

Centrica Energy Management Group

3 December 2003

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

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Jake Ulrich

Managing Director - CEMG

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AGENDA

Context

Gas Position

Power Position

Financial Drivers

Wrap-up

Why we exist

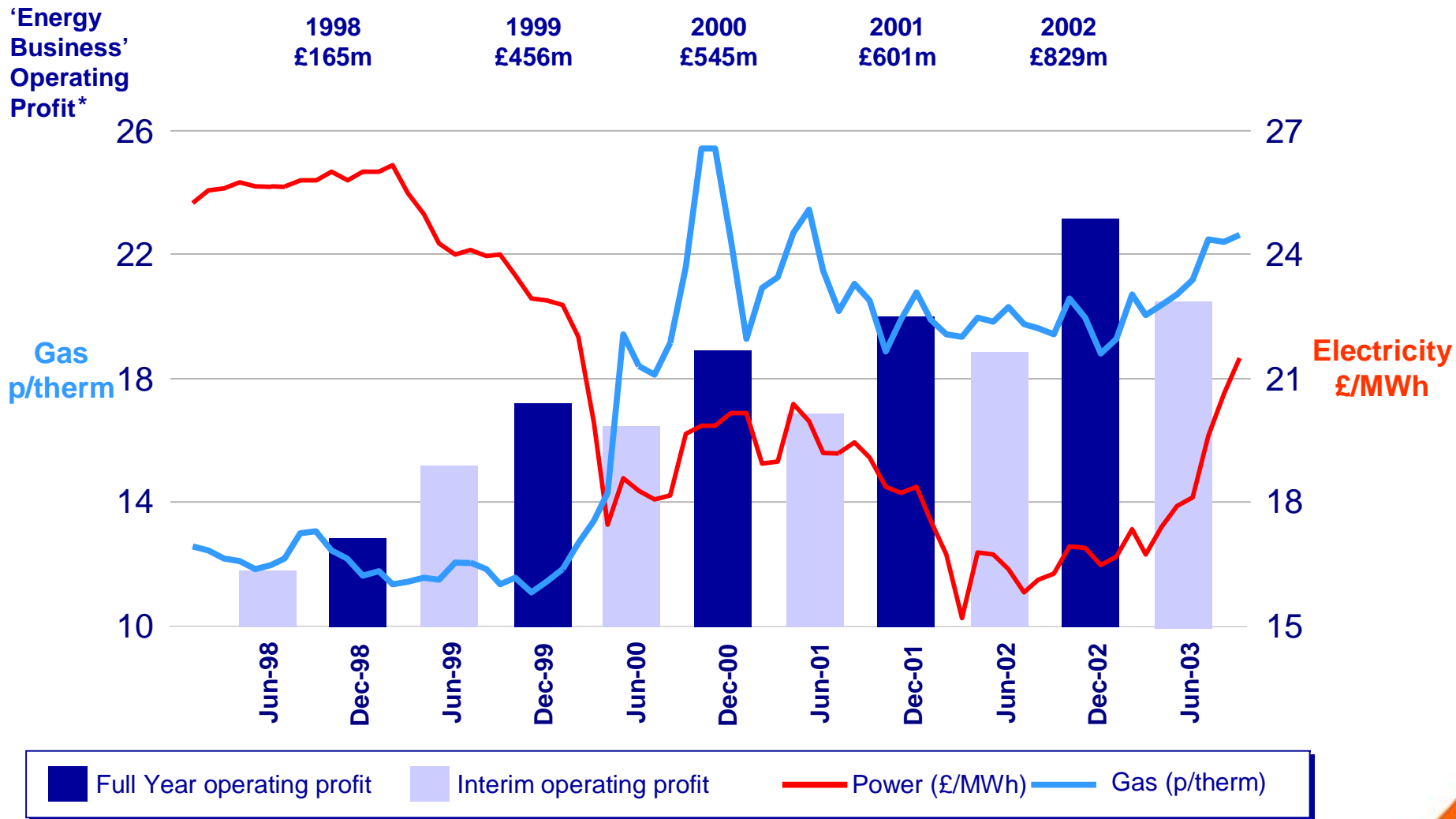
- Optimise energy costs for downstream businesses
- Reduce earnings volatility

We achieve this using a number of tools...

- Gas and power asset portfolio
- Energy procurement through traded market and bilateral contracts
- Wholesale and Industrial customer base
- Asset and contract optimisation

... which in combination provide flexibility & shape

Our core UK energy business has performed well through volatile markets

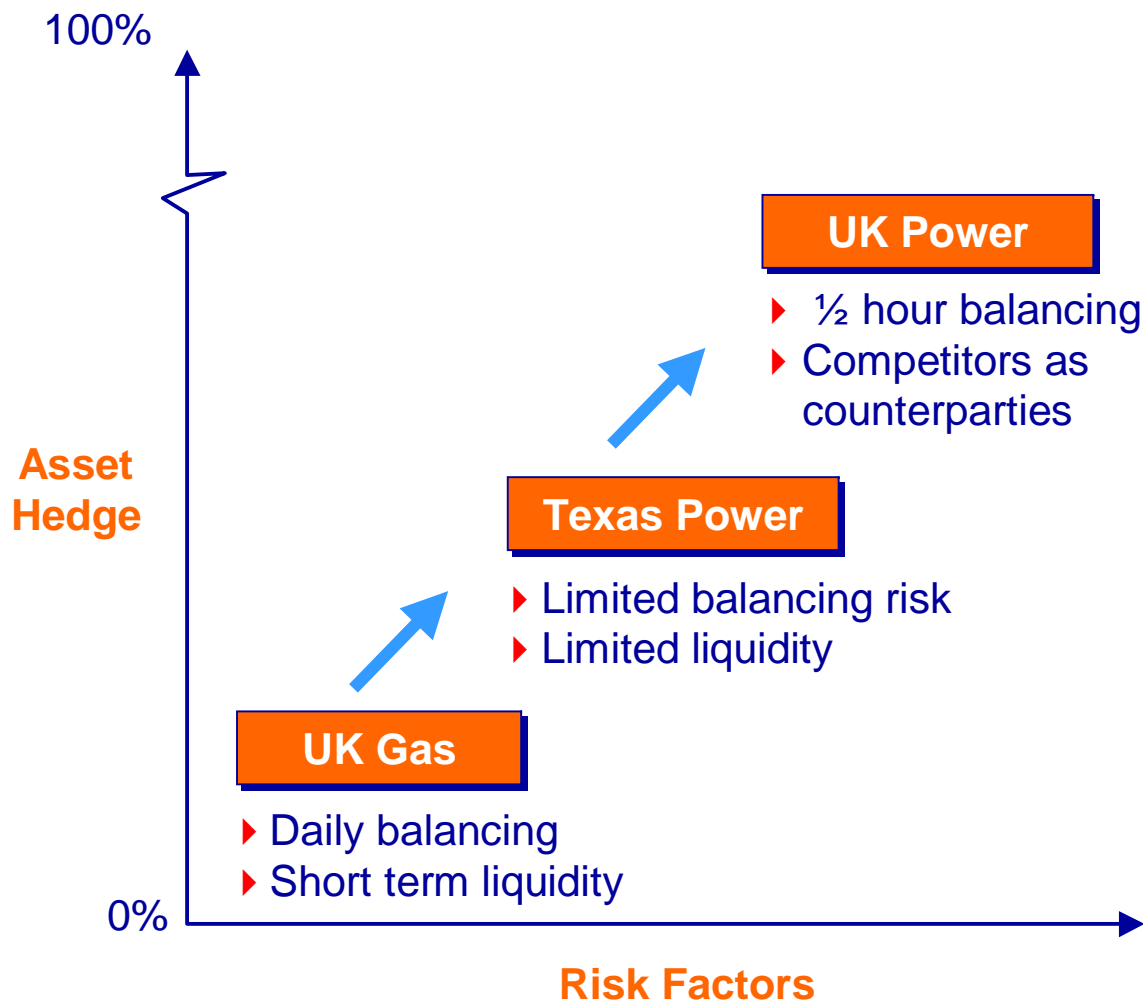


*Energy business operating profit includes British Gas Residential (excluding Homes Services), Centrica Business Services & CEMG. Operating profit before exceptional charges and goodwill amortisation

Our approach to procurement gives us competitive advantage

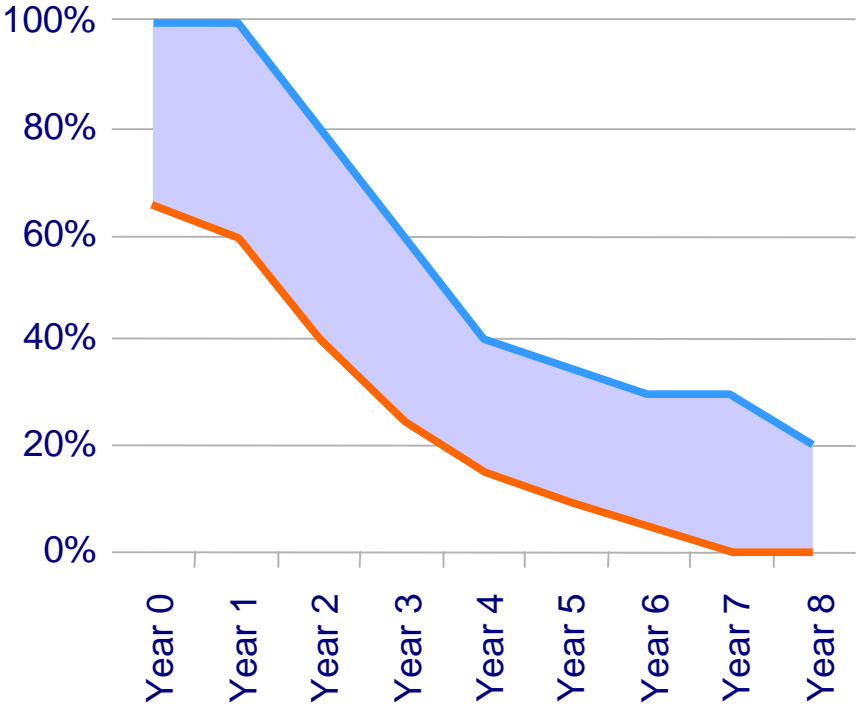
- Tailored to customer propositions
- Asset hedge based on long-term risk reduction (impact of volatility)
- Dynamic over time
- Asset 'right' strategy reflecting
 - Liquidity
 - Credit risks (post Enron)
 - Competitor positions
- Trade-off between cost of capital (ROCE impact) vs. volatility reduction benefits

Determinants of the asset hedge are market specific

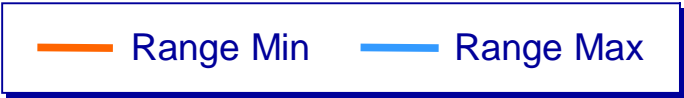
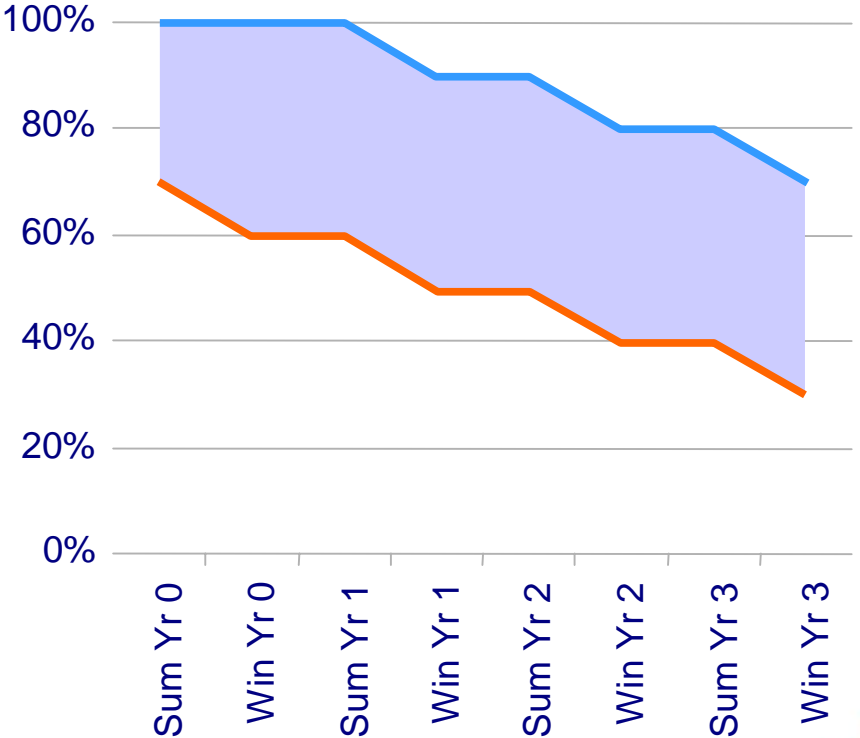


