Centrica Interim Management Statement

14 November 2013

These are unprecedented times for the energy sector in the UK, with intense public and political debate over rising bills. This is happening at a time when the costs of securing and supplying energy are increasing, due to higher wholesale commodity prices, rising charges for transporting energy to the home and the increasing cost of meeting environmental and social obligations.

With household incomes under pressure, affordability is understandably the key concern for our customers. At the same time, investor confidence has been damaged and there is increased uncertainty over investment in the energy infrastructure that the UK needs. Energy suppliers and politicians both have a role to play in helping to minimise the impact of higher costs on bills and improving transparency to restore trust in the industry.

The Group has continued to make good strategic progress, accessing new markets and securing new sources of gas. However market conditions remain challenging, particularly in business energy supply in both the UK and the US, in UK gas-fired power generation and in UK gas storage. Overall, the Group expects to deliver 2013 adjusted earnings per share at similar levels to 2012 (restated for IAS19[1]), subject to the variables of weather, commodity prices and asset performance.

As a result of periods of prolonged cold weather in the first half of the year, average residential gas consumption for the first ten months of 2013 was 4% higher than for the same period in 2012. Recognising the pressure on household budgets, we took the decision to use any benefit arising from the increase in consumption to absorb higher costs faced by the business for as long as possible. However, given the increase in external costs, British Gas Residential was loss-making for a number of months and we therefore took the decision to increase our domestic gas and electricity tariffs, by 8.4% and 10.4% respectively, effective from 23 November.

Assuming normal weather conditions for the remainder of the year, we expect our residential energy supply margin to be slightly lower than last year, a little under 5% after tax. The number of residential energy accounts on supply at the end of October was 15.7 million, broadly unchanged since the half year.

In British Gas Services, we remain on track to deliver modest profit growth this year, through continued cost control. However delivering revenue growth remains challenging, reflecting pressures on household disposable income, and the number of accounts as at the end of October was 8.3 million, slightly lower than at the half year. We are beginning to see some pick-up in the market for central heating installations, with the number increasing by 5% in the first ten months of 2013 compared to 2012. We also continue to develop a number of new services products and propositions, which over time we anticipate will drive revenue growth.

In British Gas Business, challenging market conditions, and our decision to end the auto-rollover of contracts for the benefit of our customers, continue to put margins under pressure. As a result full year profitability is expected to be significantly lower than in 2012. Our new billing and customer relationship management system, which should deliver improved customer service at a reduced cost, is expected to be fully operational by the end of 2014.

We continue to experience margin pressure in our North American energy supply businesses, particularly in power sales to business customers. Against this backdrop we are focussing on reducing costs and offering innovative products.

In Direct Energy Residential, the number of energy accounts is down slightly since the half year, including the impact of the Bounce Energy acquisition which completed in September. We have benefitted from the full year impact of acquisitions in the US North East, but this has been offset by reduced margins in Texas as competition has intensified. In Direct Energy Business, power volumes were up 16% and gas volumes were up 14% in the first ten months compared to 2012, but power margins have been tighter. The acquisition of the Energy Marketing business of Hess Corporation, which completed at the start of November, substantially increases our scale and capabilities in business energy supply, and gives us a better balance between gas and power. In Direct Energy Services, we completed the acquisition of the US-based home services business America's Water Heater Rentals in October. This transaction added 80,000 customers and further expands our product range in North America.

In our international E&P business, we continue to invest in our North Sea portfolio, although the region is facing rising costs. Production from a third well at our York project is expected by the end of the year, with a fourth well planned for the first half of 2014. The first well on the project is performing as expected, however production from the second well has been below expectations. First gas from Kew is now expected in the first half of 2014, while a sidetrack well at Grove is also expected to deliver first production in 2014. The non-operated Valemon and

Cygnus projects are on schedule. We have also recently agreed the disposals of three packages of North Sea assets – a 13% non-operated stake in the Babbage field, a 50% operated interest in the Greater Kittiwake Area and a portfolio of assets in the Heimdal area in Norway – disposing of 2P reserves totalling 16mmboe for a combined consideration of £175 million. This is in line with our strategy to optimise our North Sea portfolio, investing selectively in assets around our existing hubs while managing costs, and looking to divest non-core assets.

We completed the acquisition of a package of Canadian gas and oil assets from Suncor in late September, in partnership with Qatar Petroleum International. These are now fully integrated into our existing portfolio and we are focussed on realising upside potential from the assets. Taking into account 100% of the production from these assets and the slightly later than expected completion date, Centrica's total gas and liquids volumes are now expected to increase to around 77mmboe in 2013. Taking into account the full year impact of the Canadian acquisition and the North Sea divestments, 2014 full year production is expected to increase further, to around 85mmboe.

In early November we announced we had entered into a further supply agreement with Qatargas to purchase up to 3 million tonnes per annum of LNG for the UK from June 2014. This deal follows on from our existing agreement with Qatargas, with Centrica's status as an attractive counterparty underpinning the UK's access to the global LNG market, despite fierce demand from Asia and Latin America.

In UK power generation, the existing nuclear fleet continues to perform well, with our share of nuclear output in the first ten months of the year being 10.0TWh, broadly unchanged from the same period in 2012. Market conditions for our gas-fired fleet remain challenging, with very low market spark spreads. The load factor for our gas-fired fleet was 25%, with generation volumes of 7.2TWh over the first ten months of the year, 4% lower than for the same period in 2012. We currently expect our gas-fired power generation assets to make a loss of around £130 million in 2013.

In offshore wind, we have now fully commissioned all 75 turbines at our 270MW Lincs project. We continue to explore options for our Race Bank project, including seeking financial partners, while awaiting the final outcome of the Government consultation on draft Contract for Difference strike prices.

Centrica Storage has delivered record levels of injection into the Rough asset during the summer. However market conditions remain challenging, and lower historic summer/winter spreads will impact the profitability of the business in the second half of 2013. Forward spreads are currently even lower and as a result Centrica Storage profitability in 2014 will be substantially lower than in 2013. In September, we announced the decision not to proceed with the Baird offshore gas storage project and to put the onshore project at Caythorpe on hold indefinitely. As a result, as previously indicated, we expect to recognise impairments and provisions totalling approximately £240 million as an exceptional cost in 2013.

The Group's interest charge is expected to be around £230 million this year, which takes into account the raising of $1.35 billion in the US bond market in October. Based on current pre-tax profit expectations, the Group's effective tax rate for the full year is expected to be around 46%. At the end of October, Group net debt stood at £4.3 billion, before the impact of the Hess Energy Marketing acquisition.

As part of its £500 million share repurchase programme, the Group has now purchased 111 million shares for a total cost of £412 million.

Centrica is due to release its Preliminary Results for the year ended 31 December 2013 on 20 February 2014.

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Notes

1. The Group has now applied IAS19 (revised) pensions accounting. The effect is to reduce 2012 adjusted basic earnings per share to 26.6 pence.

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