

Centrica Interim Management Statement

15 November 2012

Centrica expects to deliver year on year earnings growth in 2012 in line with market expectations, subject to the usual variables of weather and commodity prices, in a continuing weak economic environment.

Average UK residential gas consumption for the first ten months of 2012 was 9% higher than for the same period of 2011, while average electricity consumption was 1% lower. This reflects colder than normal weather in the year to date following an unusually warm 2011, but also underlying reductions in demand due to energy efficiency measures undertaken by customers. We currently have 15.8m UK residential energy accounts on supply, slightly lower than at the half year. We continue to deliver high levels of customer service – British Gas recently received the top '5*' Consumer Focus customer service rating – and we continue to lead the industry in innovation and energy efficiency. Our free loft or cavity wall insulation offer remains available to all energy customers in Britain and we are continuing our roll-out of smart meters following confirmation of the Government's meter standard in the first half of this year, having now installed over 700,000 smart meters for homes and businesses.

In October, Ofgem announced its headline proposals under the Retail Market Review, publishing plans to deliver a simpler, clearer and fairer energy market for consumers. We believe that the majority of these proposals are a positive step forward for the industry and we have already implemented changes consistent with many of them. We have simplified our tariffs, launching a new standing charge and single unit rate structure in June as part of our commitment to phase out two-tier tariffs. We have also been publishing price comparison information on our annual statements since March, allowing customers to check whether they are on the most appropriate British Gas tariff. However it is important to ensure that the proposals on product range do not restrict customer choice and market innovation.

Like the rest of the industry we have been faced with higher costs to help upgrade the UK's gas and electricity grids and to deliver the UK's carbon reduction targets, both in power generation and in the home. These costs, which are out of our control, have added around £50 to the cost of supplying the average household. We have also experienced rising wholesale gas prices, which are 13% higher this winter than last. As a result British Gas announced on 12 October that it would increase its domestic gas and electricity prices by an average of 6%, with effect from 16 November.

In UK residential services we remain on track to deliver double digit profit growth, primarily due to the delivery of cost efficiencies across the business. The number of residential services accounts has remained broadly flat since the half year, while the weak UK economy continues to impact our central heating installation business, with the number of installations down 16% in the first ten months of 2012 compared to last year. The weak economy continues to have an adverse impact on our UK business energy supply division, where the competitive environment also remains challenging. As a result, the number of business supply points has fallen by 43,000 since the end of June.

Upstream, we have now completed all three of the North Sea acquisitions announced between November 2011 and February 2012. In total, these transactions added 167mboe of 2P reserves for a total consideration of £1.2bn. On development projects, we have achieved first gas at Seven Seas and Atla, and we are targeting first gas from our Rhyl field around the end of this year and from the first well at York in early 2013. We have also delivered production from a second well at Ensign; however due to mechanical issues, the initial production rate is below our original expectations. In total, production is expected to increase by nearly 20% in 2012 and by a further 12-15% in 2013.

In August we announced that the £1.4bn Cygnus project, in which we own a 48.75% interest, had been sanctioned and key contracts have now been placed. The development will create around 4,000 jobs, mostly in the UK, and bring 53mboe of our reserves into production from late 2015. In exploration, drilling at the Cooper and Bligh prospects encountered hydrocarbons but disappointingly tight non-commercial reservoirs. In October, the UKCS 27th Round initial award granted Centrica six licences covering 13 blocks. Three of the blocks will be Centrica-operated, two of which are in West of Shetland, a new area for the company.

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, compared to 9.5TWh in the same period in 2011. Market conditions for our CCGT fleet remain challenging, with low market spark spreads, and gas-fired generation volumes of 7.5TWh over the first ten months of the year were 43% lower than last year. We continue to take action to maximise revenue and minimise costs for our CCGT fleet. As a result, we have recently withdrawn our Roosecote power station from service, however our station at Peterborough was successful in bidding for a National Grid short term operating contract which will commence in April 2013.

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In offshore wind, our 270MW Lincs project has now generated first power and is expected to be fully operational around the middle of 2013, while we continue to progress towards a final investment decision on the Race Bank project, which is consented for 580MW, in 2013. In biomass, we have decided not to proceed with planning applications to develop dedicated biomass power stations at Roosecote and Brigg, with recent clarification on the regulatory framework indicating a preference for co-firing and coal conversion. In new nuclear, a Final Investment Decision on Hinkley Point C is targeted for around the end of 2012, although much remains to be achieved before this decision can be taken and the economics must prove to be sound.

In UK gas storage, the business continues to benefit from the higher achieved average SBU price for the 2012/13 storage year, compared to the prior year. The improved seasonal differentials will also result in a higher achieved price on additional space sales and, as previously indicated, full year storage profitability is expected to be higher than in 2011.

In North America, Direct Energy Residential continues to perform well and profitability in 2012 is expected to be broadly in line with last year, despite the impact of warmer than average weather in the first half of the year and the challenging regulatory environment in Ontario. We have now completed the acquisitions of the New York-based energy retailers Energetix and NYSEG, taking the number of residential energy customer accounts in the US North East to 1.4m and the overall number of residential energy accounts to 3.5m.

Direct Energy Business also continues to perform well, with power volumes 10% higher in the first ten months of the year than over the same period in 2011, reflecting continued growth in the small business segment. We are also achieving growth in Direct Energy Services as we continue to build on the footprint created by the Clockwork and Home Warranty of America acquisitions. Continued low natural gas prices across North America are making conditions challenging for our upstream and wholesale business. However we are benefiting from the impact of forward sales from our Alberta assets and from a higher proportion of liquids production, while our power station optimisation performance remained good, allowing us to capture peaks in Texas power prices during the summer.

At the end of October, Group net debt stood at £4.3bn. The Group's interest charge is expected to be around £190m in 2012, which includes the impact of the issuance of £750m of bonds in March and a further £500m in August. Based on current pre-tax profit expectations, the Group's effective tax rate is expected to be around 45%, reflecting the higher proportion of operating profit from the upstream gas and oil business.

Centrica is due to release its Preliminary Results for the year ended 31 December 2012 on 27 February 2013.

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