Our procurement strategy balances short-term risks with long term optionality

**Gas Procurement
Fixed Target Range**



**Power Procurement
Fixed Target Range**



Ian Wood

Director, Sales & Marketing - CEMG

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Context

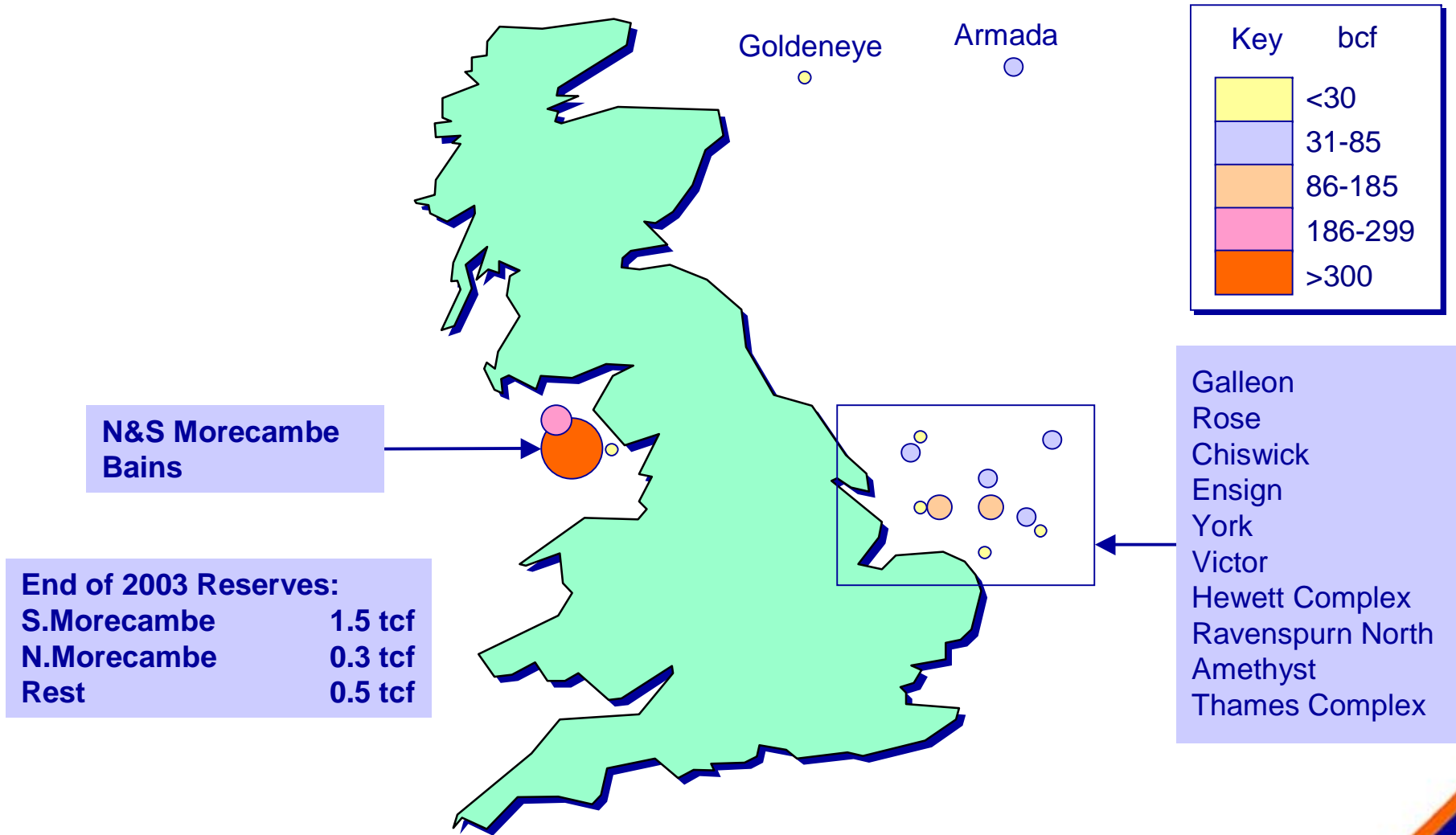
Gas Position

Power Position

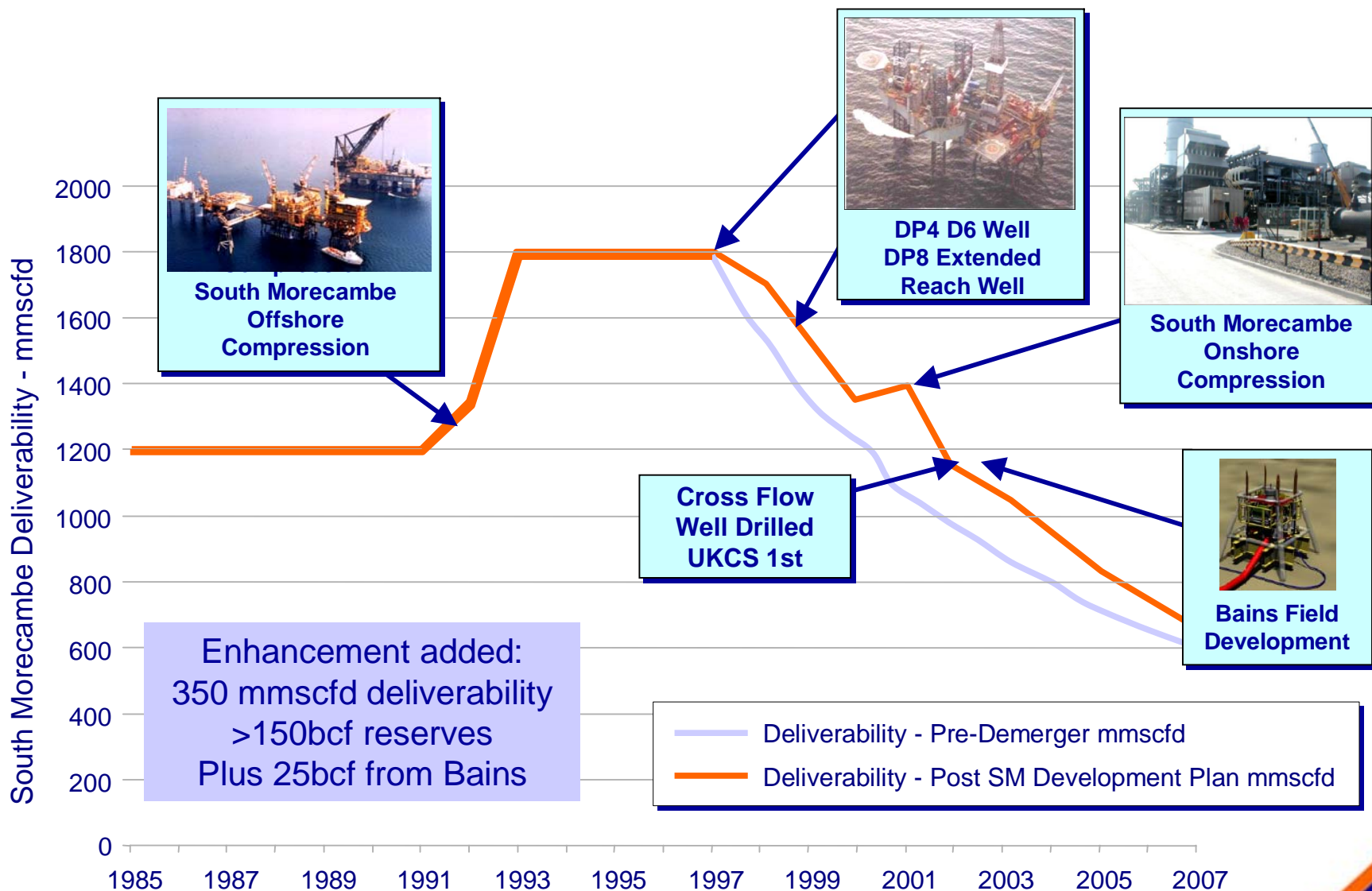
Financial Drivers

Wrap-up

CEMG is the fifth largest producer in the UK (10% of total UK supply)

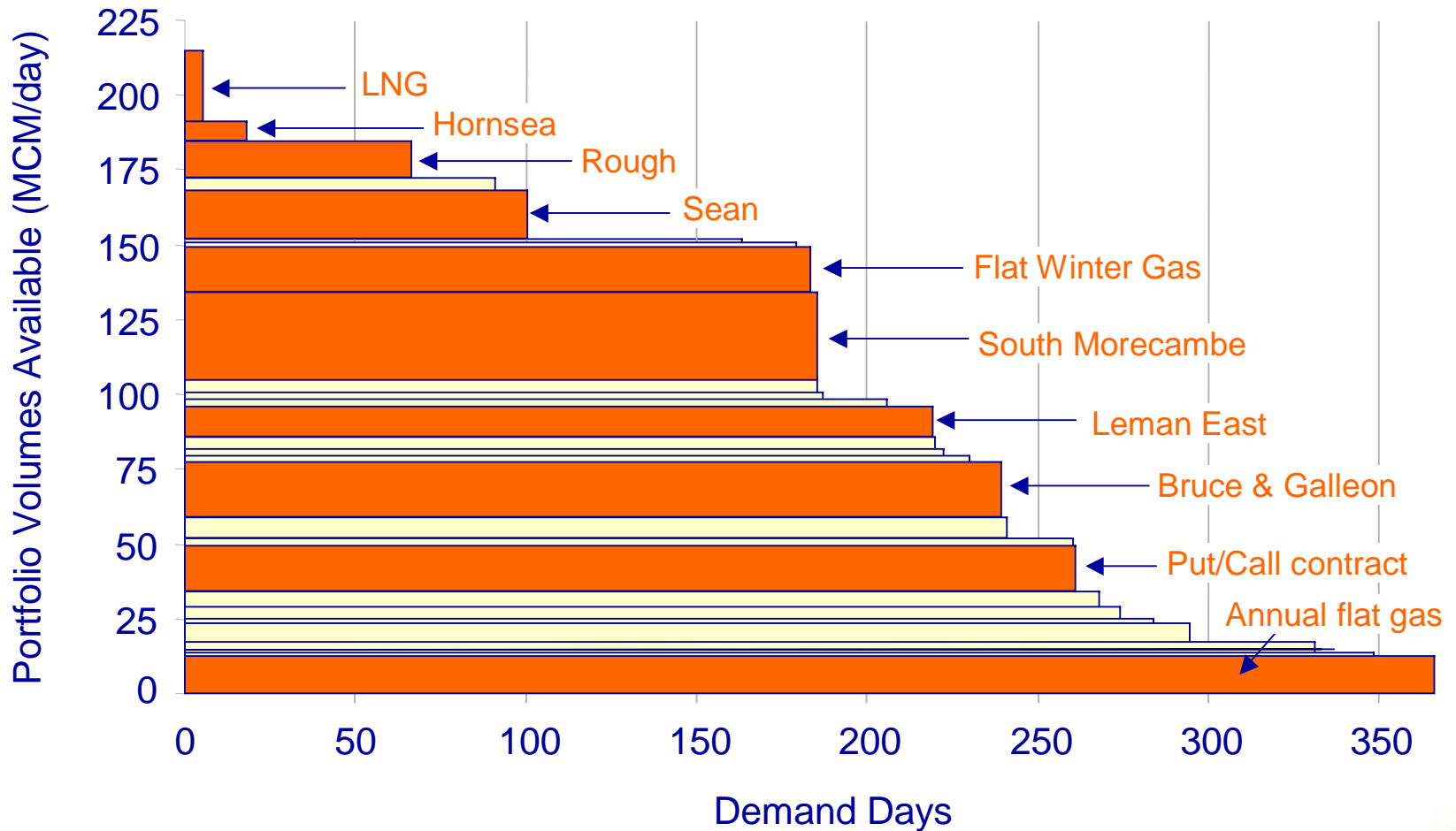


We have the technical capability to maximise asset values



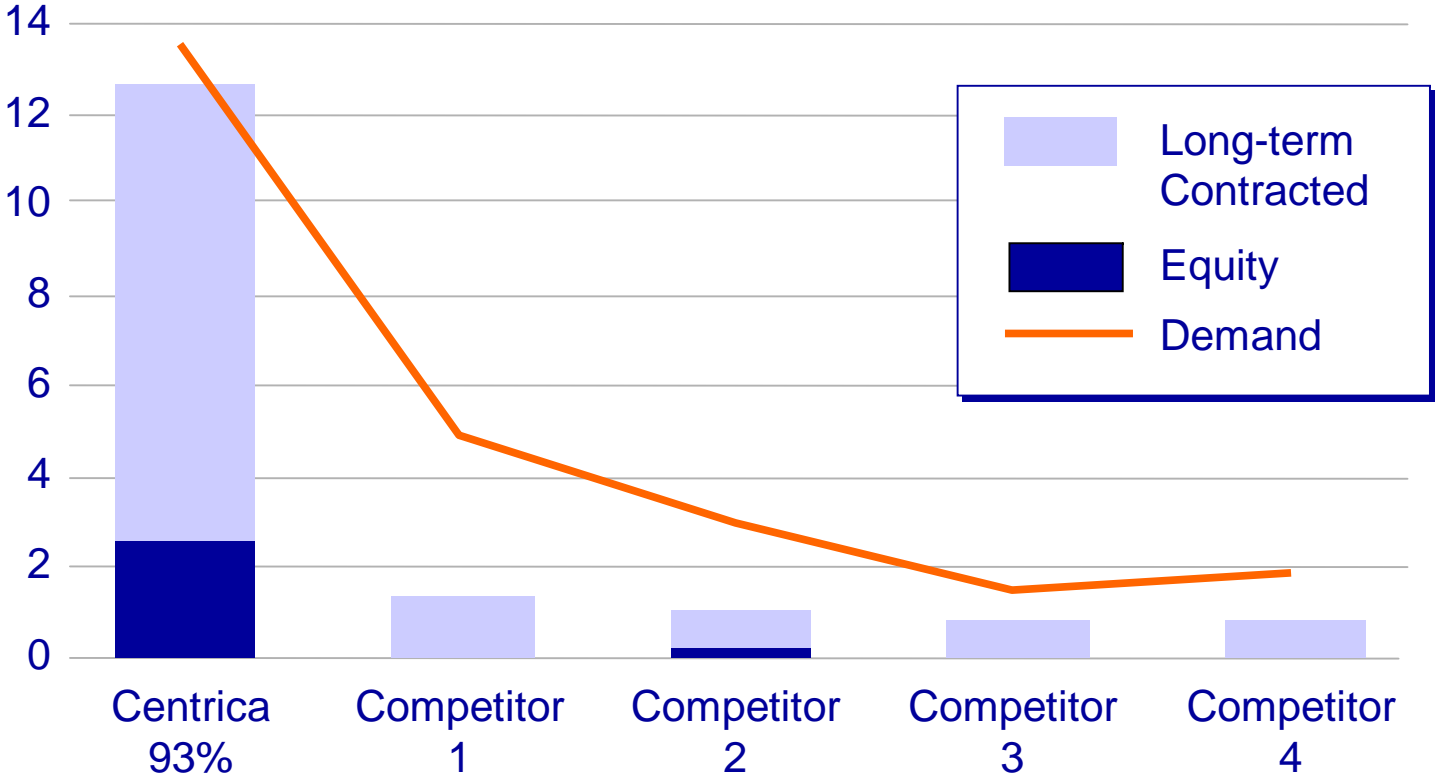
Our portfolio of flexible assets and contracts is fully optimised

