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Sir Roy Gardner

CHIEF EXECUTIVE

Results in Brief

Six months ended 30 June, £m	2002	change
Turnover (excluding Accord)	5,156	+ 7%
Operating profit*	627	+ 43%
Earnings*	431	+ 30%
Interim dividend per share	1.4p	+ 17%
Operating cash flow	330	- 2%

* Before exceptional charges & goodwill

- Have built on strong performance from 2001.
- Dividend increase signals our confidence in the future.

Progress Highlights

- UK energy operating profit up 31%
- 49% of UK operating profit derived from customer supply
- Centrica Business Services launched, doubling profit
- AA growth in roadside (8%), insurance (10%) & loans (62%)
- Telecoms losses halved; improving sector outlook
- Texas and Ontario market openings; N.Am. services entry
- 12% operating margin ('01: 9%) reflects gross margins and increasing scale

- UK energy operating profit increased by 31%.
- Almost half UK operating profit derived from customer facing activities, reflecting progress of our strategy.
- Centrica Business Services (including acquisitions of Enron Direct & Electricity Direct) now have 26% share of UK commercial energy market.
- Over 12½ million AA roadside members; AA loans and insurance at record levels.
- Excess wholesale capacity in telecoms and our operation of lowest-cost switched-call routing model has enabled us to negotiate improved terms with carriers.
- Continued to make good progress despite competitive environment and world economic situation.

Strategic Imperatives

- Deeper customer insight
- Product innovation & cross selling
- Service standards to win & retain customers
- Energy asset ownership
- Operating synergies

- Continuing to work towards customer relationship targets previously set; relationships give us the scale and platform against which we apply these strategic imperatives to create value.

Strategic Imperatives:
Deeper Customer Insights

- Key demographics, household size
- Buying on quality vs. price
- Instinct to protect using “peace of mind” products
- Sensitivity to branding
- Interest in product bundles

  → *Highlights valuable customer segments*
  → *Enables action based on customer needs & habits*
  → *Targets linked to customer lifetime values*
  → *CRM infrastructure continually enhances insight*

- CRM investments are important enablers for developing deeper insights; good progress this year in enhancing ability to collect, store and analyse data more effectively.
- Examples of using insights include AA “Just AAsk” campaign and development of Centrica Business Services.

Strategic Imperatives:
Product Innovation & Cross-selling

- Rapid trial & launch of tailored propositions
- Optimise proposition/channel matrix
- Consistent cross-selling culture across Group

  → *Yields more products per customer*
  → *Results in greater customer loyalty*
  → *Reduces average service and acquisition costs*

