected under breakdown contracts.
With the closure of our Energy Centres, we introduced a service to provide cookers and fires through catalogues and the Internet.

AA

The AA was acquired on 23 September 1999. The results of AA activities prior to that date are not included in Centrica's results as they arose pre-acquisition. Subsequent results are mainly included within the 'Road Services' and 'Financial Services' segments whilst a number of smaller development activities are included in 'Other'.

Road Services

For the last three months of 1999, the business made an operating loss before exceptionals and goodwill amortisation of £3 million, reflecting higher costs during the winter season. For the year as a whole, turnover for Road Services was £438 million and the operating loss before exceptionals was £9 million, compared with a loss of £18 million in 1998. This was achieved primarily through increased membership and improved efficiency. A key operating improvement was the reduction from 8 to 3 deployment centres, made possible by technology investment.

Customer research carried out during the year continued to reflect the very high level of customer satisfaction displayed by members. This was supported by the continuing focus on promptness of attendance at breakdowns, the percentage fix rate at the roadside and the speed of repair.

Over 4.2 million breakdown jobs were attended during the full year and some 90% of breakdown telephone calls were answered within 15 seconds. AA Relay dealt with 940,000 recoveries during 1999 and roadside assistance membership reached an all time high in the last quarter with a customer base of 9.7 million.

Financial Services

The AA acquisition has expanded the Group's financial services customer base and AA products are now being managed alongside those under the British Gas and Goldfish brands. We are now able to offer a broader range of loan and other personal finance products, the majority of which are operated through joint ventures.

The Financial Services business, including the AA for the last three months of 1999, made an operating loss before exceptionals and goodwill amortisation, including share of joint ventures, of £8 million (1998: a loss of £12 million). The AA Insurance and Financial Services activity for the year as a whole made an operating profit before exceptionals, including share of joint ventures, of £26 million, £9 million higher than in 1998.

Our Goldfish credit card joint venture now has over a million cardholders, the customer base continues to grow and the card leads the market in both usage and transaction value. During the year we successfully launched a further range of cardholder services including telecommunications and travel insurance, offered in association with other partners. In 1999 the Group's share of the operating loss in the credit card venture was £1 million (1998: loss of £7 million).

We are now the UK's largest independent insurance intermediary with 1.6 million home and motor insurance policies in force by the year end.

Retail

Following a period of further decline in retail market conditions, the Energy Centre shops were closed at an exceptional cost of £60 million. Future retailing will be undertaken through the Internet and the Home Services business, direct to the home.

Other Activities

Other activities include a range of AA and Goldfish branded products, with potential for future growth. Goldfish Guides are now available over the Internet.

Outlook

In our core energy business higher oil prices will result in an increase in our gas costs from October 2000, whilst start up costs in our electricity business will reduce as we benefit from the significant customer base we have established. We anticipate that the newly acquired AA businesses will be earnings enhancing in 2000, before the amortisation of goodwill.

The regulatory regime under which our domestic gas supply business operates will change from April 2000 to reflect the increasingly competitive nature of the gas market. The regulator's final proposals represent a demanding but acceptable settlement as part of an overall package which will remove price controls for our Direct Debit customers from April 2000 and signals a firm intention to remove all price controls by April 2001, subject to continued development of competition in the domestic gas market.

Our focus in 2000 will be to grow our core businesses in Energy Supply, through electricity acquisition, and extend Home and Road Services. We aim to launch our telecommunications offering including fixed line, mobile and Internet in September 2000. This is a natural extension to the services we already provide to our customers and is important to our growth strategy. We also intend to broaden our range of financial services through both Goldfish and the AA, and we are accelerating our investment in e-commerce given its growing importance to us as a distribution channel.

Following the recent announcement regarding the trading joint venture with Essent NV, we have taken the first steps to position ourselves as the energy markets liberalise in Europe. We believe that our model as a consumer services business will serve us well for the future.