Current Portfolio



Overall we are well positioned to meet our customer demand

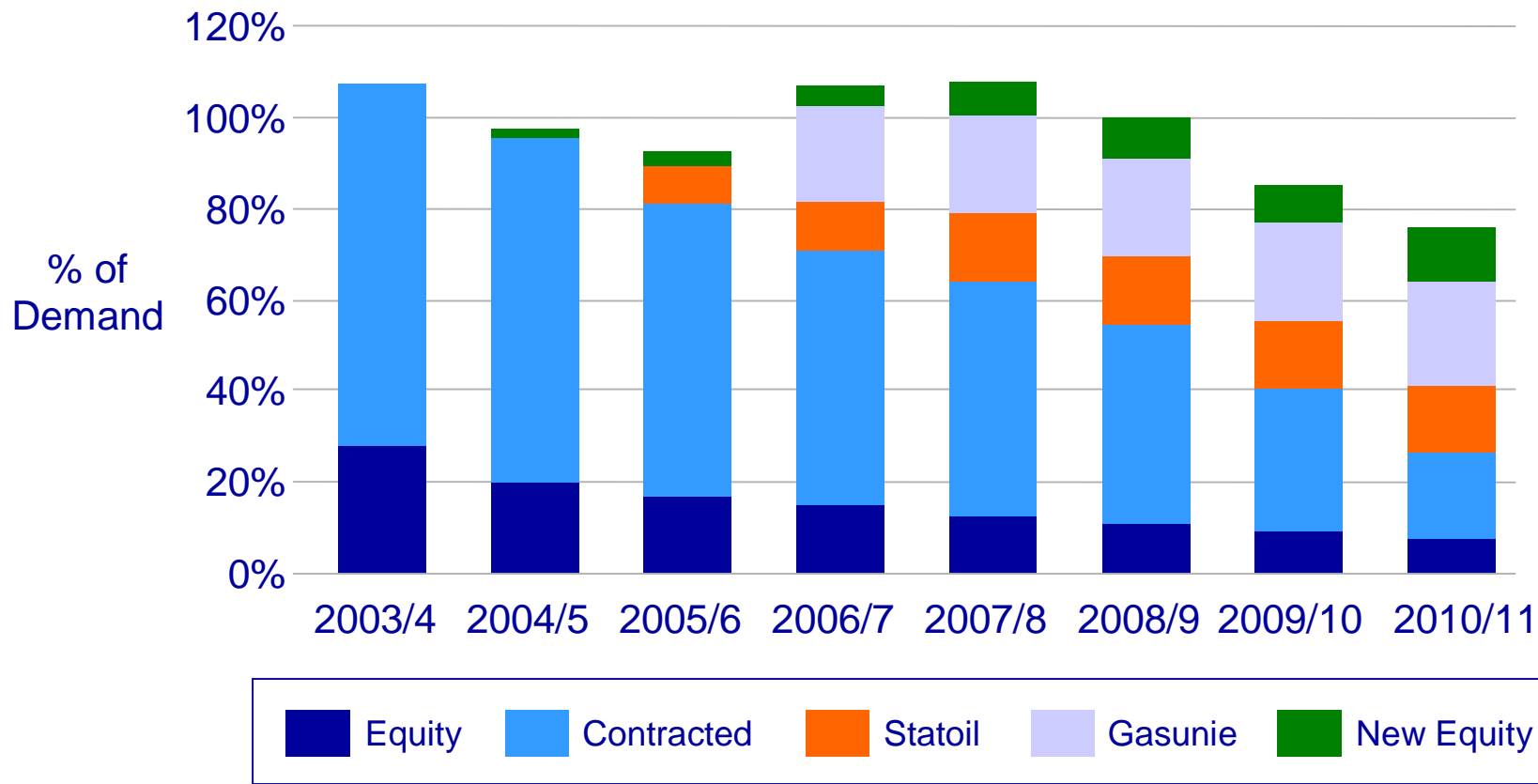
2005 Competitors' Position



Source: Centrica estimates

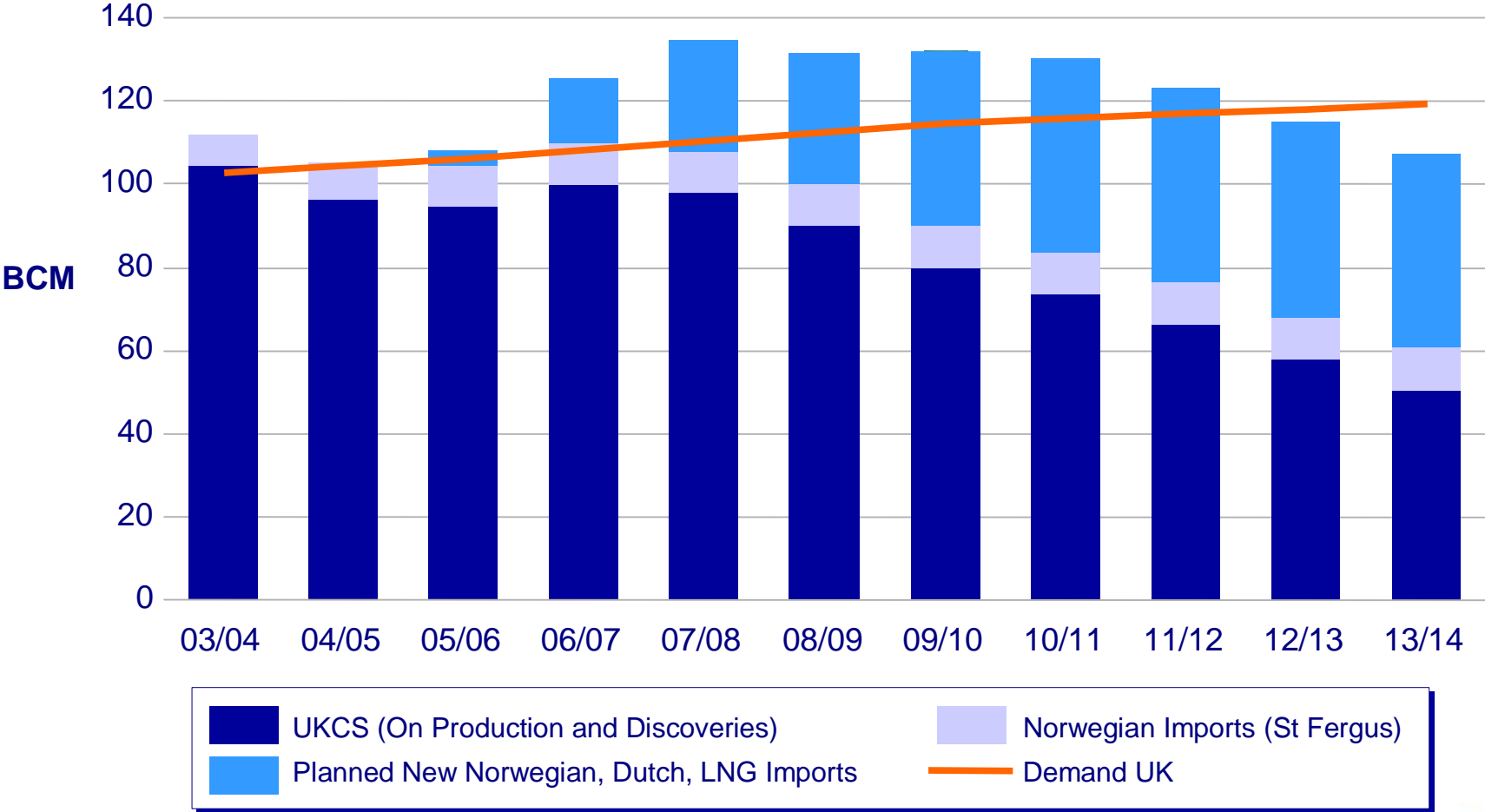
The bulk of our requirements is covered in volume terms to 2009

Centrica Annual Supply vs. Demand



Imported gas will fill the emerging supply gap

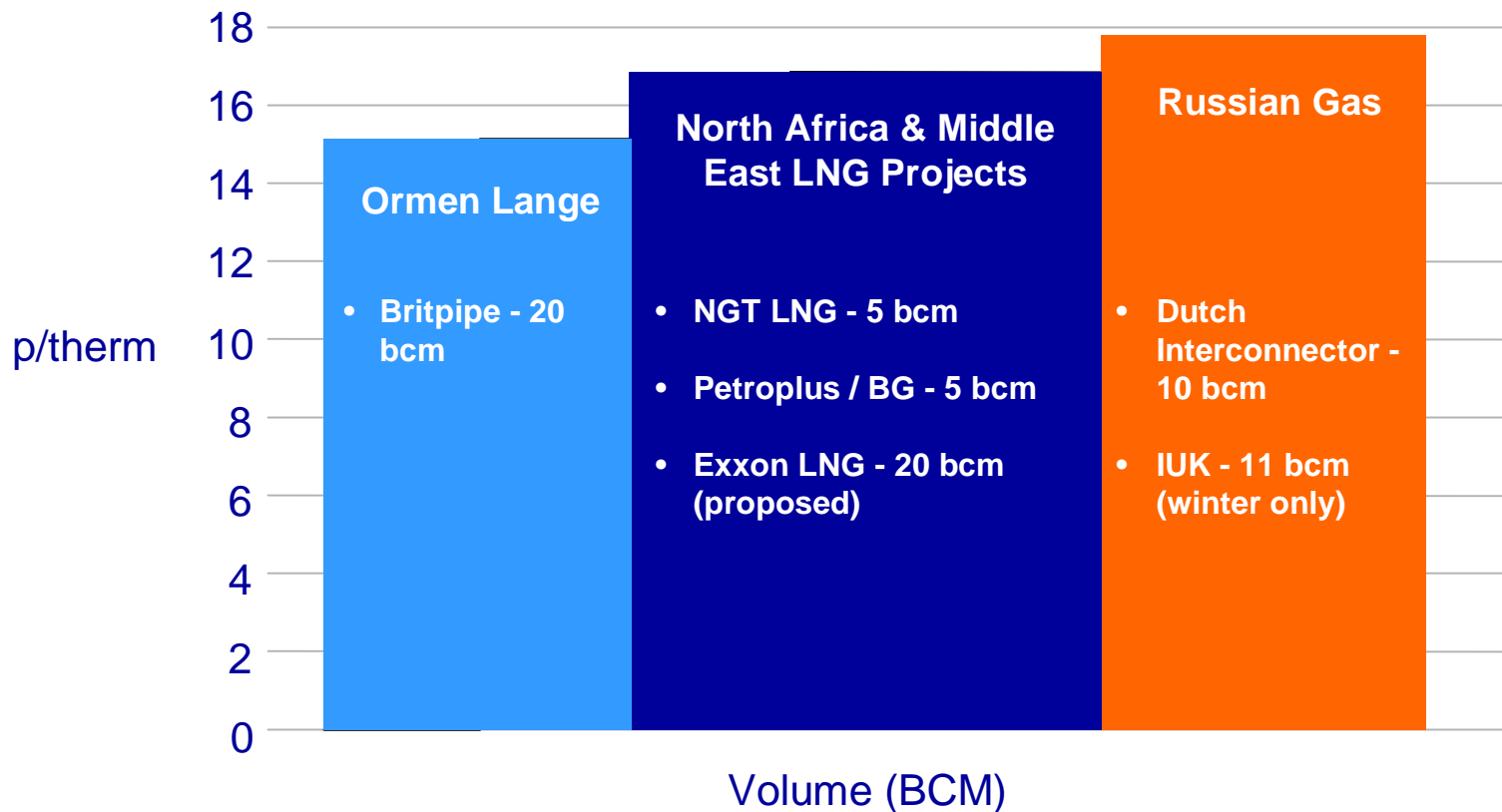
UK Annual Supply vs. Demand



Source: Centrica estimates

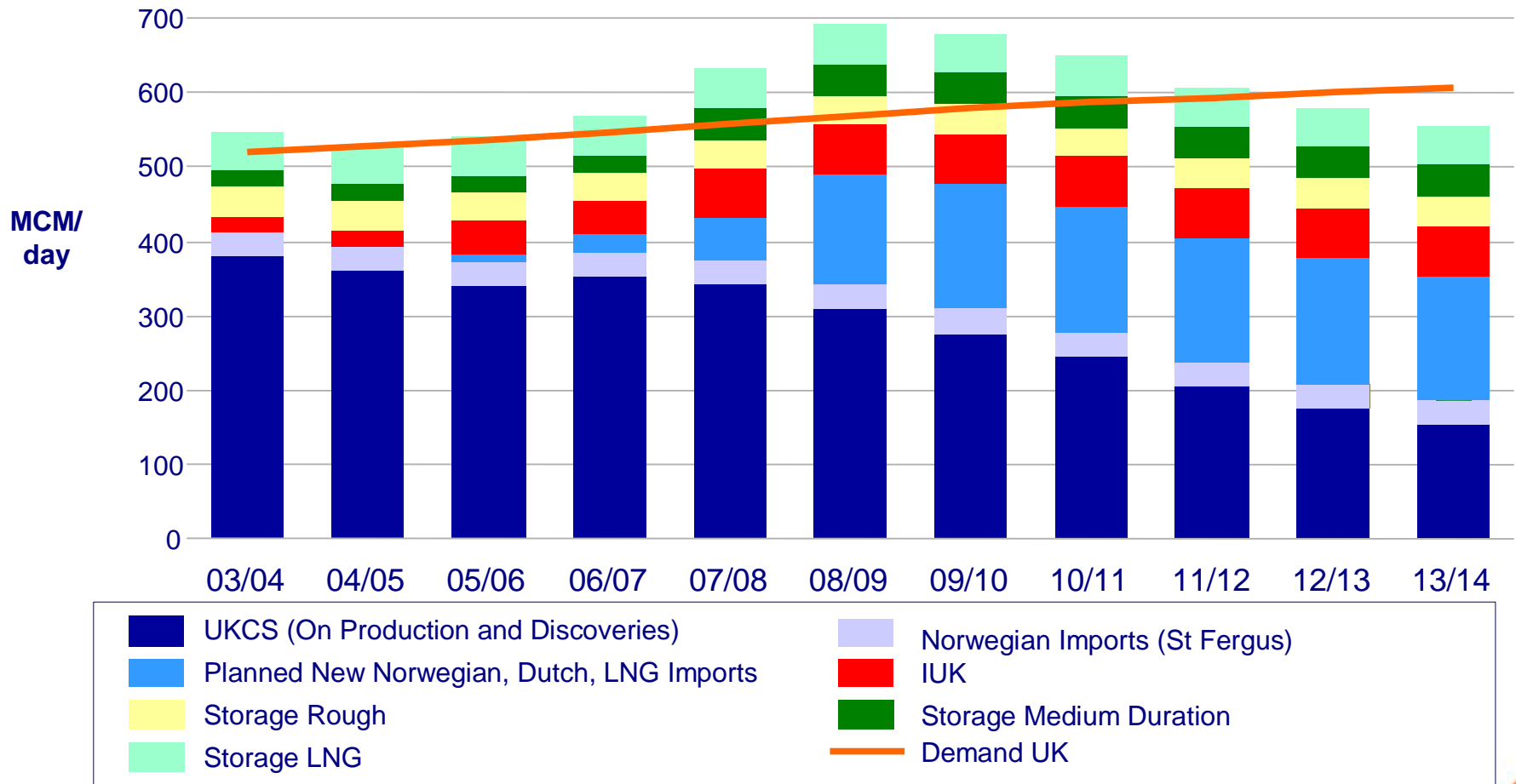
Diverse new supplies are available to the UK