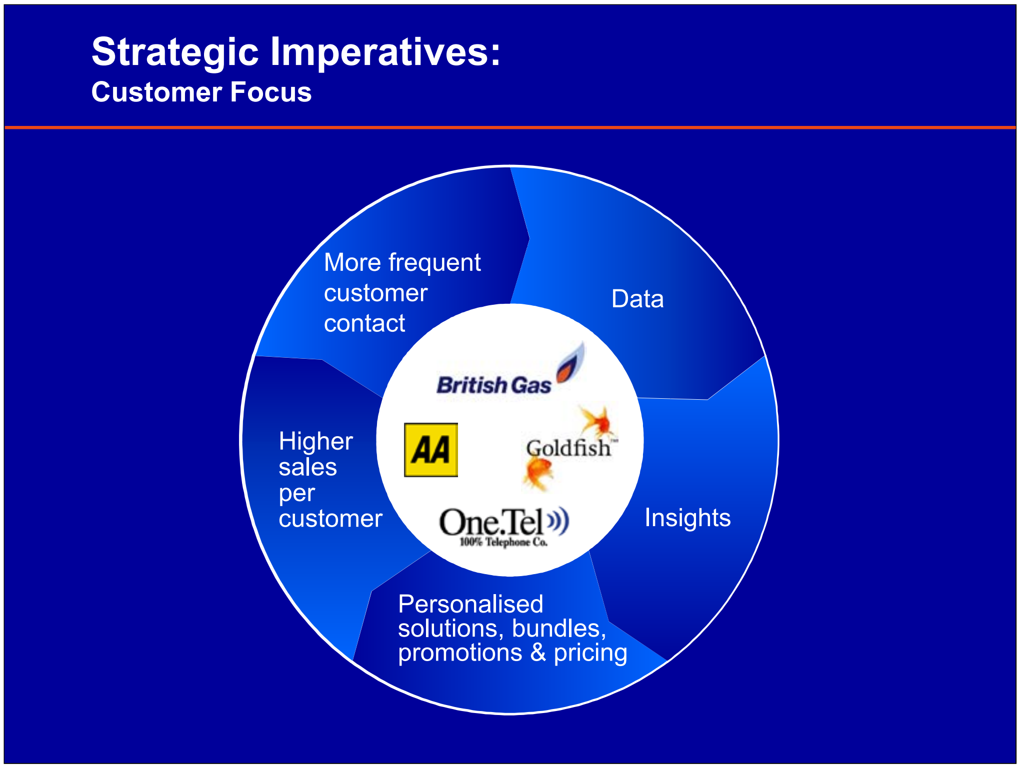
- Good progress with innovation and cross-selling.
- Increased reach of home services products; 48% increase in plumbing & drains cover, over 250,000 electrical cover contracts.
- Products per customer increased by 6% in British Gas.
- One.Tel mobile and One.Tel broadband launched.
- Goldfish internet-based savings account and loans product launched.

Strategic Imperatives:
Service Standards to Win & Retain Customers

- Standards appropriate to customers' varying needs
- Deliver on promises of tailored customer experience
- Insights to exhibit knowledge of each customer

  → *Clear benefit to customer satisfaction*
  → *Improves share & profit across varying segments*
  → *Costs-to-serve linked to segmented lifetime values*
  → *Should result in reduced churn and sales expenses*

- Customer service can be a key differentiator.
- AA won JD Power award for third time in four years; had focused on aspects of service that customers told us were important.
- Through appropriate customer service, we will earn the right to a brand premium and increased customer loyalty.



- The customer-led strategic imperatives come together in a “virtuous circle”:
  - more data leads to greater insights ...
  - which leads to more relevant propositions and services …
  - which leads to increased sales per customer …
  - which leads to more opportunities for customer contact …
  - which leads to more data …
  - which leads to …

Strategic Imperatives:
Operating Synergies

- Synergies within unified brand organisations
- Combine activities exhibiting economies of scale
- Best-practice methods across Group

→ *Reduced cost of total Group processes per customer relationship...*
e.g. Group-wide costs to acquire & serve customers

- Centrica is worth more than the sum of its parts.
- A substantial prize is available and we're structured to deliver it.
- Group Operations team looking at all potential areas of synergy and capability building across Centrica.
- Procurement and IT functions combined as Group activities; Finance and HR shared services; credit management and debt collection being looked at.
- More rigorous approach to implementation of best practice; for example, lessons being learned from CRM roll-out in British Gas are being applied to developments in the AA and Goldfish.

Strategic Imperatives:
Energy Asset Ownership

- “Upstream hedge” remaining > 25%
- Acquisitions support growing customer base
- Morecambe; gas production volume replacement
- Cheap & plentiful availability of CCGT plant in UK & US; Brigg acquired in June
- Potential increase in our asset hedge

- Strategic aim remains to source around 25% of requirements from own supplies.
- Investing to increase deliverability of Morecambe; experimental drilling to access additional reserves.
- Adding to upstream gas assets and interests to replace Morecambe’s contribution to supplies.
- Gas purchase deals with Statoil and Gasunie will meet around 30% of our demand; prices linked to the gas market.
- Continuing to look for opportunities to buy generation assets; Brigg transaction was cheapest CCGT transaction seen in UK to date.
- Energy management skills used to take advantage of Interconnector being out of action; turned down Morecambe production and bought cheap gas.
- Skills in risk management and strong control framework.
- Potential increase in asset hedge in medium term - North America and UK - given growth targets.

