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Centrica Interim Management Statement

11 May 2012

Overall, Centrica is trading in line with expectations, with the benefit of higher wholesale gas and power prices upstream broadly offsetting the impact of mild weather in the first quarter on the downstream business. We are beginning to see a contribution from our recent acquisitions, in both UK upstream gas and oil and North America; we are making further progress in delivering our upstream investment programme; and our cost reduction initiatives are successfully driving efficiency savings across the Group.

In January, British Gas announced an immediate 5% reduction in its standard domestic electricity tariff, becoming the first of the major energy suppliers to implement a reduction. This re-established British Gas as the cheapest major standard electricity supplier, on average, in Britain. However UK wholesale gas costs are around 15% higher for next winter than last, and non-commodity costs - which are also largely outside of our control – are expected to add a further £50 to the cost of supplying the average household this year. The trend for retail energy costs therefore remains upwards.

The number of residential energy customer accounts on supply is essentially unchanged from the start of the year, at 15.9m, principally reflecting our competitive electricity pricing position and high levels of customer service. Average domestic gas consumption for the four months to April was 1% higher than for the same period in 2011, with average domestic electricity consumption 3% lower. These movements reflect colder than usual weather in April 2012 following mild conditions in the first quarter, and the impact of energy efficiency measures being undertaken by customers. In business energy supply, average consumption was lower in the first four months than in 2011 for both gas and electricity, at 1% and 4% respectively, and margins continue to come under pressure in the current economic environment.

British Gas has taken the lead in raising trust through our 'honest conversation' campaign, and supports Government plans for transparent and simpler tariffs to help regain customers' confidence. Our 'tariff checker' is helping customers to ensure that they are on the most suitable British Gas tariff for them; we have taken steps to simplify our tariff range; and we already provide each customer with a full breakdown on their bill of the actual costs of providing the energy they consume. We continue to lead the industry in the roll-out of smart meters across the UK, and welcome the Government's recent announcement confirming the timing and required meter specification for the programme. We also continue to engage with Ofgem on its Retail Market Review, to ensure that the proposals are in the best interests of customers, and do not have unintended consequences in terms of choice or affordability.

In residential services, we remain on track to deliver double digit profit growth, primarily through cost control. The number of contract holdings increased by 37,000 in the four months to the end of April, reflecting strong customer retention, although the market for new central heating boiler installations remains challenging given the continued pressure on household budgets. We also have affinity agreements in place with Thames Water, Bristol Water and Wessex Water, enabling us to offer energy, services and energy efficiency products to a wider customer base.

In our upstream gas and oil business, we have completed the acquisitions of a package of Norwegian assets from Statoil and an additional stake in the Statfjord field from ConocoPhillips, adding 153mmboe of reserves for a combined consideration of £1.1 billion. We also expect to complete the purchase of North Sea assets from Total over the coming months, although following notification of pre-emption on approximately 40% of the assets and some 15% of near-term production, the transaction is now expected to be for 14mmboe of reserves and a consideration of $224 million (£139 million). Together, these acquisitions are forecast to add around 11mmboe of production in 2012.

On our current development projects, we have achieved first gas at Ensign and expect to bring Seven Seas, Rhyl and Atla on-stream over the course of this year. Overall we expect production to increase by around 20% in 2012. This is slightly lower than previously estimated, reflecting current expectations for production from Morecambe, our North Sea assets and our recent acquisitions. We also expect to make a final investment decision on Cygnus in the next few months, subject to project economics.

In power generation, our share of nuclear output for the first four months of 2012 totalled 3.8TWh, compared to 4.1TWh in 2011, although the average realisation in the current year to date is slightly higher. In wind generation, the average wind load factor was 30%, slightly lower than for the same period in 2011. Market clean spark spreads remain low, and gas-fired generation volumes for the first four months were 34% lower than for the same period in 2011, at 3.2TWh.

The UK Budget in March endorsed the role of gas in the generation mix, while reaffirming the Government's commitment to carbon price support with the aim of encouraging investment in low carbon technologies. We welcome the inclusion of Electricity Market Reform in the Government's legislative process, however further clarity is needed to deliver the investment required in new generation capacity. In offshore wind, our 270MW Lincs development remains on track to generate first power this summer with full project completion expected in 2013. A final investment decision is expected on the Race Bank offshore wind farm around the end of this year, and in March, we announced a joint venture with DONG to co-develop the Round 3 Irish Sea wind farm zone. We also retain options to deploy capital in new nuclear, biomass and new build CCGT, although with all our projects we will only proceed where there is sufficient clarity on the regulatory framework, project costs and expected returns.

In gas storage, Rough reservoir volume at the end of April was higher than average for the time of year, following the mild winter. In April, we announced that we have sold all SBUs for the 2012/13 storage year, at an average price of 33.9p, an improvement on the 2011/12 price of 25.2p. While short-term seasonal spreads show some recent improvement, we will continue to assess whether the necessary economic conditions are in place to proceed with our Baird and Caythorpe storage projects.

In North America we are benefiting from recent acquisitions and ongoing operational efficiencies, and expect to deliver further year on year profit growth in 2012. In residential energy supply, profitability in the current year is expected to be slightly reduced compared to 2011, with the impact of regulatory changes in Canada and warmer than normal weather in the year to date offsetting good customer growth in the US North East. However, in business energy supply we are continuing to deliver growth, with power volumes 9% higher in the first four months of 2012 than for the same period in 2011. We also expect to deliver further growth from our residential services activities following the integration of both Clockwork and Home Warranty of America. Upstream, US gas prices hit a ten year low during April due to low demand and plentiful supplies of shale gas. However our forward hedging, and a focus on liquids development and production, should provide some protection in 2012 and 2013.

We remain on track to deliver our £500m cost reduction programme, with half of the efficiencies expected to be delivered in 2012. This will ensure that we remain competitive both downstream and upstream, while also enabling investment in growth areas.

The Group's interest charge is expected to be around £190 million this year, reflecting the issuance of £750m of bonds in March and a higher level of net debt following the completion of recent acquisitions. Based on current estimates, the Group's effective tax rate is expected to be around 48%, reflecting the significantly higher proportion of operating profit from the Group's upstream gas and oil business. At the end of April net debt stood at £4.4 billion.

Centrica is due to release its Interim Results for the first six months of 2012 on 26 July 2012.

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