Supply Cost into UK



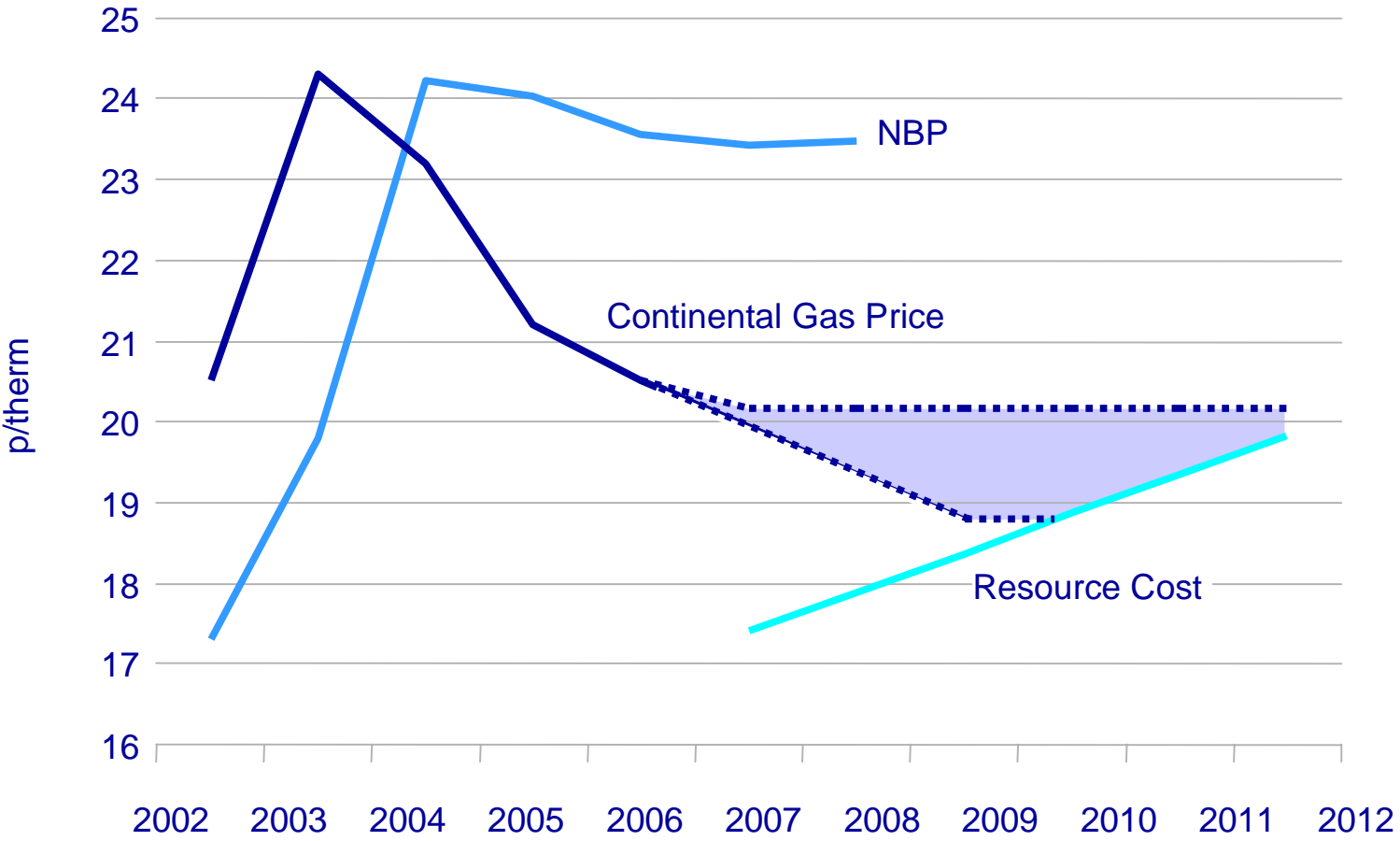
Peak supply remains tight in the near-term

UK Peak Day Supply Demand



Implications for future UK prices

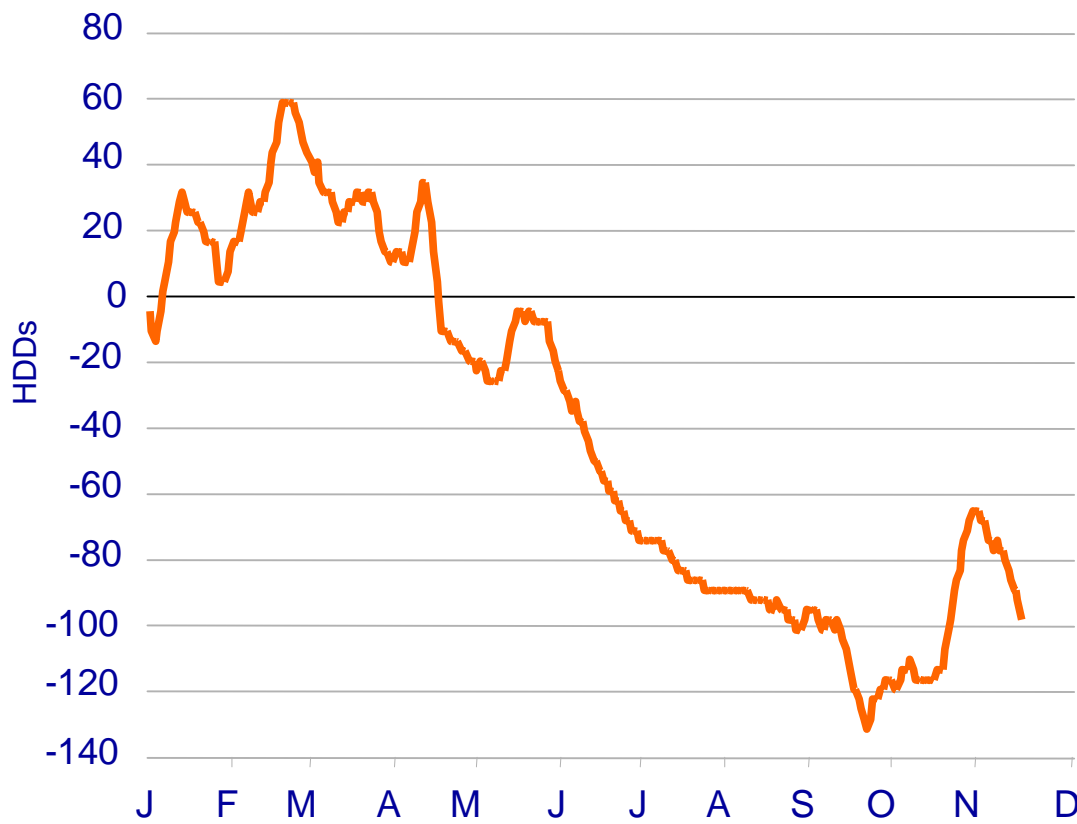
UK Gas Price Forecasts



Source: Centrica estimates

Management of weather risk is critical

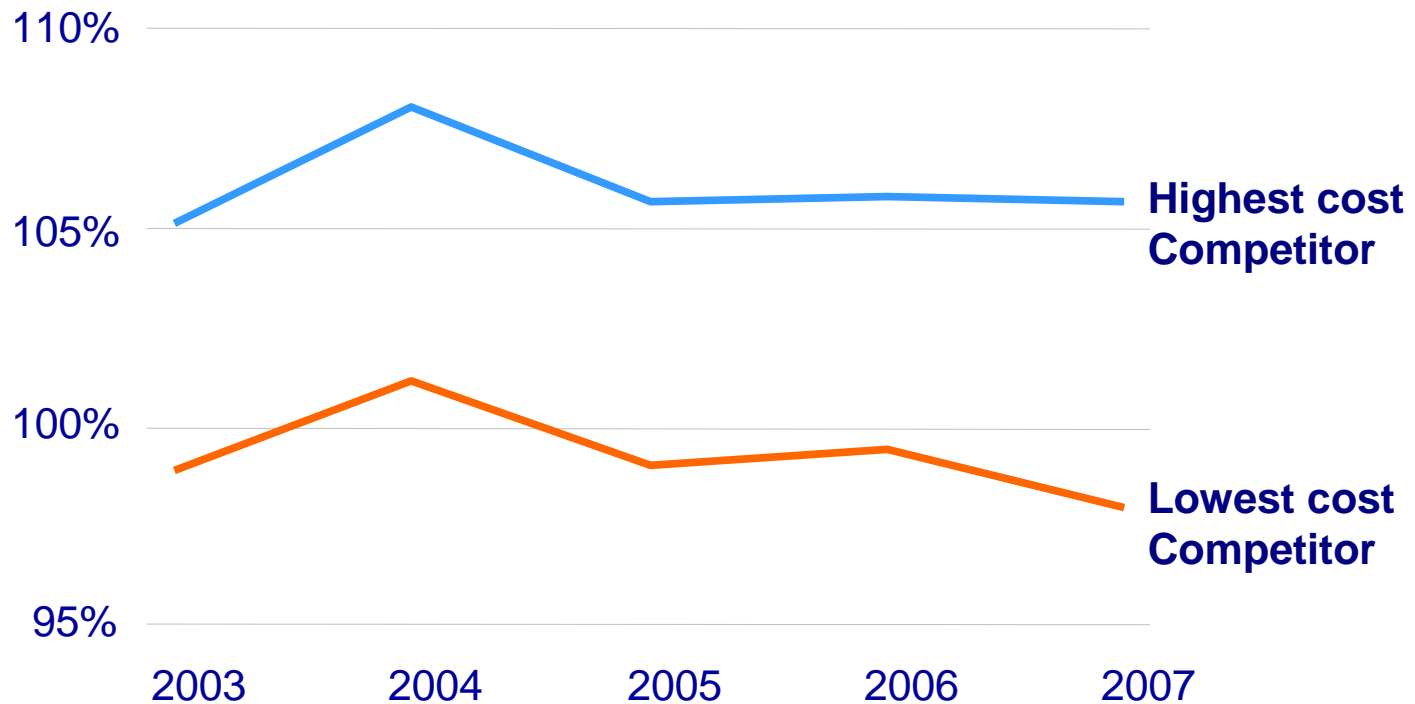
2003 Variation of Heating Degree Days
Cumulative YTD vs Ten Year Average



- Centrica instrumental in developing weather trading market
- Weather hedge has delivered reduced earnings volatility over past three warm winters, however:
 - Intra-day basis risk cannot be hedged (1H 03)
 - Summer weather exposure remains as unit margins are high
 - Ability to hedge summer and shoulder months limited by liquidity in market

We believe our strategy in gas gives us a relative cost advantage

Competitor WACOG Relative to Centrica (100%)



Summary - Gas

- Fifth largest gas producer in the UK
- We have a strong technical team that can maximise asset values
- Portfolio mix of equity & contracts gives us flexibility to best serve downstream demand
- The bulk of our gas requirements are covered in volume terms to 2009 ... longer-term we are seeking to secure new supplies from a range of options
- We believe our gas strategy gives us a relative advantage continuing into the future

Gearóid Lane

Head of Electricity Supplies - CEMG

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Context

Gas Position

Power Position

Financial Drivers

Wrap-up

Our power station portfolio currently stands at 2.2 GW

Spalding 860 MW
Tolling Contract with InterGen
Q4 2004

Rosecote 229MW
100% Centrica
£105/kW 2003



Barry 240MW
100% Centrica
£165/kW 2003



Humber Power 1260 MW
JV: 60% Centrica & 40% TFE
£343/kW 2001



Glanford Brigg 4x60MW
100% Centrica
£154/kW 2002



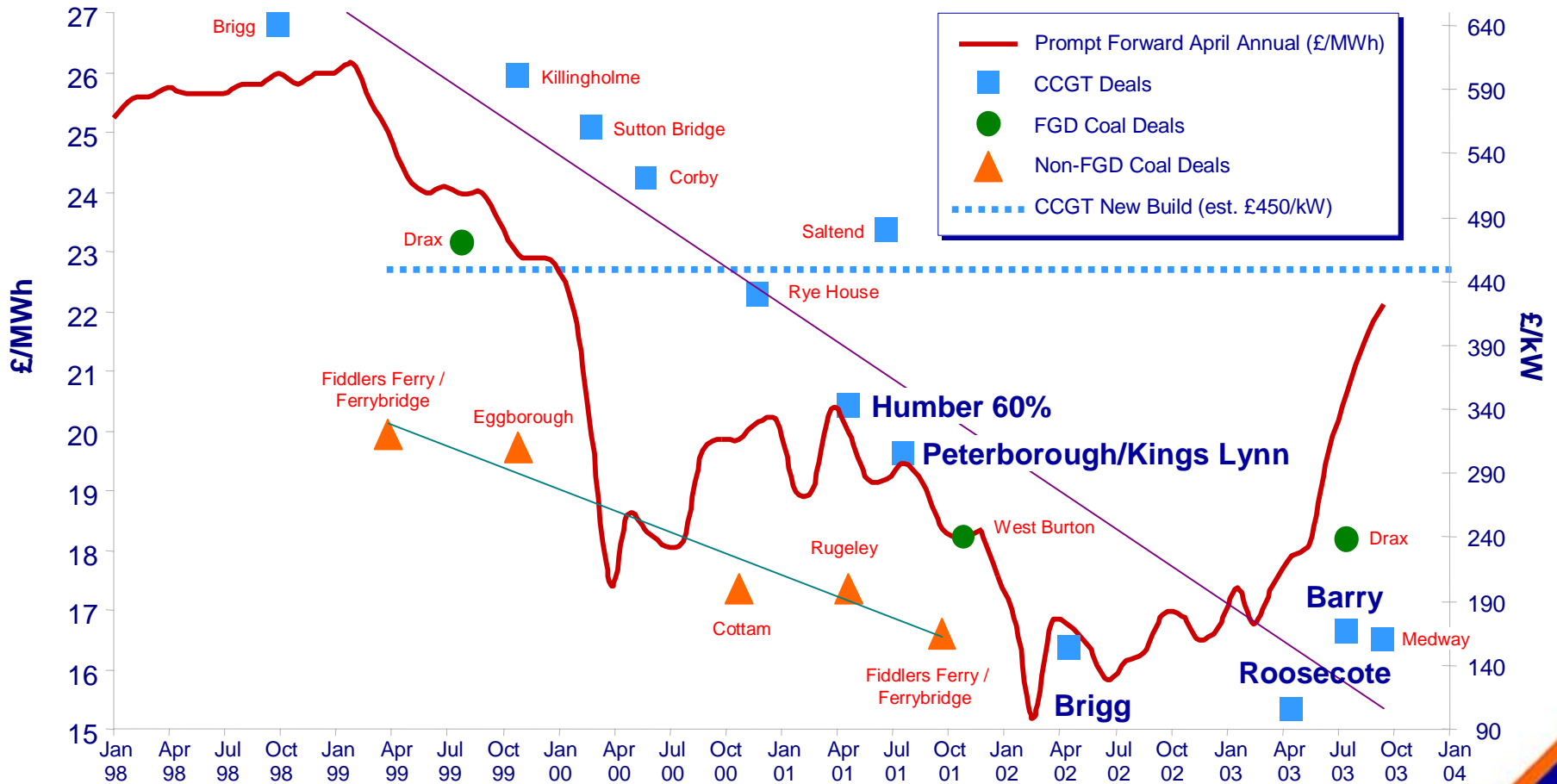
Kings Lynn 325MW
100% Centrica
£305/kW 2001