Roy Gardner
Chief Executive
24 February 2000

Summary Group Profit and Loss Account
for the year ended 31 December 1999

	Notes	Year ended 31 December 1999 £m	Year ended 31 December 1998 £m as restated
Turnover: Continuing operations before acquisitions		**6,975**	7,312
Acquisitions	4	**159**	-
Continuing operations		**7,134**	7,312
Discontinued operations	5	**83**	169
	2	**7,217**	7,481
Cost of sales: underlying	3	**(5,540)**	(6,212)
exceptional	6	**(30)**	(63)
		(5,570)	(6,275)
Gross profit		**1,647**	1,206
Operating costs: underlying	3	**(1,249)**	(1,055)
exceptional	6	**(46)**	(22)
amortisation of goodwill	7	**(13)**	-
		(1,308)	(1,077)
Operating profit / (loss):			
Continuing operations before acquisitions		**395**	162
Acquisitions	4	**(30)**	-
Continuing operations		**365**	162
Discontinued operations	5	**(26)**	(33)
	2	**339**	129
Share of profits less losses of associates and joint ventures:			
Continuing operations before acquisitions		**5**	(1)
Acquisitions		**(9)**	-
Continuing operations		**(4)**	(1)
		335	128
Loss on closure of discontinued operations		**(60)**	-
Profit / (loss) on ordinary activities before interest:			
Continuing operations before acquisitions		**400**	161
Acquisitions		**(39)**	-
Continuing operations		**361**	161
Discontinued operations		**(86)**	(33)
		275	128
Net interest		**(7)**	39
Profit on ordinary activities before taxation		**268**	167
Tax on profit on ordinary activities	8	**(86)**	(76)
Profit for the financial year		**182**	91
Dividends	11	**(100)**	(530)
Retained profit/(loss) for the financial year		**82**	(439)
Ordinary dividend per ordinary share	11	**2.5p**	-
Special dividend per ordinary share	11	**-**	12.0p
Earnings per ordinary share:			
Basic	12	**4.3p**	2.1p
Diluted	12	**4.3p**	2.0p
Adjusted Basic	12	**7.9p**	4.0p

There were no recognised gains or losses other than those shown above. The prior year adjustment to reserves of £13 million is explained in note 1 on page 11.

Summary Group Balance Sheet

	As at 31 December 1999 £m	As at 31 December 1998 £m as restated
Fixed assets		
- Intangible	**992**	10
- Tangible and investments	**1,913**	1,937
	2,905	1,947
Stock	**84**	127
Debtors due within one year	**1,284**	1,410
Debtors due after more than one year	**120**	173
Cash and investments	**304**	374
Creditors due within one year	**(2,138)**	(1,663)
Net current (liabilities)/assets	**(346)**	421
Total assets less current liabilities	**2,559**	2,368
Creditors due after more than one year	**(178)**	(169)
Provision for liabilities and charges	**(1,414)**	(1,314)
Total assets less liabilities	**967**	885
Capital and reserves:		
Share capital	**222**	222
Share premium	**2**	2
Merger reserve	**467**	467
Profit and loss account	**276**	194
Shareholders' funds	**967**	885

Movements in Shareholders' Funds

	Year ended 31 December 1999 £m	Year ended 31 December 1998 £m as restated
Shareholders' funds as at 1 January	**885**	1,322
Profit for the financial year	**182**	91
Dividends	**(100)**	(530)
Shares issued	**-**	2
Shareholders' funds as at 31 December	**967**	885