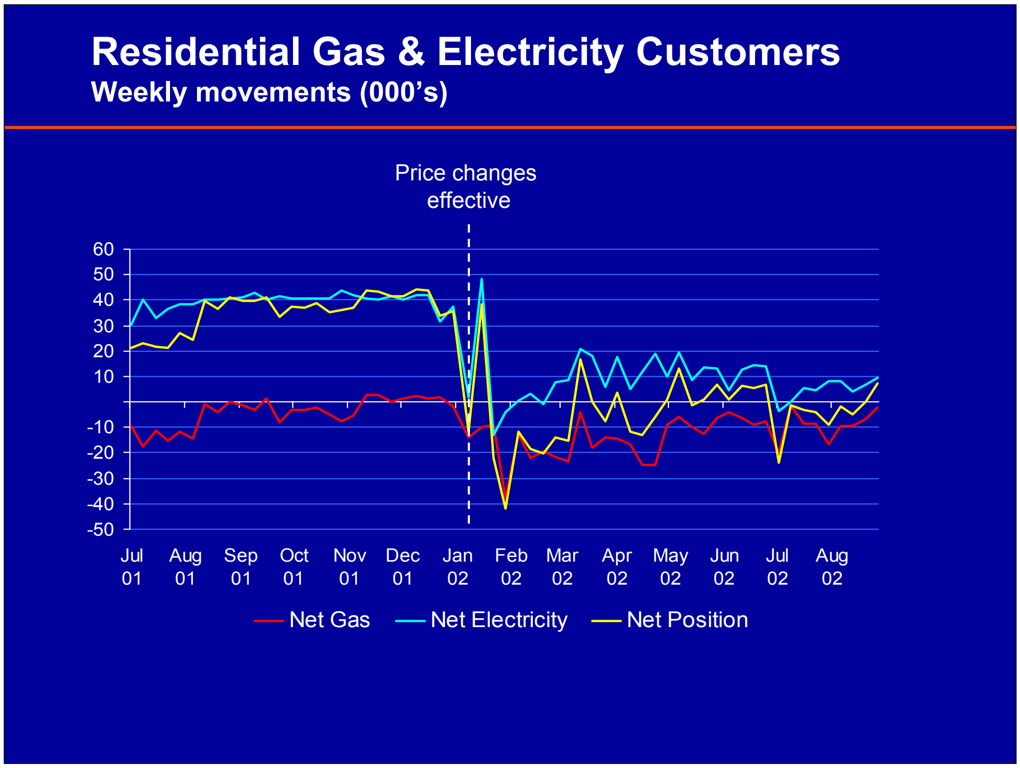
Improving UK Results Mix

- Strategic focus on customer-facing operations
- British Gas, AA, One.Tel contributing to this improvement now
- Goldfish expected to follow

UK Operating Profit

1st Half	2002	2001
Customer operations	49%	16%
Upstream energy	51%	84%

- Strategic imperatives being reflected in business results;
  eg. rebalancing of profit mix reflecting focus on customer-facing activities.



- Two factors have impacted numbers this year:
    1. Our increase in residential gas prices; successful at restoring margins; overall net loss less than seen in same period of 2001. Has also impacted rate of electricity growth.
    2. Publicity about sales tactics by energy companies; we've taken actions including temporary slow-down in sales activity as focused on ensuring sales agents comply with our quality guidelines and focus on value.
- Have lost gas customers but continued to add electricity customers with higher gross margin.
- Numbers showing signs of recovery; back to positive weekly net movement.

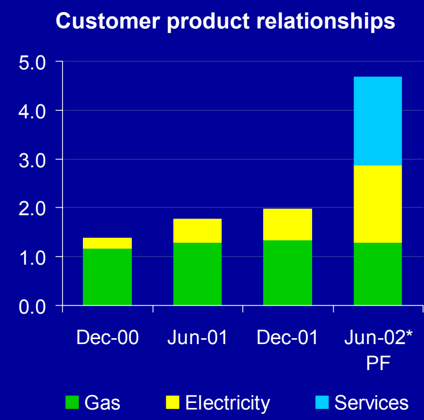
Sector Environment

UK Energy	:	Consolidation, greater stability, improving margins
Motoring Services	:	New entrants, improving technology; opening of market for new car warranty repair
Telecoms	:	Progress toward level playing field in residential market; excess wholesale capacity; support for more broadband use
Europe	:	Barcelona leading to SME market openings

- External environment still tough and challenges remain.
- Much encouraged by positive movements this year in many sectors.