Peterborough 2x180MW
100% Centrica
£305/kW 2001

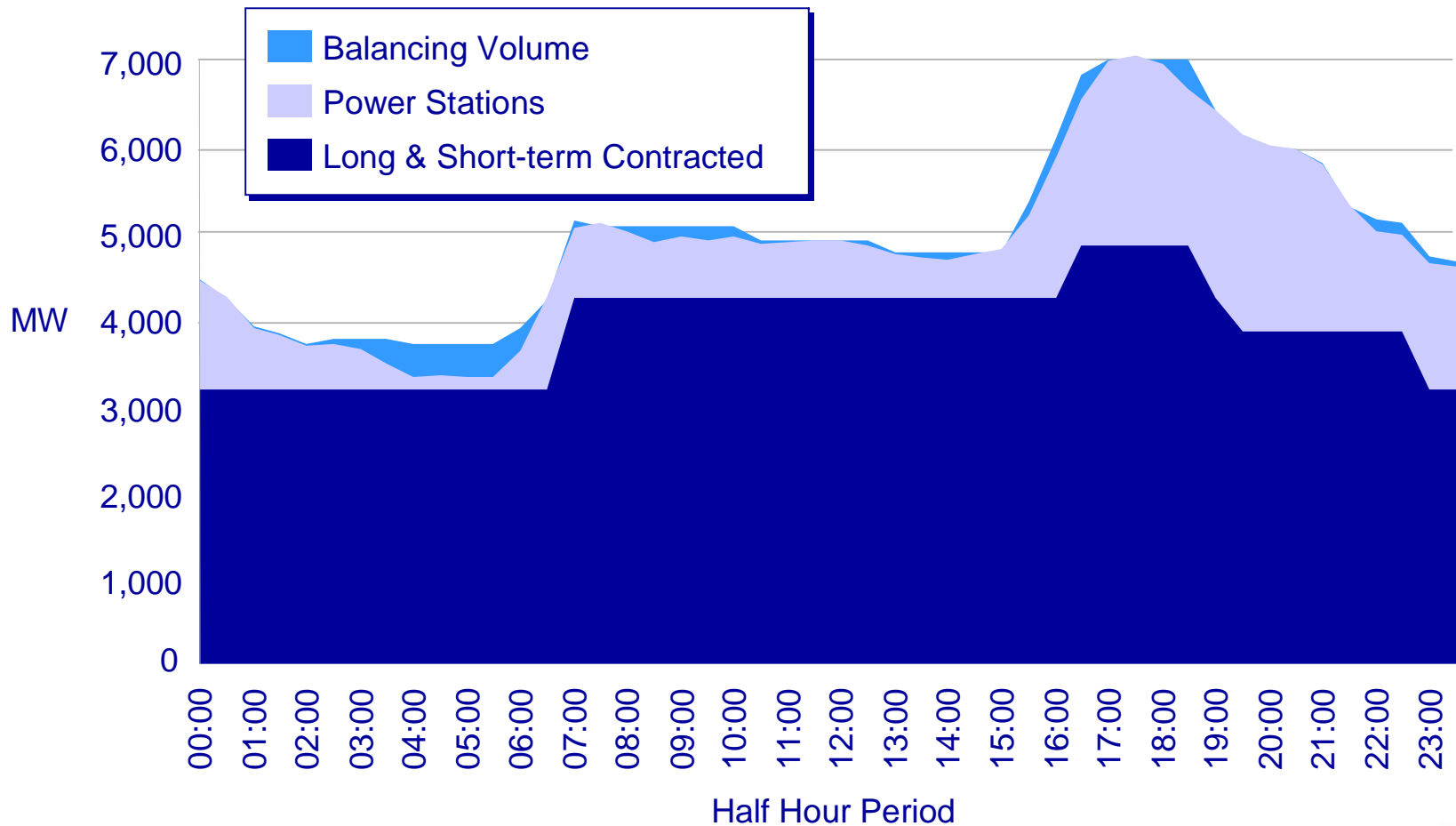
We have acquired power stations at low cost

History of Forward Prices for April Annual Baseload Contract and Generation Asset Transaction Multiples



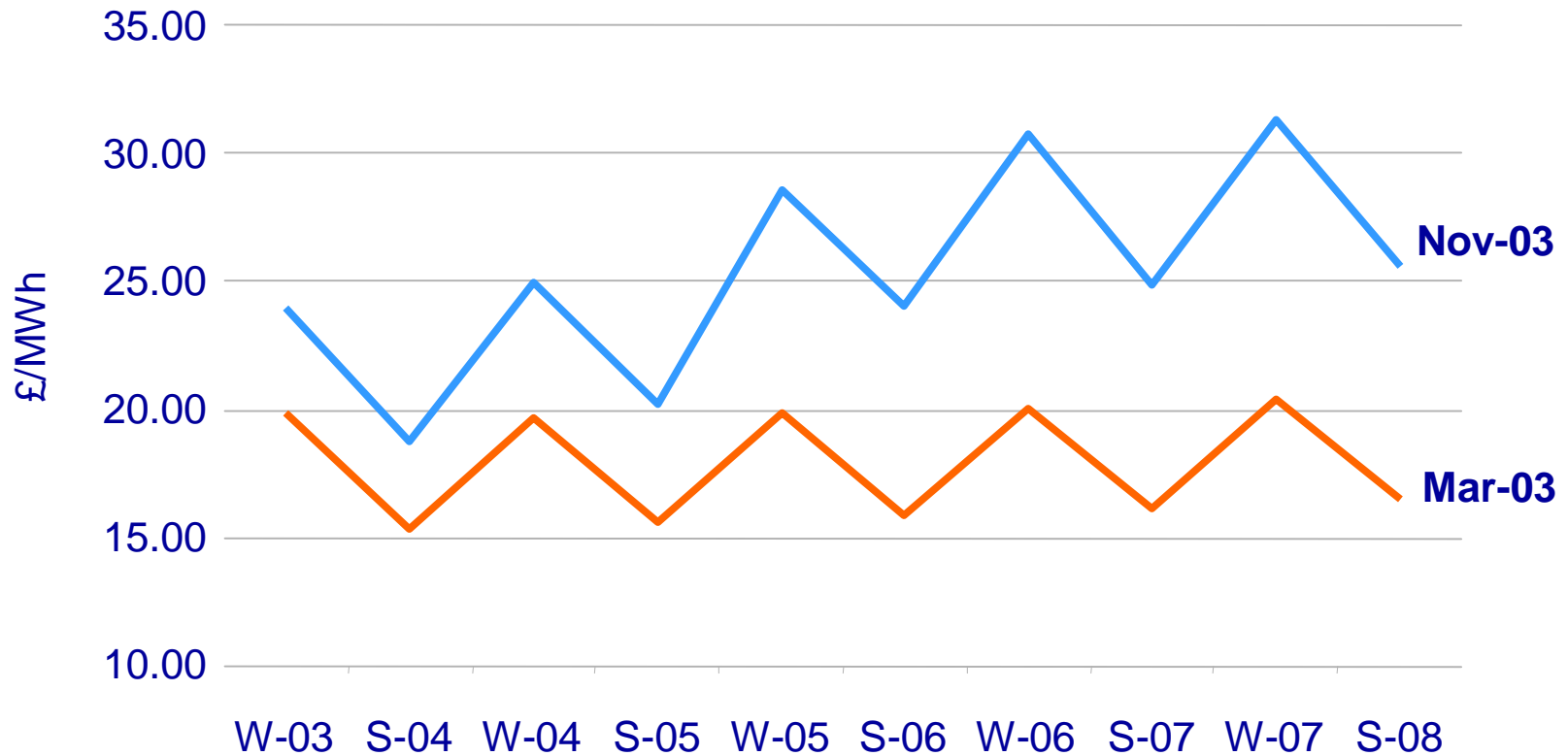
We manage our portfolio of assets & contracts to match the shape of downstream demand

Typical Centrica Winter Day Demand



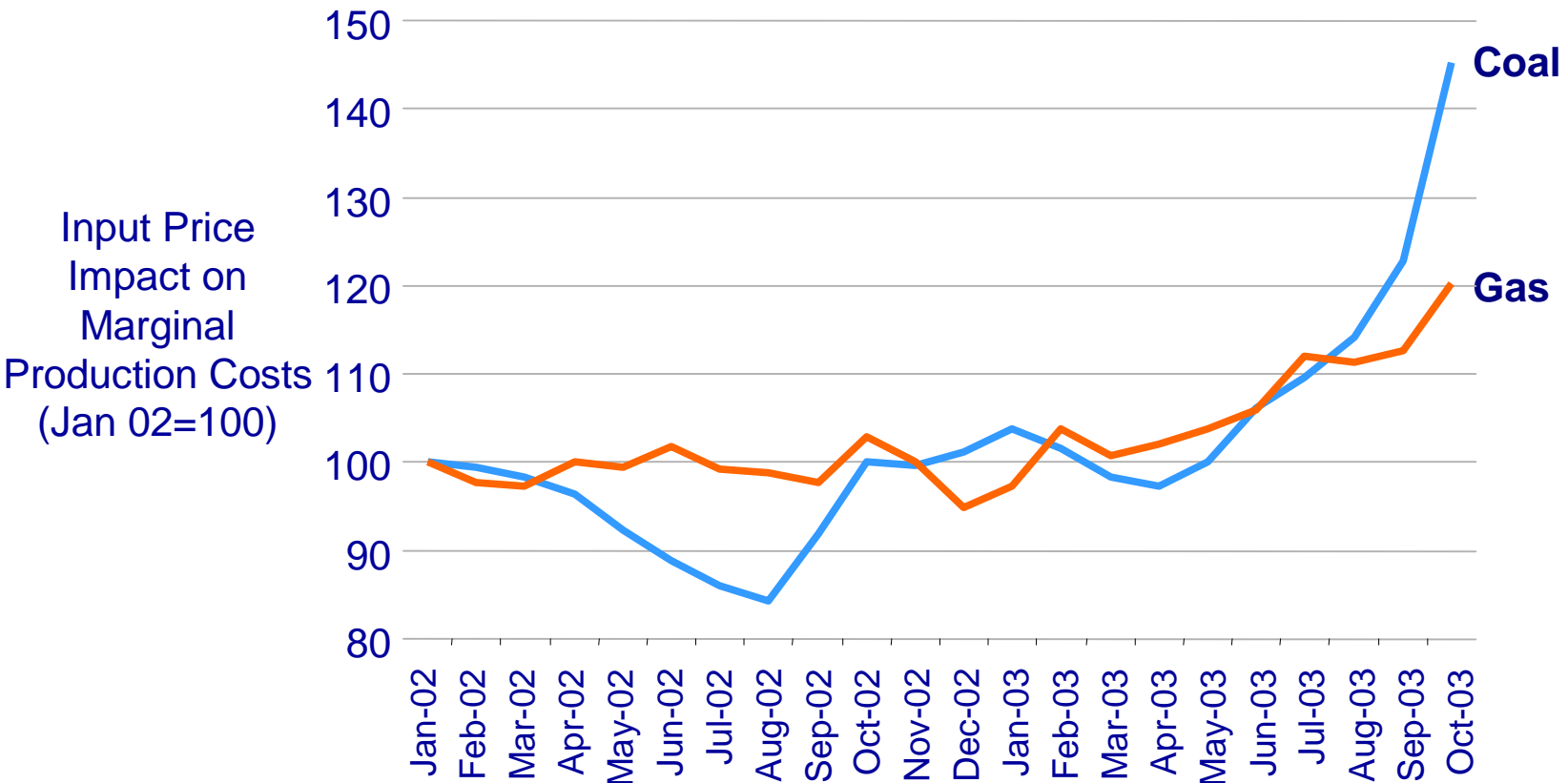
Rising wholesale forward power prices ...

**Comparison of Forward Wholesale Electricity prices
(Mar 2003 vs Nov 2003)**



... driven in part by recent increases in fuel input costs as well as reduced plant availability

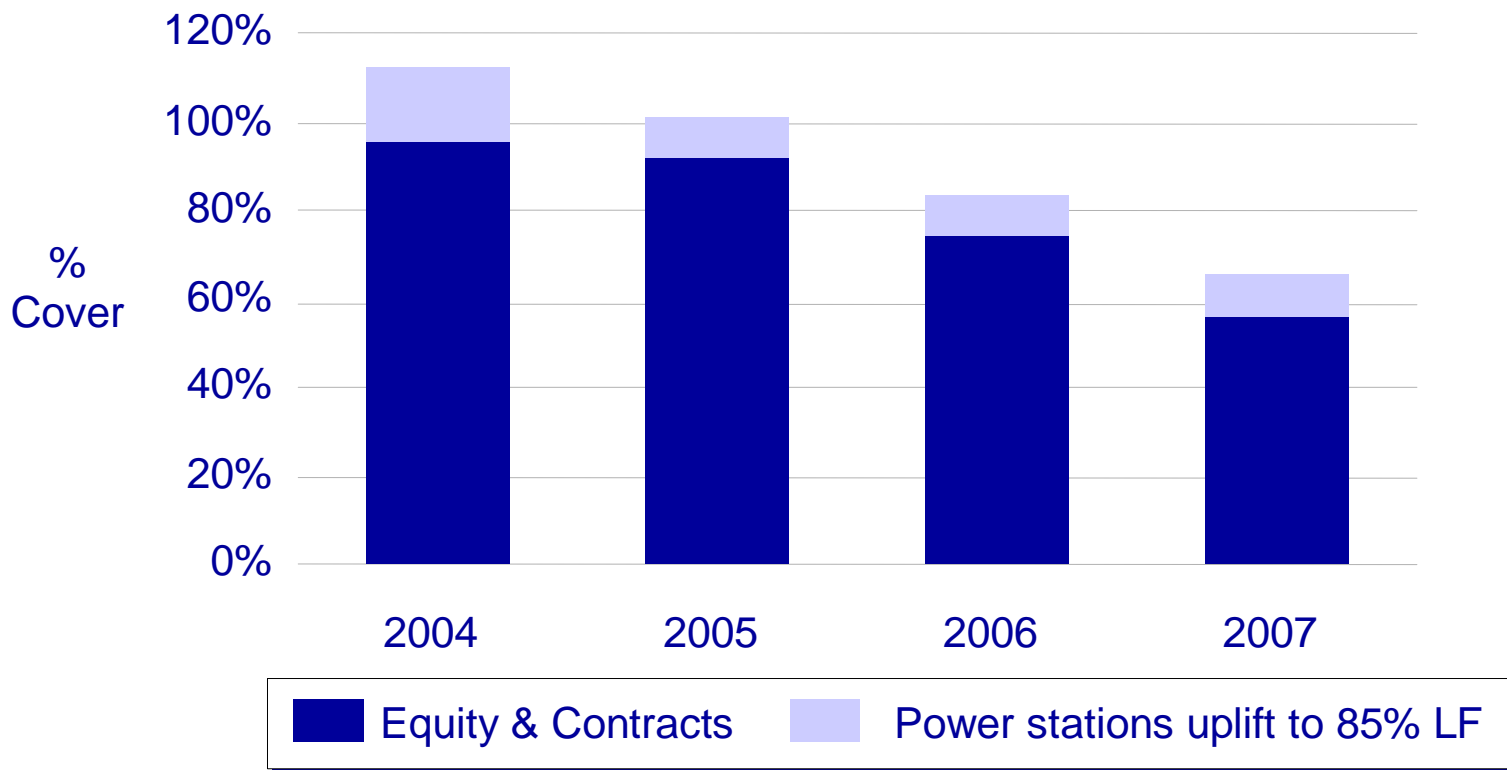
Fuel Price Impact on Power Production (Jan 02 to Oct 03)