Summary Group Cash Flow Statement
for the year ended 31 December 1999

	Year ended 31 December 1999 £m	Year ended 31 December 1998 £m as restated
Operating profit	**339**	129
Add back:		
Exceptional charges and amortisation of goodwill	**89**	85
Depreciation and amortisation	**269**	207
Decrease in working capital	**726**	408
Other non-cash flow items	**30**	41
Operating cash flow before exceptionals:		
Continuing operations before acquisitions	**1,491**	918
Acquisitions	**(20)**	-
Continuing operations	**1,471**	918
Discontinued operations	**(18)**	(48)
	1,453	870
Expenditure relating to exceptional charges	**(135)**	(211)
Net cash inflow from operating activities	**1,318**	659
Dividends received from associates and joint ventures	**11**	1
Returns on investments and servicing of finance	**19**	58
Taxation	**(163)**	(215)
Capital expenditure and financial investment	**(143)**	(70)
Acquisitions	**(1,162)**	(101)
Equity dividends paid	**(570)**	-
Cash (outflow)/inflow before financing	**(690)**	332
Management of liquid resources	**392**	(285)
Financing	**248**	(42)
Net (decrease)/increase in cash	**(50)**	5
Opening cash	**19**	14
Closing (overdraft)/cash	**(31)**	19

Reconciliation of debt, net of cash and investments

	£m	£m
Cash and investments, net of debt as at 1 January	**223**	41
Money market investments/(debt) acquired	**340**	(139)
Net (decrease)/increase in money market investments	**(392)**	285
Net (decrease)/increase in cash for the year	**(50)**	5
New finance lease obligations	**(113)**	(99)
Net (increase)/decrease in other debt	**(135)**	130
Debt, net of cash and investments as at 31 December (i)	**(127)**	223

(i) Debt, net of cash and investments as at 31 December 1999 comprised cash and money market investments of £304 million (1998: £374 million), less bank overdrafts and loans of £247 million (1998: £44 million) and finance lease obligations of £184 million (1998: £107 million).

Notes

1 Basis of preparation

The preliminary results for the year ended 31 December 1999 are unaudited. The financial information set out in this announcement does not constitute the Company's statutory accounts for the year ended 31 December 1999 or 31 December 1998. The financial information for the year ended 31 December 1998 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under either Section 237 (2) or Section 237 (3) of the Companies Act 1985. The audit report on the statutory accounts for the year ended 31 December 1999 has not yet been signed. These accounts will be finalised and delivered to the Registrar of Companies in due course.

These results have been prepared using accounting policies consistent with those used in preparing the Company's 1998 Annual Report and Accounts, except that Financial Reporting Standard 12 'Provisions, Contingent Liabilities and Contingent Assets' has resulted in full provision being made for the net present cost of the de-commissioning of gas production facilities. A corresponding asset has been recognised in respect of the de-commissioning costs, which is subject to amortisation charges on a unit of production basis. Notional interest charges arise over time, based upon the discounted liabilities. Previously the cost of de-commissioning was being built up over the life of the gas fields concerned on a unit of production basis. The effect upon current and prior years is shown below:

Within the Profit and Loss Account	**Year ended 31 December 1999 £m**	Year ended 31 December 1998 £m
Cost of sales	**7**	6
Net interest	**(3)**	(3)
Profit before taxation	**4**	3
Taxation	**(1)**	(1)
Profit for the financial year	**3**	2
Within the Cash Flow Statement		
Operating profit after exceptionals	**7**	6
Depreciation and amortisation	**4**	4
Other non-cash flow items	**(11)**	(10)
Cash inflow from operating activities	**-**	-

Within the Balance Sheet	**As at 31 December 1999 £m**	As at 31 December 1998 £m
Fixed assets	**42**	43
Provisions	**(26)**	(30)
Reserves	**16**	13

2 Segmental analysis for the year ended 31 December

	Turnover		Operating profit / (loss) before exceptional charges and goodwill amortisation		Operating profit / (loss) after exceptional charges and goodwill amortisation	
	1999 £m	1998 £m	**1999 £m**	1998 £m as restated	**1999 £m**	1998 £m as restated
Energy Supply - continuing operations	**6,386**	6,784	**461**	248	**406**	171
Home Services - continuing operations	**592**	526	**20**	9	**16**	3
Road Services - acquisitions	**112**	-	**(3)**	-	**(21)**	-
Financial Services - continuing operations	**2**	-	**(13)**	(5)	**(13)**	(5)
- acquisitions	**24**	-	**4**	-	**(5)**	-
	26	-	**(9)**	(5)	**(18)**	(5)
Other Activities - continuing operations	**4**	2	**(13)**	(7)	**(14)**	(7)
- acquisitions	**14**	-	**(3)**	-	**(4)**	-
	18	2	**(16)**	(7)	**(18)**	(7)
Continuing operations before acquisitions	**6,984**	7,312	**455**	245	**395**	162
Acquisitions	**150**	-	**(2)**	-	**(30)**	-
Continuing operations	**7,134**	7,312	**453**	245	**365**	162
Discontinued operations - Retail	**83**	169	**(25)**	(31)	**(26)**	(33)
Total from operations	**7,217**	7,481	**428**	214	**339**	129
Share of profits less losses of associates and joint ventures:						
Energy Supply			**(5)**	5		
Financial Services			**1**	(7)		
Other Activities			**-**	1		
			424	213		