North America

- Ontario: good electricity start; 20% residential energy share
- Texas: expect to serve c.15% of deregulated electricity customers by year-end
- Combining new entrant and acquired incumbent positions
- Gradual progress in Midwest and Mid-Atlantic states
- Starting to cross-sell services
- Incumbent pricing issues



* Pro forma for completion of AEP customer acquisition.

- Active in Ontario and Texas electricity markets.
- Active marketing programmes in Ohio, Michigan, Georgia and Pennsylvania.
- Enbridge acquisition completed in May; now selling energy through Enbridge retail stores and selling home services alongside energy.
- North American landscape changed considerably.
- Progress on deregulation variable; organic growth likely to be slower than originally planned.
- Counterbalanced by increased acquisition opportunities as result of economic and business environment and competitors facing financial distress; have ability to move quickly to take advantage.
- Combination of energy industry experience and retail customer focus gives us the option to take advantage of acquisition opportunities which include assets as well as customer blocks.
- Will continue to walk away from deals that don’t add value.
- Continue to believe North America represents a value opportunity for us; still on track to achieve targets.

Business Highlights

- Focus on profitable growth, organic and acquisitive
- Defensive qualities
  - brand strength
  - market leadership
  - large market segment opportunities
- Financial scalability

- First half has built on themes from 2001; unique blend of profitable growth and defensive qualities underpinned by financial scalability.
- Remain confident in future progress.

Phil Bentley

GROUP FINANCE DIRECTOR

Financial Highlights

Six months ended 30 June, £m	2002	2001	∆%
Turnover[1]	5,156	4,817	+7
Gross profit	1,592	1,229	+30
Gross margin	*31%*	*26%*	*+5 ppts*
Operating profit[2]	627	437	+43
Operating margin	*12%*	*9%*	*+3 ppts*
Interest	29	20	+45
Tax	168	91	+85
Earnings[2]	431	332	+30
Net margin	*8%*	*7%*	*+1 ppt*

[1] Excluding Accord
[2] All figures before exceptional charges & goodwill

- Organic growth – particularly in electricity markets, home services and AA.
- Turnover growth (excluding Accord) would have been 13% without the impact of warmer winter weather on average consumption in the UK this year.
- Higher taxes on upstream gas production were introduced in April.

Operating Profit Analysis

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

Six months ended 30 June, £m	**2002**	2001	Δ
British Gas Residential	193	28	165
Centrica Business Services	40	19	21
Centrica Energy Management Group	336	351	(15)
AA	36	35	1
One.Tel	5	-	5
Goldfish	(17)	(22)	5
North America	25	29	(4)
Other Activities	9	(3)	12
Total continuing operations	627	437	190

- There is a reconciliation to last year's reported segmental split at the back of this pack.
- CBS : focus on commercial energy, including our acquisition of Enron Direct.
- CEMG : 11% reduction in production volumes due to warmer UK weather, offset by higher profits on industrial and wholesale.
- AA operating profit offset by strategic investment programme.
- One.Tel contribution reflects good cost control.
- Increasing profitability of Goldfish card operations partially offset continuing banking platform investments.
- North America : increased marketing and market entry costs.

British Gas Residential
Operating profit: causal track

		£m	£m
H1 2001 result			28
Gas price increases	+10% on 4,559m therms	173	
Gas costs	WACOG + 4%	(41)	
Gas customer reduction	Net -4% year-on-year	(21)	
Weather	-13% gas volume/customer	(44)	
NTS / Operating Costs		50	
Gas subtotal		117	
Electricity profit	+78% over H1 2001	11	
Home services	+100% over H1 2001	11	
BGC	Loss halved	26	
			165
H1 2002 result			193

- Higher expenditure on our CRM infrastructure across British Gas Residential.
- Home Services driven by scalability.
- Reduced BGC cost base.