Source: Month ahead prices. Petroleum Argus and MCI

Our portfolio of equity and contracts provides significant cover in the near-term

Centrica UK Power: Equity & Contract Cover



**CEMG Power
Stations Portfolio
Load Factor**

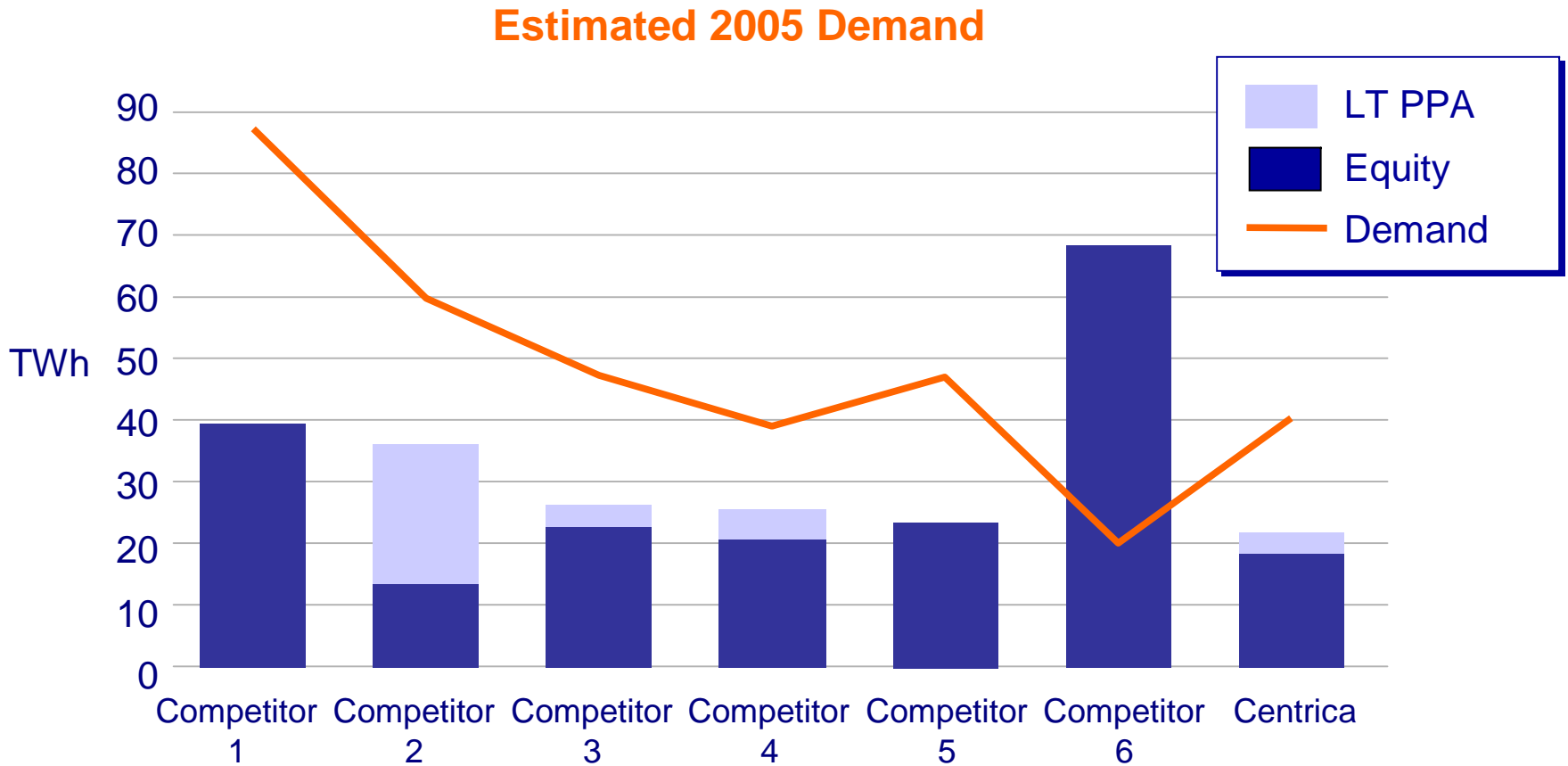
50%

67%

67%

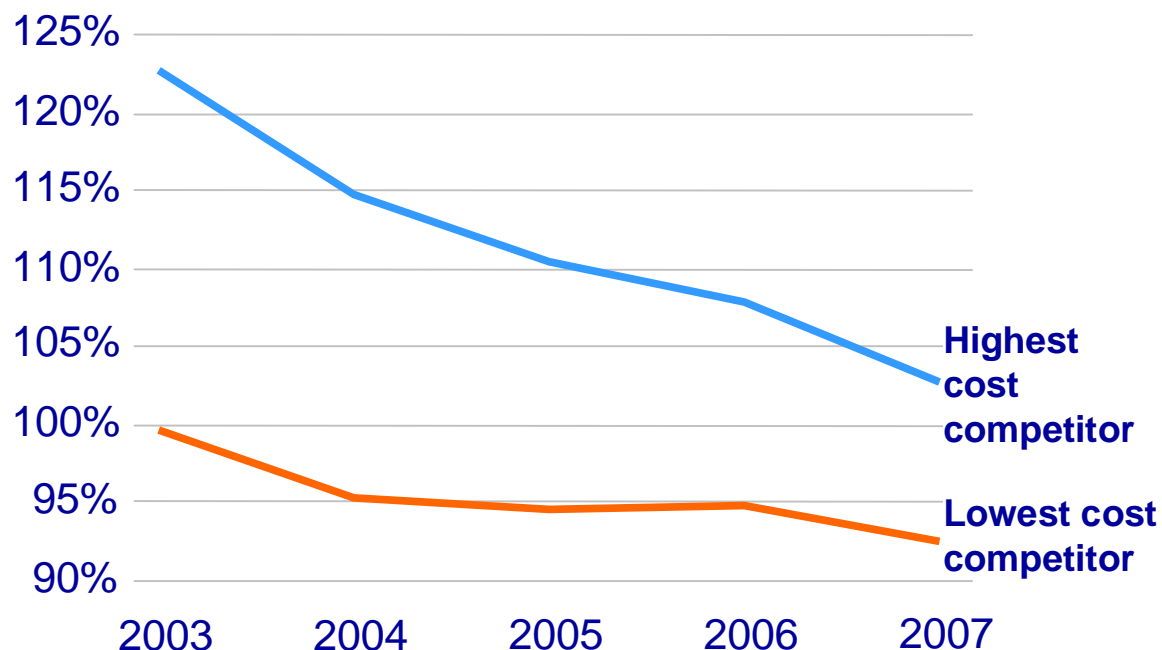
67%

Our assets cover over 50% of our total demand



Our strategy in electricity has given us a relative cost advantage

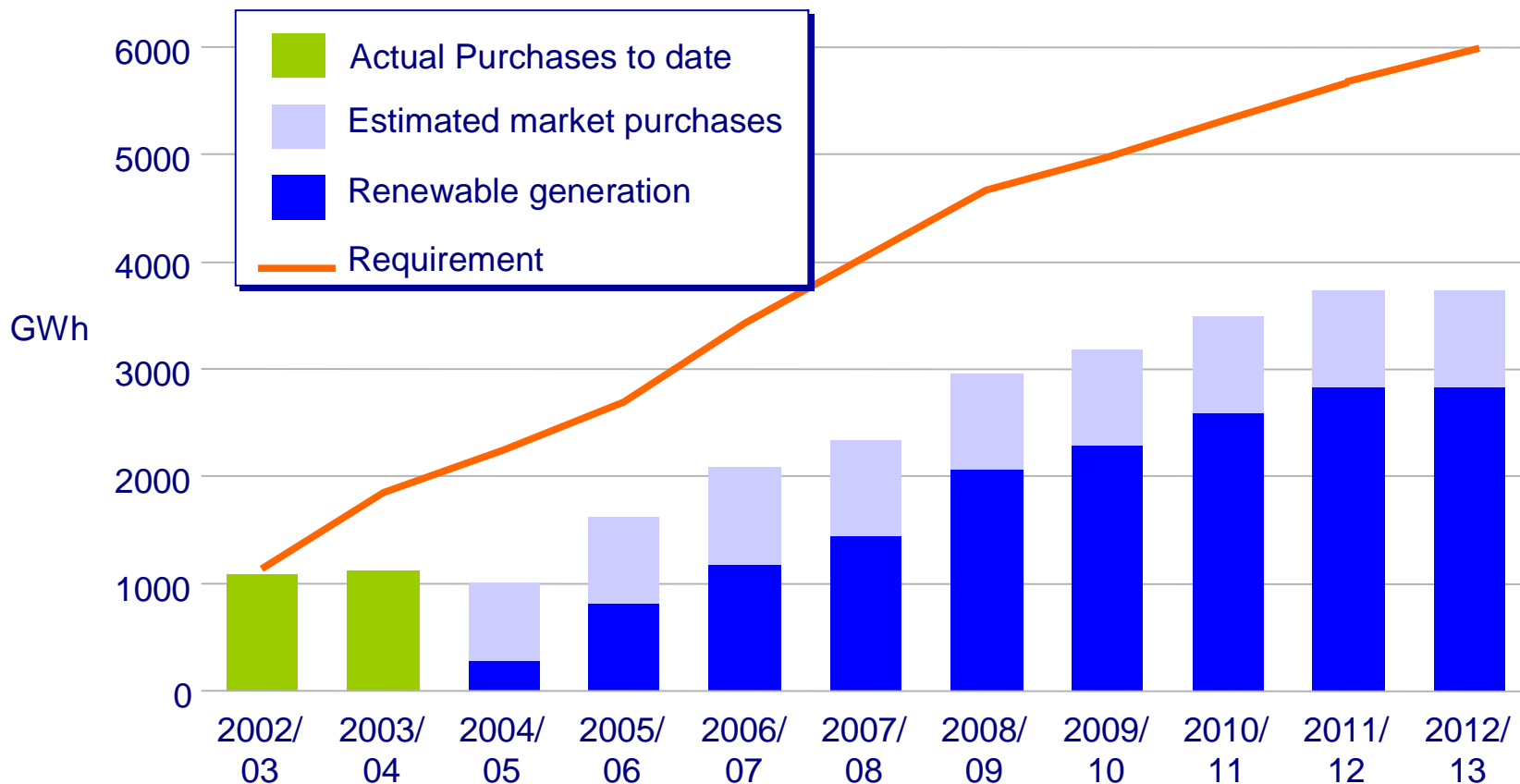
Competitor WACOE Relative to Centrica (100%)



- Centrica acquired assets at competitive prices
- Forward purchases by Centrica at bottom of market
- Several competitors have material 'high-priced' PPAs
- Significant peak exposures of some competitors

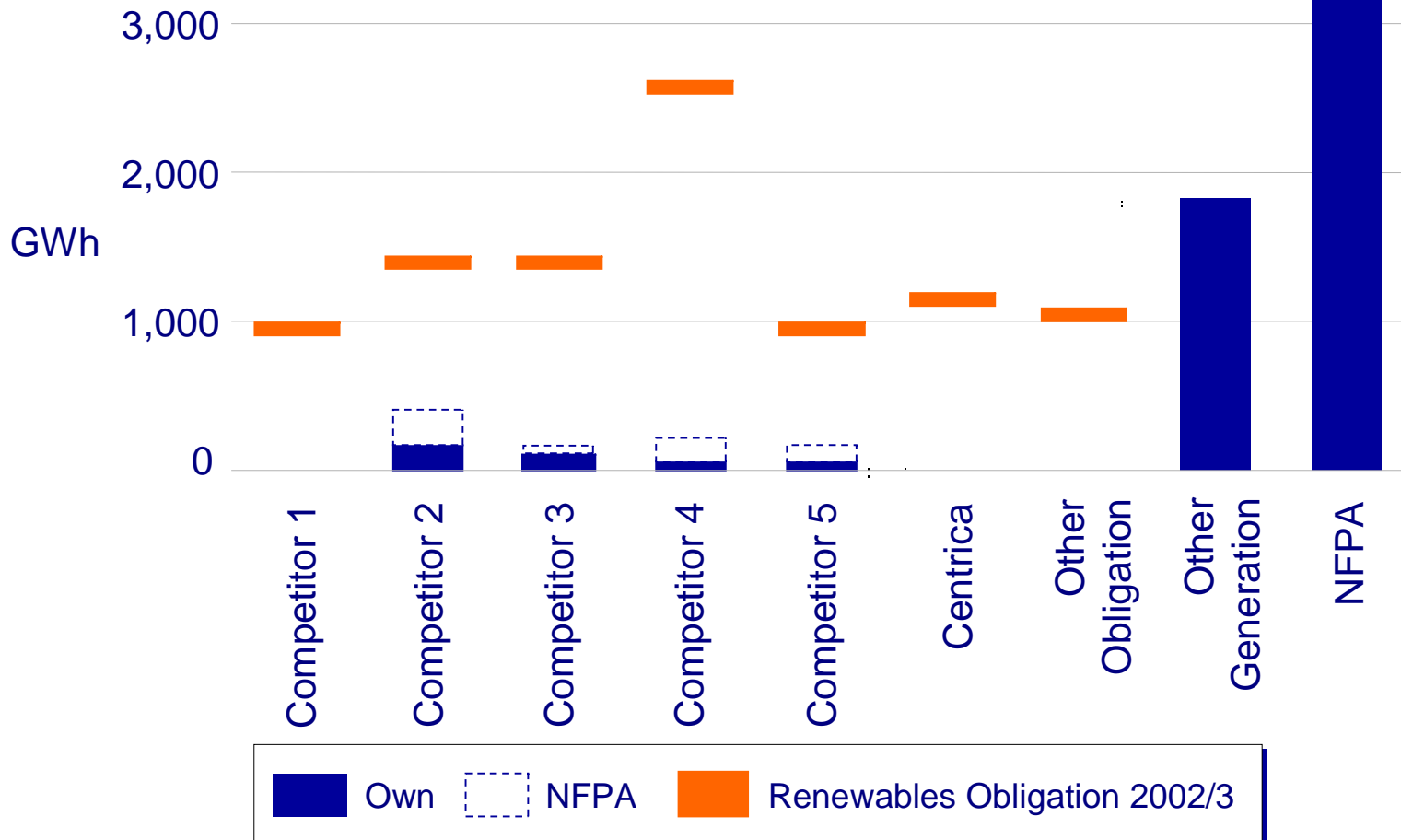
We have committed to investing in renewable generation as part of meeting our obligation