Energy Supply and Home Services includes turnover from acquisitions of £2 million and £7 million respectively. The operating results from these acquisitions were not material.

3 Underlying costs

		Year ended 31 December 1999 £m	Year ended 31 December 1998 £m as restated
Cost of sales	- Continuing operations before acquisitions	**5,410**	6,107
	- Acquisitions	**61**	-
	- Continuing operations	**5,471**	6,107
	- Discontinued operations	**69**	105
		5,540	6,212
Operating costs	- Continuing operations before acquisitions	**1,119**	960
	- Acquisitions	**91**	-
	- Continuing operations	**1,210**	960
	- Discontinued operations	**39**	95
		1,249	1,055
		6,789	7,267

4 Acquisitions

On 23 September 1999 the Group acquired 100% of the share capital of AA Corporation Limited – the Automobile Association (AA) for a consideration of £1,119 million. After taking account of net cash and money market investments acquired, the Group's net cash outflow was £780 million. Goodwill arising of £986 million has been capitalised in the Group's balance sheet and is being amortised over 20 years. A goodwill amortisation charge of £12 million is reflected in Centrica Group results in the table below. The AA offers a range of roadside recovery services, financial services and other related products. There were no other material acquisitions during the year.

Turnover and operating profit/(loss) of the AA for the last two years is set out below:

	Turnover £m	Operating profit / (loss) before exceptional charges and goodwill amortisation £m	Operating profit / (loss) after exceptional charges and goodwill amortisation £m
1998			
Excluded from Centrica Group results:			
Year ended 31 December 1998	590	(13)	(54)
1999			
Excluded from Centrica Group results:			
1 January 1999 to 22 September 1999	449	3	(49)
Included in Centrica Group results:			
23 September 1999 to 31 December 1999	**150**	**(2)**	**(30)**
Year ended 31 December 1999	599	1	(79)

5 Discontinued operations

On 19 July 1999, the Group announced the closure of its Energy Centres. The segment reported previously as 'Retail' has been treated as 'discontinued operations' and a £60 million exceptional charge has been recognised in the year ended 31 December 1999 in respect of closure costs.

6 Exceptional charges

	Year ended 31 December 1999 £m	Year ended 31 December 1998 £m
Cost of sales:		
Gas contract renegotiations - continuing operations	**30**	63
Operating costs:		
Year 2000 costs - continuing operations before acquisitions	**9**	18
- acquisitions	**-**	-
- continuing operations	**9**	18
- discontinued operations	**1**	1
	10	19
Restructuring - continuing operations before acquisitions	**20**	2
- acquisitions	**16**	-
- continuing operations	**36**	2
- discontinued operations	**-**	1
	36	3
Loss on closure of discontinued operations	**60**	-
	136	85

Year 2000 costs represent bought-in services.