AA
Operating profit: causal track

	£m	£m
H1 2001 result		35
Underlying profit growth:		
Road Services	10	
Personal Finance	8	
Other units	(5)	
Total	13	
S&M, incl. "Just AAsk"	(10)	
CRM	(2)	
		1
H1 2002 result		36

- Road Services :
  Customer numbers +8%, renewal rate of 83%.
- Personal Finance :
  - loan book +62%
  - insurance customers +10%
  - insurance renewal rate 80%
- AA Service Centres :
  Significant economic value created by synergies with Road Services.
  £21 million of AA Service Centre turnover in the first half.

North America
Operating profit: contribution breakdown

Segment	Development	Contribution (£m)
Res. gas	Customers +4%, pricing +14%, consumption + 12%	21
Res. electricity	New Texas & Ontario operations	(20)
Services	New: result for approx. 2 months	6
Prod. & Trading	Prod. volume +12%, pricing -29%	17
I & C energy		1
Total H1 2002 result		25

- Residential gas driven by larger customer base, higher pricing and higher average consumption.
- Residential electricity market entry and customer acquisition costs expensed.
- We drilled, completed and began gas production at 182 wells compared with 73 last year.
- The movement in our upstream and downstream profit results illustrates the hedging effect of production with customer supply.

Continuing Margin Improvement

Operating margin* for the six months ended 30 June	2002	2001
Residential gas	8%	2%
Residential electricity	4%	3%
Home services	6%	3%
Centrica Business Services	8%	6%
AA Road	10%	9%
AA Personal finance	28%	25%
One.Tel	6%	5%**
North America	5%	7%
Centrica Group (ex-Accord)	***12%***	***9%***

* Before exceptionals & goodwill
** Six months ended 31/12/2001

- Margin improvement driven in part by the scalability of our business, within which costs are controlled relative to turnover growth across the Group.
- Aggressive organic growth requiring marketing expense levels above natural run-rate.

H1 2002 Cash Flow Drivers

£'m	H1 2002	Δ	Factors
EBITDA	830	204	Sustained, well-spread EBIT ↑
Gas transport	(167)	(92)	Prepayments ↑
PRT & royalties	(251)	(139)	End of "safeguard", prices ↑
Other w/c, tax & provisions	(127)	(6)	Growth in customers, debtors
CapEx	(154)	(75)	CRM investment ↑ £65m
Cashflow pre-acquisitions	131	(108)	
Acquisitions	(511)	(408)	Enbridge, Brigg
Cashflow pre-financing	(380)	(516)	

- PRT payments are expected to peak in 2002.

Accounting and Risk Management

- Confirmation of turnover
- Mark-to-market conventions
- Value-at-Risk limits / Risk Management committee
- Acquisition rigour
- Impairment tests

- Results reported in accordance with best practice. Turnover does not contain ‘wash’ trades.
- Mark-to-market methods use only forward curves quoted on recognised public exchanges. No management overview of forward prices.
- Strict VaR limits reported in Interim Results Statement.
- Monthly meeting of Risk Management Committee.
- All acquisitions carefully reviewed, together with impairment tests, to assess performance against base case assumptions and projections.

Pensions

- Actuarial surplus of 10%
- FRS17 net asset shortfall < 10% of Group net assets
- Scheme duration (23 years) exceeds longest index-linked gilts
- High equity strategy
- High cash funding rates

- A reconciliation between SSAP24 and FRS17 treatment of our pension accounting can be found in our Interim Results Statement.
- We are cash funding our pension scheme well in excess of SSAP24 charges.