Centrica ROC Requirement vs Renewable Energy Supply Sources



The Renewables obligation is a major challenge for all suppliers

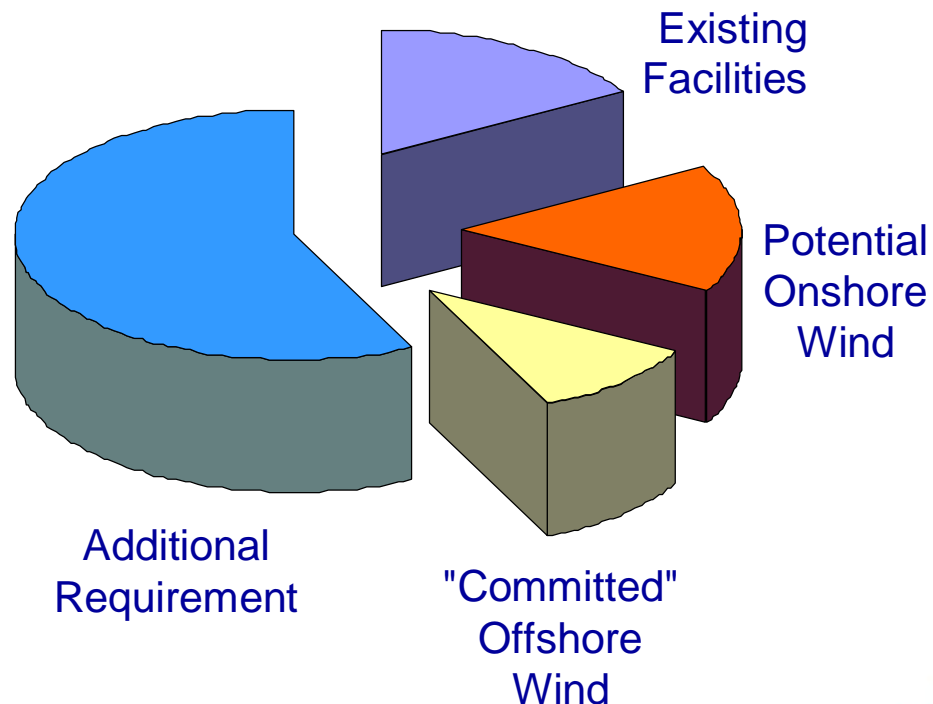
Renewables Obligation 2002/3 by Company
(obligation vs. own generation)



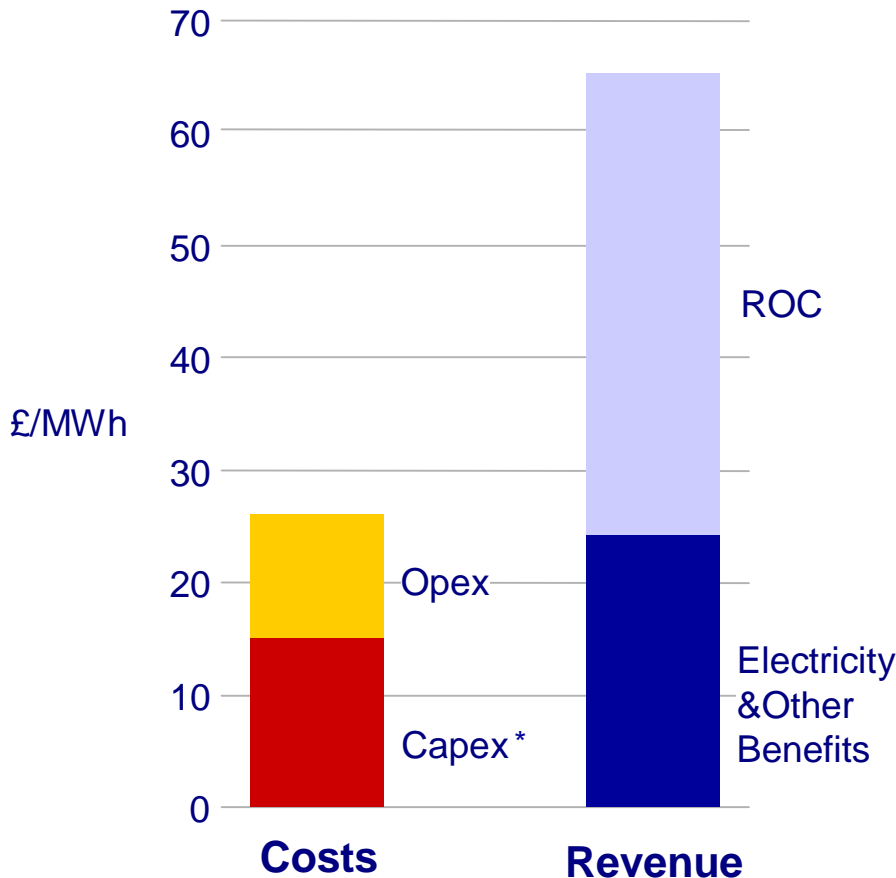
Offshore wind is critical to meeting the obligation

- Existing generation gives little strategic advantage to competitors
- Larger scale onshore projects in the pipeline but not sufficient to meet obligation
- Offshore wind provides the required scale
- Centrica well placed given strategic partners and offshore skills

Renewables Obligation in 2010 (Total UK Obligation ~ 34TWh)



Based on our view of ROC prices, returns of 12 to 15% can be expected from offshore wind

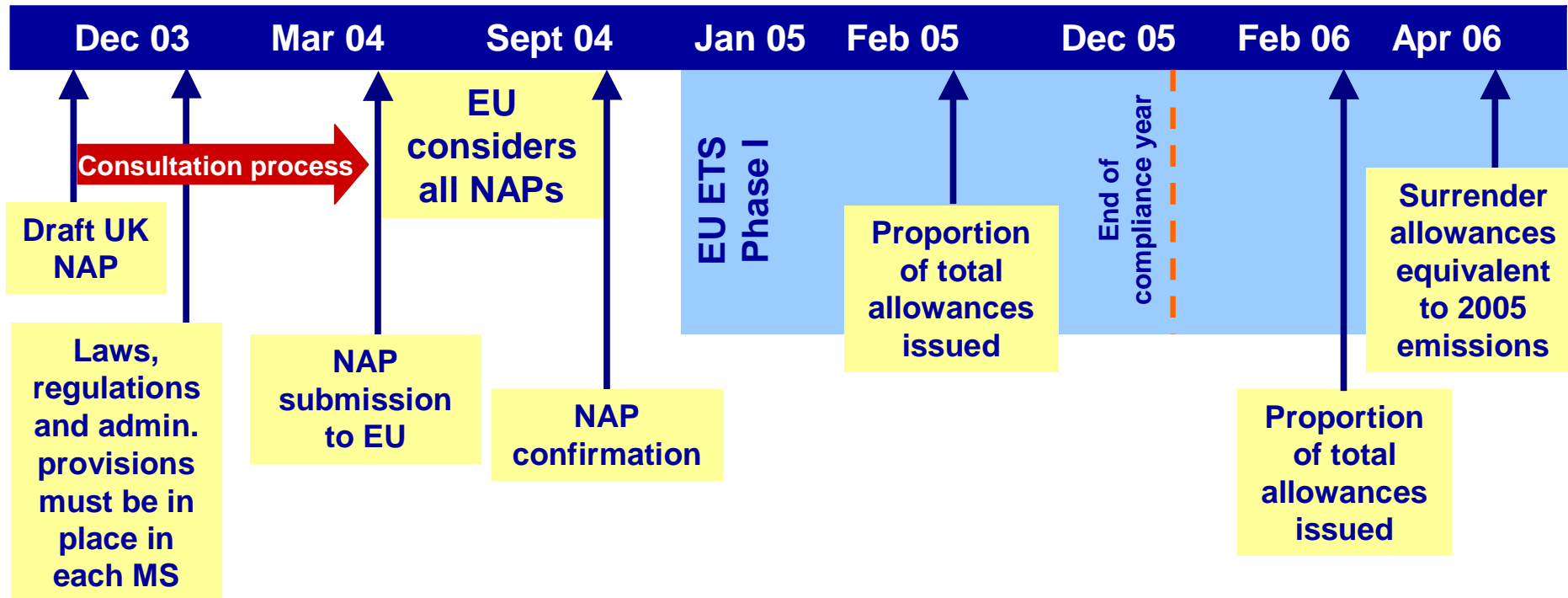


Assumptions

- 100MW of offshore wind in a phased development
- Construction Cost £100m
- Annual Operating Cost £4m
- Load Factor 37.5%
- Construction Lead Time 18 months per phase
- IRR of 12-15% post tax nominal

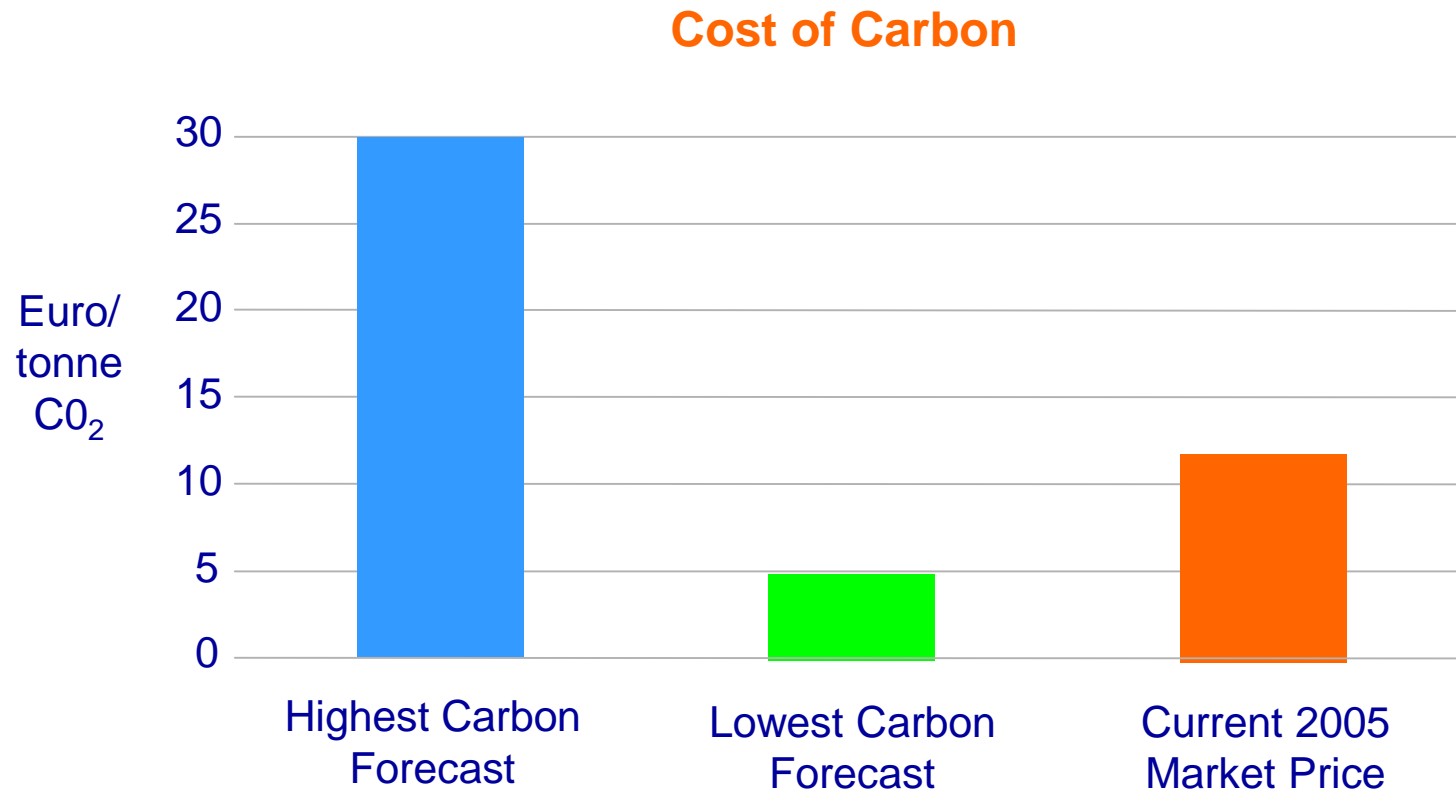
* Discounted value of construction costs divided by total generation over project life

The emissions trading timeline is extremely tight



Phase I is a 3-year period (2005-2007),
5-year phases follow thereafter

There is significant uncertainty about the value of carbon...



'Forecasting set': McKinsey & Co, DKW, UBS Warburg, CERA, Citigroup, Power Ink, & JP Morgan

...as well as uncertainty regarding the relative winners and losers

- Perception that Centrica is disadvantaged due to lower asset cover but...
- ...Centrica's asset portfolio (inc. Spalding) currently provides more than 75% of British Gas' residential customer demand. Maximum potential is nearly 90%
- High level of cover already in place for phase 1 and moderate CO₂ prices are expected in early years
- Perceived advantage of existing coal plant is overestimated due to a number of factors:
 - Any windfall in the near term is capped at new entry price (if free allocation is given to new entrants)
 - Increased auctioning in later phases
 - Large Combustion Plant Directive

Centrica ETS action plan

- Review asset cover
 - Existing assets
 - Development options
 - Renewables
- Review contract cover
- Prepare for trading
- Lobbying

Power position summary

- Our fleet of power stations has been acquired at low cost
- The portfolio of assets and contracts gives us the flexibility to optimally shape against demand
- This portfolio provides significant cover against volatile spark spreads
- We will seek to, at least, maintain our relative advantage in power
- We are on track to deliver against our renewables obligation and have a firm plan of action on emissions trading

Sarwjit Sambhi

Director, Finance & Strategy - CEMG

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Context

Gas Position

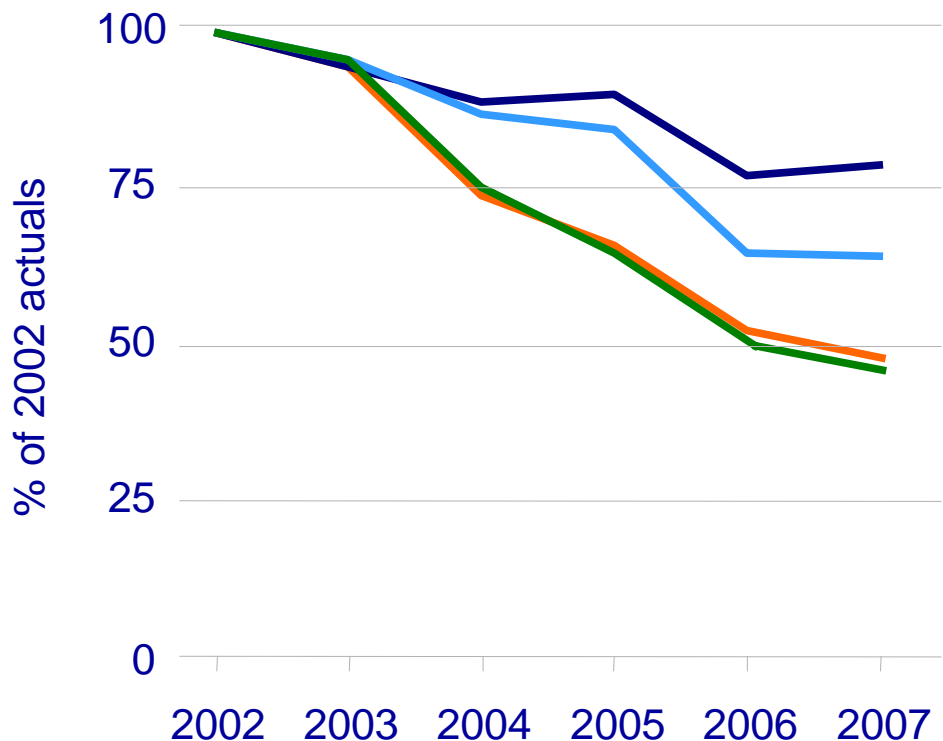
Power Position

Financial Drivers

Wrap-up

Gas production (existing and new) continues to be a major driver of profit

Morecambe and New Equity Profile



	Morecambe	'New Equity'
Revenue	100%	100%
DPRT	-13%	0%
Depreciation	-20%	-34%
Operating Costs	-17%	-31%
Operating Profit	50%	35%