7 Amortisation of goodwill

	Year ended 31 December 1999 £m	Year ended 31 December 1998 £m
Operating costs - continuing operations before acquisitions	**1**	-
- acquisitions	**12**	-
	13	-

8 Taxation

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

9 Operating profit before exceptionals and goodwill amortisation

	Year ended 31 December 1999 £m	Year ended 31 December 1998 £m as restated
Operating profit	**339**	129
Exceptional charge and goodwill amortisation	**89**	85
Operating profit before exceptionals and goodwill amortisation	**428**	214

10 Earnings before exceptionals and goodwill amortisation

	Year ended 31 December 1999 £m	Year ended 31 December 1998 £m as restated
Profit on ordinary activities before taxation	**268**	167
Exceptional charges and goodwill amortisation	**89**	85
Loss on closure of discontinued operations	**60**	-
	149	85
Profit before tax, exceptionals and goodwill amortisation	**417**	252
Taxation	**(86)**	(76)
Earnings before exceptionals and goodwill amortisation	**331**	176

11 Dividends

A final dividend of 1.5p per share is proposed, which together with the interim dividend of one penny per share, will bring the total dividend for the year to 2.5p per share. The dividend will be paid on 21 June 2000 to shareholders on the register at 2 May 2000. In 1998, a special dividend of 12p per share was declared, associated with a share consolidation. This dividend was paid in June 1999.

12 Earnings per share

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

	Year ended 31 December 1999		Year ended 31 December 1998	
	Earnings £m	**EPS pence**	Earnings £m	EPS pence as restated
Profit for the financial year	**182**	**4.3**	91	2.1
Add back exceptional charges and goodwill amortisation	**149**	**3.6**	85	1.9
Earnings before exceptional charges and goodwill amortisation	**331**	**7.9**	176	4.0
Average number of shares (million) used in the calculation of basic and adjusted basic earnings per share		**4,186**		4,419
Average number of shares (million) used in the calculation of diluted earnings per share		**4,249**		4,464

REVIEW OF THE SIX MONTHS ENDED 31 DECEMBER 1999

Group Results

Turnover from continuing operations was £45 million higher when compared with the equivalent period in 1998. Domestic gas market share losses were partly offset by growth in electricity sales and in Home Services, which was up 10% compared with 1998. The acquisition of the AA at the end of September 1999 added £150 million to turnover during the period. Discontinued operations' turnover comprised retail activity; the closure of the Energy Centre shops was announced in July 1999.

Operating profit from continuing operations, before acquisitions, at £115 million was £48 million higher than in the last six months of 1998. Lower unit gas costs in Energy Supply, Home Services improvements (£6 million better before exceptionals), and the elimination of Retail losses following the closure of the Energy Centres, were partly offset by higher revenue investment in Financial Services.

Operating costs included £91 million of AA costs. The AA operating loss of £30 million for the last three months of 1999 included goodwill amortisation of £12 million and exceptional restructuring costs of £16 million.

In line with expectations, the closure of the Energy Centres led to a further exceptional charge of £18 million, in addition to the £42 million provision booked in the first half of 1999.

Net interest payable was £14 million in the six months ended 31 December 1999 compared with net interest receivable of £22 million in the equivalent period in 1998. This reflected the impact of the £530 million special dividend paid in June 1999 and net outflows of £780 million relating to the acquisition of the AA in September 1999.

Operating cash inflow before exceptionals of £552 million, was £355 million higher than in the last six months of 1998. The second half of 1999 benefited by (£450 million) as a result of changes in transportation payment terms.