Medium-term Outlook
Operating cash flow drivers

EBITDA
- Electricity margin ↑
- CBS customers ↑
- AA, One.Tel, Goldfish all ↑ across products
- N America growth & margin ↑
- Operating synergies ↑, reduction in CRM implementation expenses

Working Capital
- Total increase of < £600m over 3 years
- Per new customer: British Gas £20; CBS £285; One.Tel £8; N America £40-80
- Goldfish: Capital of c.£100m & use of receivables-backed facility

Tax
- Effective rate < 30% with use of Deferred Tax Assets

EBITDA

- Centrica believes sustainable UK energy supply industry margins should reach 5% with British Gas earning a premium after benefiting from CRM efficiencies.
- In this regard our electricity margin still has some way to go.
- AA, One.Tel and Goldfish growth should be driven by product innovation and cross-selling success.

Tax

- Deferred tax assets stood at £198 million at the end of 2001.

Medium-term Outlook
CapEx & acquisitions

Unit	Outlook
British Gas	CRM investment (c. £350m) through 2004, then ↓
CEMG	Gas reserves @ c. £100m/annum; power generation
AA	CRM (c. £80m) through 2004
Goldfish	Platform investment to be complete by 2003
N America	Customers ↑ : > 50% via acquisition; CRM & infrastructure: c. £50m over 2 years Energy assets: under review; potential c. £100m/annum

- Of the British Gas CRM investment programme, approximately £250 million is expected to be capitalised. After this year we still have c.£50 million of further capital investment to make through 2004.

Outlook Summary

- Positive free cash flow outlook
- Dividend growth to reflect earnings and operating cashflow drivers
- Focus on growth

Conclusion

- Strong current performance
  - operating profit up 43%
- Successful strategy implementation
  - 49% of UK operating profit from customer facing units
  - operating margin of 12%, up from 9%
- Strong outlook for cash flow generation
- Platform for substantial dividend growth

APPENDICES

centrica

taking care of the essentials

Pensions

Proforma, had the standard been adopted in 2002

£m	FRS 17	SSAP 24	Change
P & L			
Amount charged to operating profit	65	35	30
Amount charged to net finance income	(9)	-	(9)
Net charge to profit & loss	56	35	21
Balance sheet			
Total pension assets	2,093		2,093
Present value of pension liabilities	(2,549)		(2,549)
Deficit in schemes	(456)		(456)
Related deferred tax assets	137		137
Net pension liability	(319)	(99)	(220)

H1 2002 Operating Profit Analysis - Previous Segmental Format

Estimated (including JV's & Associates, pre exceptionals & goodwill amortisation)

£m, for the six months ended 30 June	2002	2001	Δ
UK Gas Production	290	336	(46)
UK Residential Gas	177	58	119
UK Non-residential Gas	56	20	36
UK Electricity	42	19	23
Accord	15	10	5
Total UK Energy Supply	580	443	137
British Gas Home Services	22	11	11
AA Road Services	28	22	6
AA Personal Finance	23	16	7
North America	25	29	(4)
Goldfish Financial Services	(17)	(22)	5
Telecommunications	(21)	(52)	31
Other Activities	(13)	(10)	(3)
Total continuing operations	627	437	190

2001 Op. Profit Analysis - 2002 Reporting Format Estimates

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

2001 Reports Format → £m	Residential Gas	Non-Res Gas	Electricity	Gas Production	Accord	Home Services	AA Road Services	AA Pers - Finance	Goldfish	Telecoms	Other UK	North America	Total
Total	**3**	**41**	**40**	**552**	**16**	**36**	**37**	**37**	**(32)**	**(97)**	**(22)**	**68**	**679**
Revised Formats:													
British Gas Residential													
Gas	3										(11)		**(8)**
Electricity			32								(5)		**27**
Home Services						36							**36**
British Gas Communications										(101)			**(101)**
Centrica Business Services													
Gas		36											**36**
Electricity			8										**8**
Cemg													
Industrial Sales & Wholesaling		5											**5**
Gas Production				552									**552**
Accord					16								**16**
AA							37	37			(2)		**72**
North America												68	**68**
Goldfish									(32)				**(32)**
One.Tel										4			**4**
Other											(4)		**(4)**
													679