ROACE	32%	12%
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Morecambe + New Equity

— Production

— Operating Profit

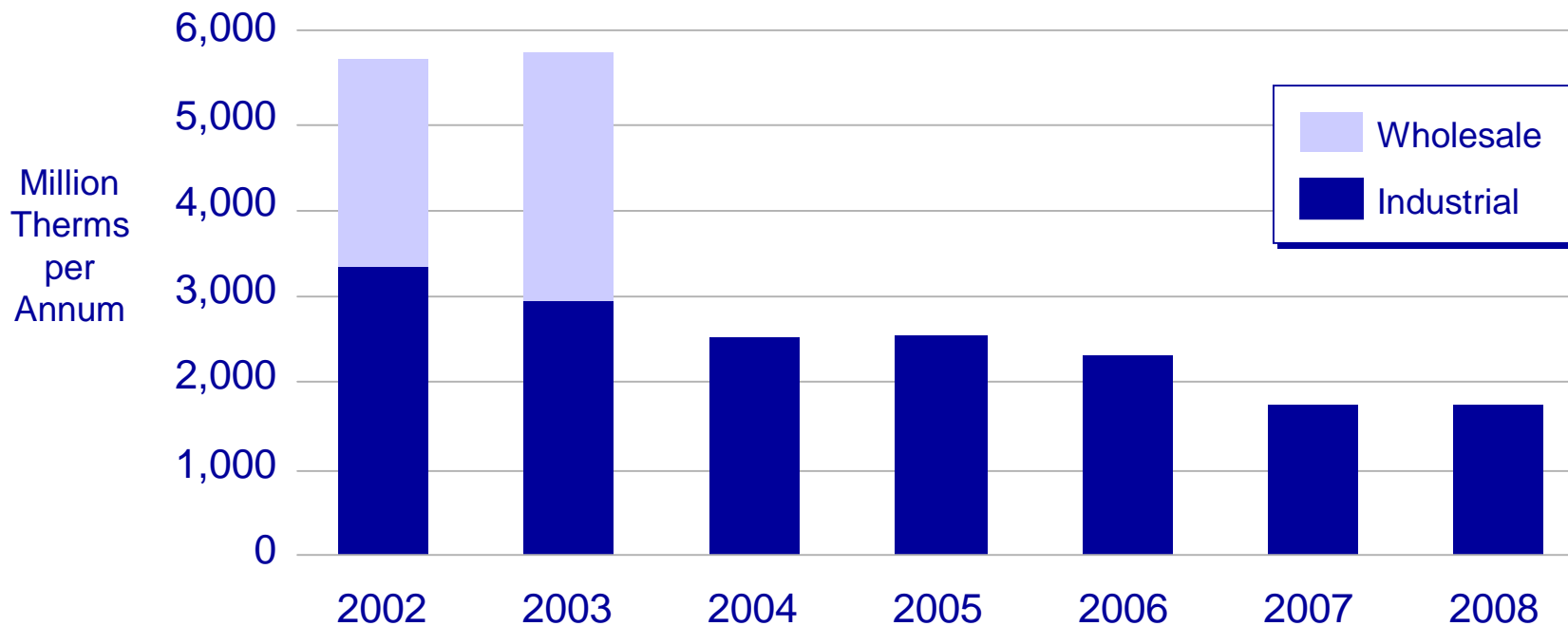
Morecambe Only

— Production

— Operating Profit

Future Industrial & Wholesale profits will be determined by opportunistic wholesale gas sales

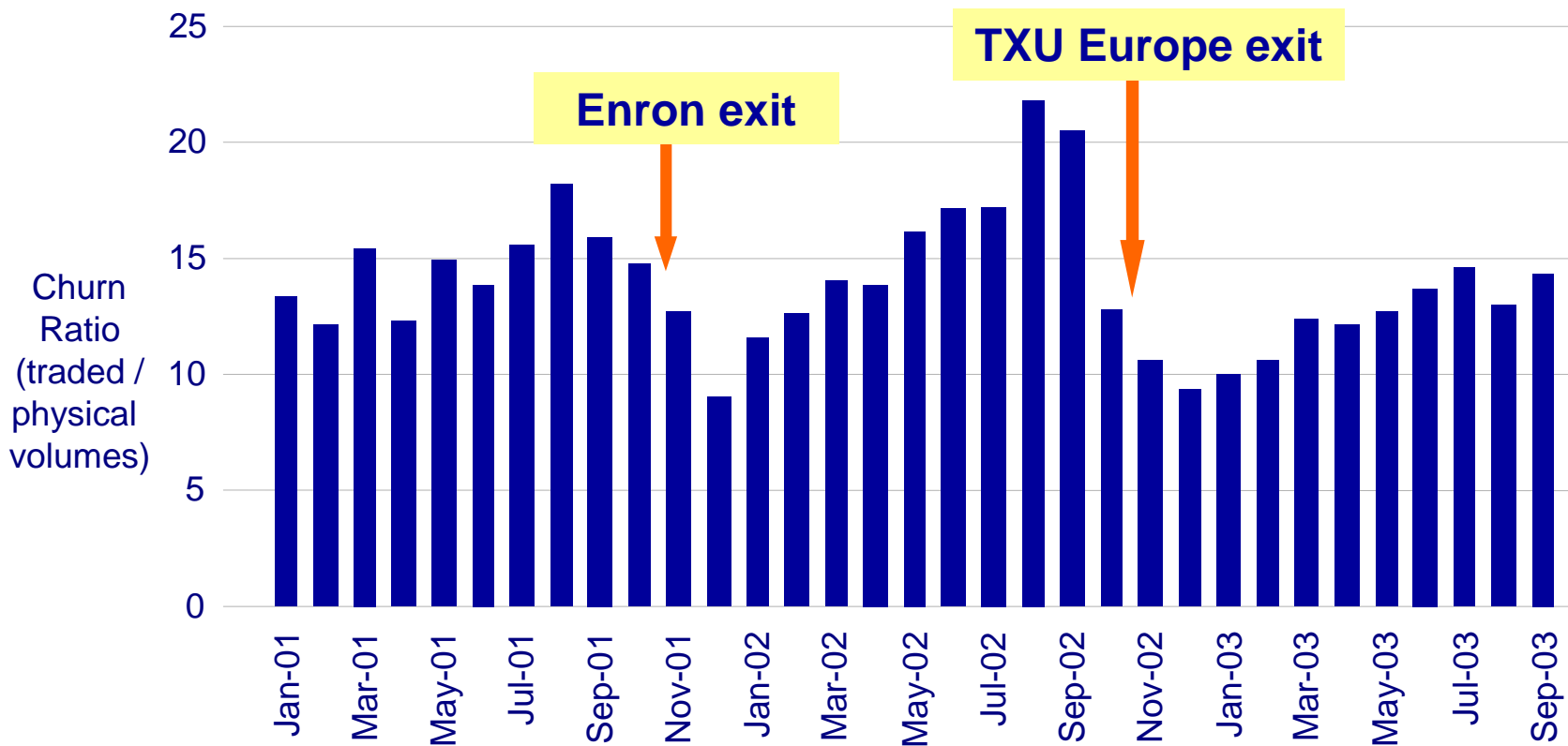
Projected Sales



* 2003 Centrica forecast

Accord profitability should start to reflect recovery in trading activity

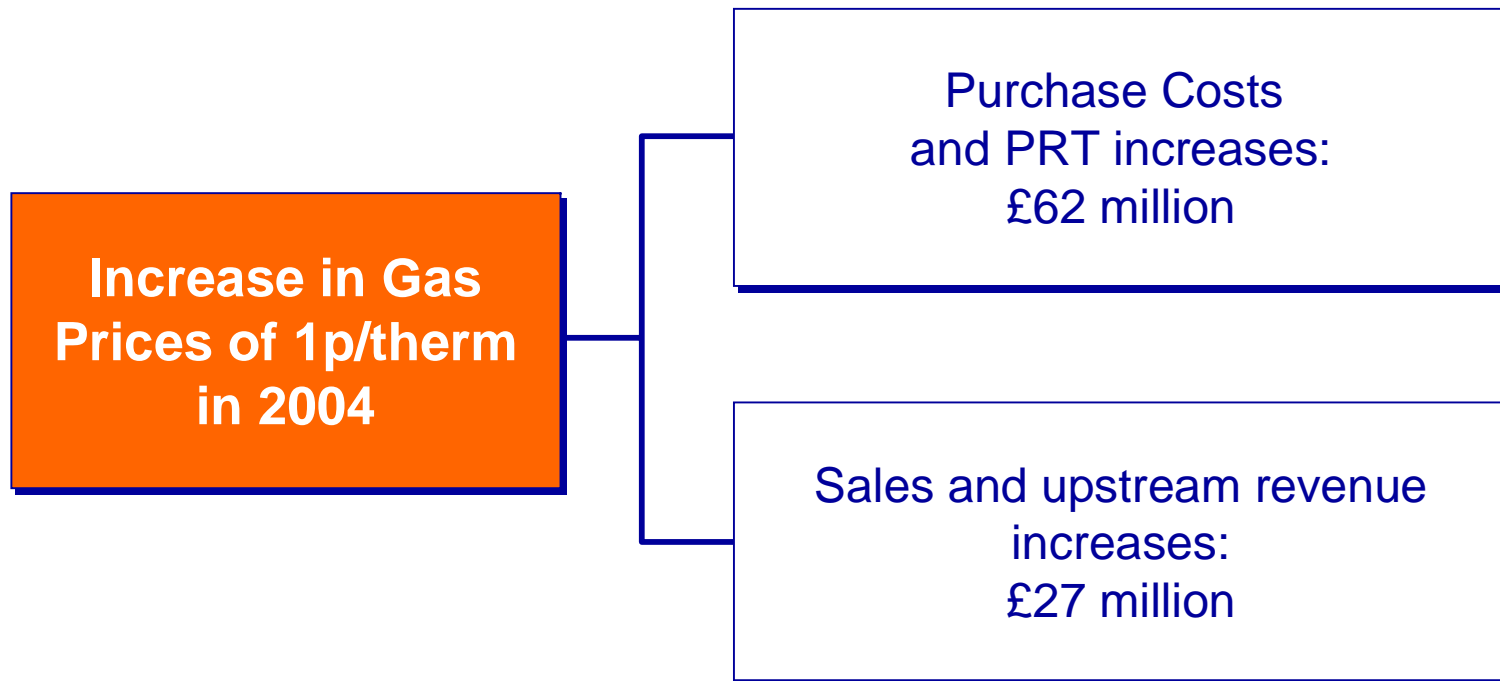
UK Gas Market - NBP Churn Ratio



Planned investments are focused on upstream equity

Estimated Expenditure for:	Calendar Year 2004	Cumulative to 2008
Upstream Gas	£150m	£500m
Power Assets	£100m	£250m
Renewables Generation	£80m	£500m
Maintenance Capex	£80m	£250m

Sensitivity to gas price movement

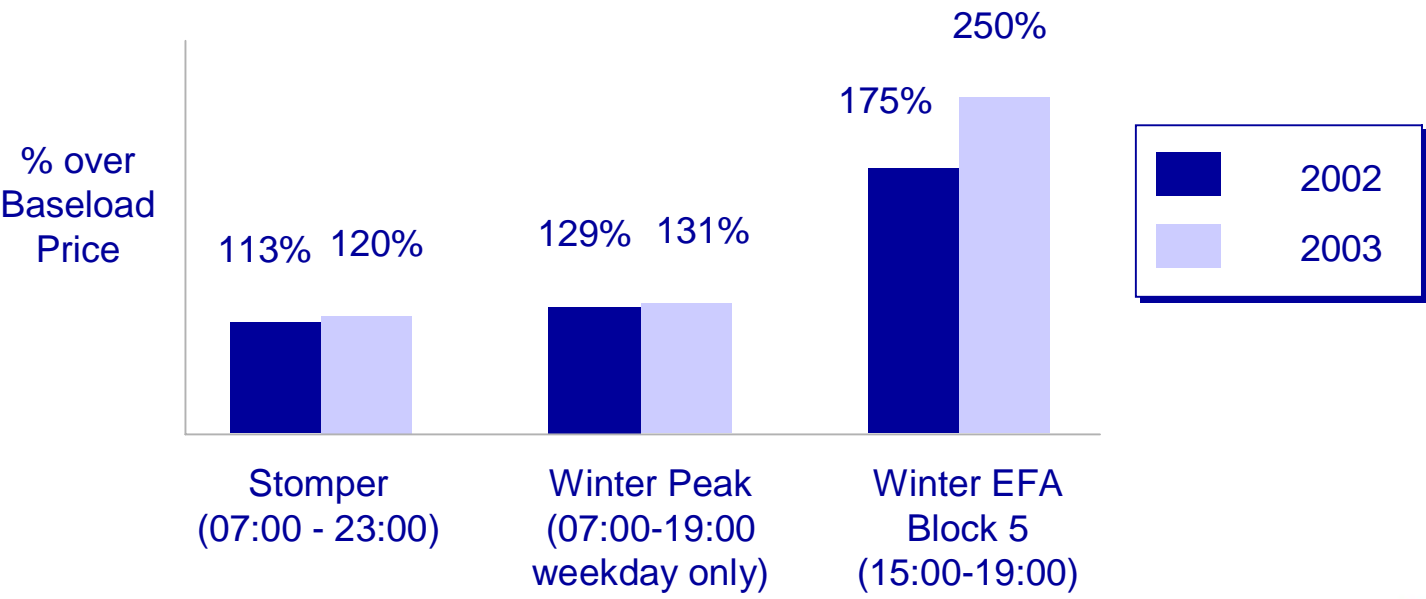


Sensitivity to electricity price movement

Increase in baseload power price of £1/MWh in 2004

Purchase costs increase by £5m incl. shape needs

Cost of Shaped Power Products



Jake Ulrich

Managing Director - CEMG

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Wrap-Up

- Quality portfolio of assets and contractual positions
- Our procurement strategy is effective and flexible
- We are making good progress in advancing our renewables and emissions trading strategies
- Continue to expect strong cashflows



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