Summary Group Profit and Loss Account
for the 6 months ended 31 December 1999

	Notes	6 months ended 31 December 1999 £m	6 months ended 31 December 1998 £m as restated
Turnover: Continuing operations before acquisitions		**3,156**	3,267
Acquisitions	d	**156**	-
Continuing operations		**3,312**	3,267
Discontinued operations	e	**18**	89
	b	**3,330**	3,356
Cost of sales: underlying	c	**(2,518)**	(2,715)
exceptional	f	**(30)**	(36)
		(2,548)	(2,751)
Gross profit		**782**	605
Operating costs: underlying	c	**(663)**	(541)
exceptional	f	**(22)**	(14)
amortisation of goodwill	g	**(13)**	-
		(698)	(555)
Operating profit / (loss):			
Continuing operations before acquisitions		**115**	67
Acquisitions	d	**(30)**	-
Continuing operations		**85**	67
Discontinued operations	e	**(1)**	(17)
	b	**84**	50
Share of profits less losses of associates and joint ventures:			
Continuing operations before acquisitions		**5**	2
Acquisitions		**(9)**	-
Continuing operations		**(4)**	2
		80	52
Loss on closure of discontinued operations		**(18)**	-
Profit / (loss) on ordinary activities before interest:			
Continuing operations before acquisitions		**120**	69
Acquisitions		**(39)**	-
Continuing operations		**81**	69
Discontinued operations		**(19)**	(17)
		62	52
Net interest		**(14)**	22
Profit on ordinary activities before taxation		**48**	74
Tax on profit on ordinary activities		**(43)**	(36)
Profit for the financial period		**5**	38
Dividends		**(60)**	(530)
Retained loss for the financial period		**(55)**	(492)
Ordinary dividend per ordinary share		**1.5p**	-
Special dividend per ordinary share		**-**	12.0p
Earnings per ordinary share:			
- Basic	h	**0.1p**	0.9p
- Diluted	h	**0.1p**	0.8p
- Adjusted Basic	h	**2.2p**	2.0p

There were no recognised gains or losses other than those shown above. The prior year adjustment to reserves of £13 million is explained in note 1 on page 11.

Summary Group Cash Flow Statement
for the 6 months ended 31 December 1999

	6 months ended 31 December 1999 £m	6 months ended 31 December 1998 £m as restated
Operating profit	**84**	50
Add back:		
Exceptional charges and amortisation of goodwill	**65**	50
Depreciation and amortisation	**135**	115
Decrease/(increase) in working capital	**260**	(30)
Other non-cash flow items	**8**	12
Operating cash flow before exceptionals:		
Continuing operations before acquisitions	**571**	205
Acquisition	**(20)**	-
Continuing operations	**551**	205
Discontinued operations	**1**	(8)
	552	197
Expenditure relating to exceptional charges	**(89)**	(160)
Net cash inflow from operating activities	**463**	37
Dividends received from associates and joint ventures	**11**	1
Returns on investments and servicing of finance	**4**	36
Taxation	**(154)**	(213)
Capital expenditure and financial investment	**(86)**	(51)
Acquisitions	**(1,162)**	(94)
Equity dividends paid	**(40)**	-
Cash outflow before financing	**(964)**	(284)
Management of liquid resources	**767**	339
Financing	**173**	(40)
Net (decrease)/increase in cash	**(24)**	15
Opening (overdraft)/ cash	**(7)**	4
Closing (overdraft)/cash	**(31)**	19

a Basis of preparation

The restatement of comparative figures, included within the financial results for the 6 months ended 31 December 1999, is explained in note 1 on page 11. The effect upon current and prior periods is shown below:

Within the Profit and Loss Account	**6 months ended 31 December 1999 £m**	6 months ended 31 December 1998 £m
Cost of sales	**2**	2
Net interest	**(1)**	(2)
Profit before taxation	**1**	-
Taxation	**-**	-
Profit for the financial period	**1**	-
Within the Cash Flow Statement		
Operating profit after exceptionals	**2**	2
Depreciation and amortisation	**2**	2
Other non-cash flow items	**(4)**	(4)
Cash inflow from operating activities	**-**	-

b Segmental analysis for the 6 months ended 31 December

	Turnover		Operating profit / (loss) before exceptional charges and goodwill amortisation		Operating profit / (loss) after exceptional charges and goodwill amortisation	
	1999 £m	1998 £m	**1999 £m**	1998 £m as restated	**1999 £m**	1998 £m as restated
Energy Supply - continuing operations	**2,847**	2,984	**158**	115	**126**	71
Home Services - continuing operations	**310**	281	**12**	6	**9**	2
Road Services - acquisitions	**112**	-	**(3)**	-	**(21)**	-
Financial Services - continuing operations	**2**	1	**(10)**	(2)	**(10)**	(2)
- acquisitions	**24**	-	**4**	-	**(5)**	-
	26	1	**(6)**	(2)	**(15)**	(2)
Other Activities - continuing operations	**3**	1	**(9)**	(4)	**(10)**	(4)
- acquisitions	**14**	-	**(3)**	-	**(4)**	-
	17	1	**(12)**	(4)	**(14)**	(4)
Continuing operations before acquisitions	**3,162**	3,267	**151**	115	**115**	67
Acquisitions	**150**	-	**(2)**	-	**(30)**	-
Continuing operations	**3,312**	3,267	**149**	115	**85**	67
Discontinued operations - Retail	**18**	89	**-**	(15)	**(1)**	(17)
Total from operations	**3,330**	3,356	**149**	100	**84**	50
Share of profits less losses of associates and joint ventures:						
Energy Supply			**(8)**	4		
Financial Services			**5**	(2)		
Other Activities			**(1)**	-		
			145	102		

Energy Supply and Home Services includes turnover from acquisitions of £2 million and £4 million respectively.
The operating results from these acquisitions were not material.

c Underlying costs

		6 months ended 31 December 1999 £m	6 months ended 31 December 1998 £m as restated
Cost of sales	- Continuing operations before acquisitions	**2,437**	2,660
	- Acquisitions	**61**	-
	- Continuing operations	**2,498**	2,660
	- Discontinued operations	**20**	55
		2,518	2,715
Operating costs	- Continuing operations before acquisitions	**574**	492
	- Acquisitions	**91**	-
	- Continuing operations	**665**	492
	- Discontinued operations	**(2)**	49
		663	541
		3,181	3,256

d Acquisitions

See note 4 on page 13.

e Discontinued operations

See note 5 on page 14.

f Exceptional charges

		6 months ended 31 December 1999 £m	6 months ended 31 December 1998 £m
Cost of sales:			
Gas contract renegotiations	- Continuing operations	**30**	36
Operating costs:			
Year 2000 costs	- Continuing operations before acquisitions	**3**	10
	- Acquisitions	**-**	-
	- Continuing operations	**3**	10
	- Discontinued operations	**1**	1
		4	11
Restructuring	- Continuing operations before acquisitions	**2**	2
	- Acquisitions	**16**	-
	- Continuing operations	**18**	2
	- Discontinued operations	**-**	1
		18	3
Loss on closure of discontinued operations		**18**	-
		70	50

Year 2000 costs represent bought-in services.

g Amortisation of goodwill

		6 months ended 31 December 1999 £m	6 months ended 31 December 1998 £m
Operating costs	- continuing operations before acquisitions	**1**	-
	- acquisitions	**12**	-
		13	-

h Earnings per share

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

	6 months ended 31 December 1999		6 months ended 31 December 1998	
	Earnings £m	**EPS pence**	Earnings £m	EPS pence as restated
Profit for the financial period	**5**	**0.1**	38	0.9
Add back exceptional charges and goodwill amortisation	**83**	**2.1**	50	1.1
Earnings before exceptional charges and goodwill amortisation	**88**	**2.2**	88	2.0
Average number of shares (million) used in the calculation of basic and adjusted basic earnings per share		**3,969**		4,417
Average number of shares (million) used in the calculation of diluted earnings per share		**4,037**		4,466

Enquiries

For further information please contact:

Charles Naylor, Director of Corporate Affairs
Chris Milburn, Head of Investor Relations

Telephone:
01753 758 442/3/4/5 (Press)
01753 758 112/3/4 (Shareholders and Analysts)

Facsimile:
01753 758 440 (Press)
01753 758 472 (Shareholders and Analysts)

Internet:
www.centrica.co.uk
www.gas.co.uk
www.goldfish.com
www.theaa.com

Financial Calendar

1999 Annual Report and Accounts published	End of March 2000
Ex-dividend date for 1999 proposed final dividend	25 April 2000
Record date for 1999 proposed final dividend	2 May 2000
Annual General Meeting	8 May 2000
Proposed 1999 final dividend payment date	21 June 2000
2000 Interim results announcement	7 September 2000

Registered Office

Charter Court
50 Windsor Road
Slough
Berkshire
SL1 2HA