centrica

Interim Management Statement and British Energy Investment

May 2009

wesourceit
wegenerateit
weprocessit
westoreit
wetradeit
wesaveit
wesupplyit
weserviceit

Disclaimer

This presentation does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any Centrica shares or other securities.

This presentation contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of Centrica plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts.

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

Interim Management Statement

- Good start to the year for British Gas
- UK upstream impacted by low wholesale gas price and narrow spark spreads
- Strong performance in Centrica Storage
- North America performing well in challenging conditions, helped by currency benefit
- Exit from SPE as part of British Energy deal
- Existing Group earnings ahead of 2008 and in line with expectations

centrica

centrica

Investment in British Energy

wesourceit
wegenerateit
weprocessit
westoreit
wetradeit
wesaveit
wesupplyit
weserviceit

Why vertical integration?

- Reduces exposure to volatile wholesale commodity prices
- Delivers more robust Group earnings through cycle
- Reduces requirement for capital for procurement support

Why nuclear?

- Source of power for British Gas customers which is:
  - low carbon
  - long-life
  - low cash cost
- Cost of producing power not exposed to wholesale gas price
- Participation in new nuclear programme provides long term hedge and growth opportunity

centrica

Proposed Transaction

Deal terms

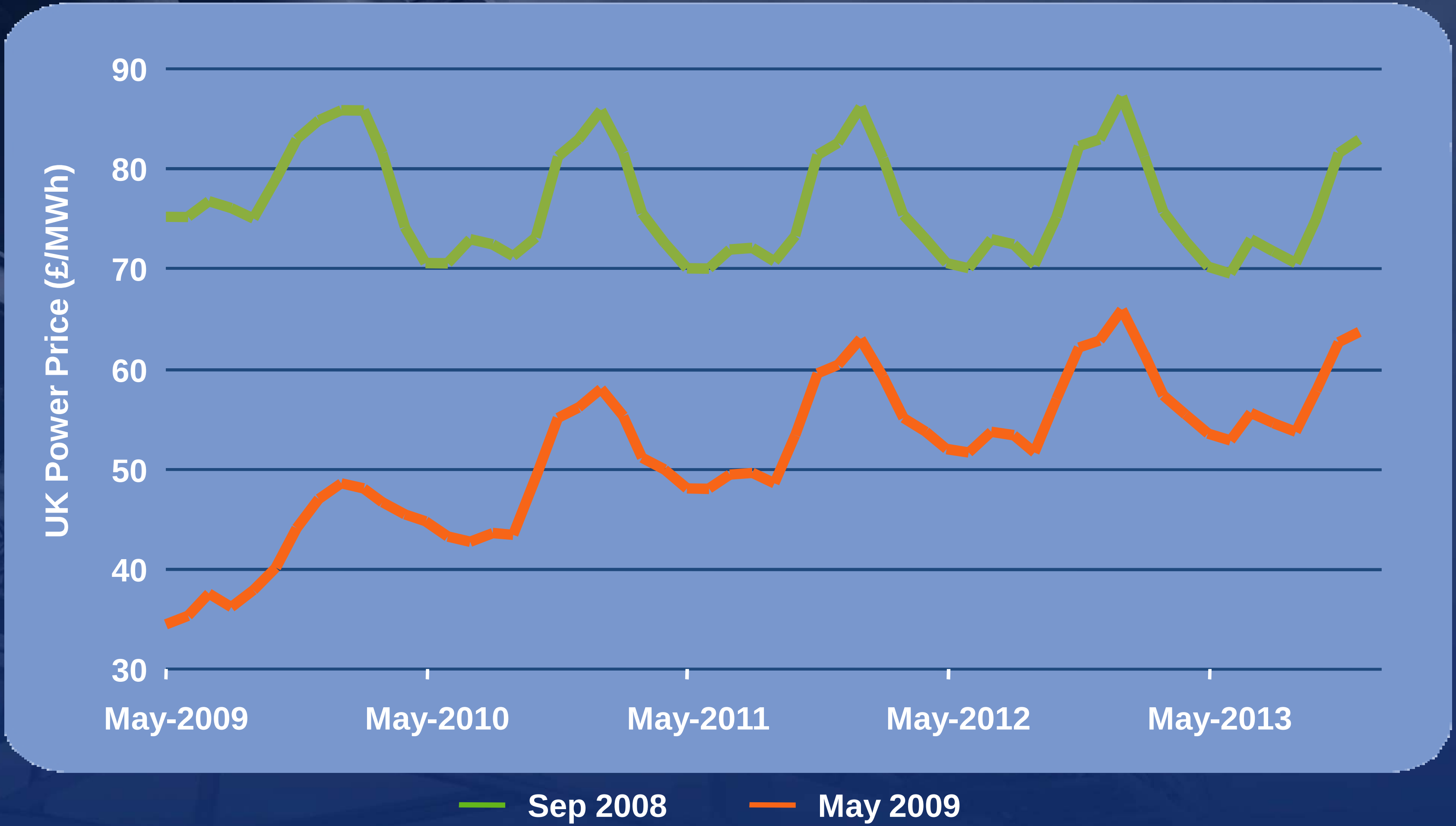
Net cash consideration of £1.1bn

- 20% equity stake in British Energy
- Average price per share 710p cash plus 0.242 CVRs
  - cash consideration of £2.3bn
- Partly financed through sale of SPE for €1.325bn
- 20% stake in new nuclear build
- Power offtake
  - 20% of available power, plus
    - additional firm 18TWh 2011-16

centrica

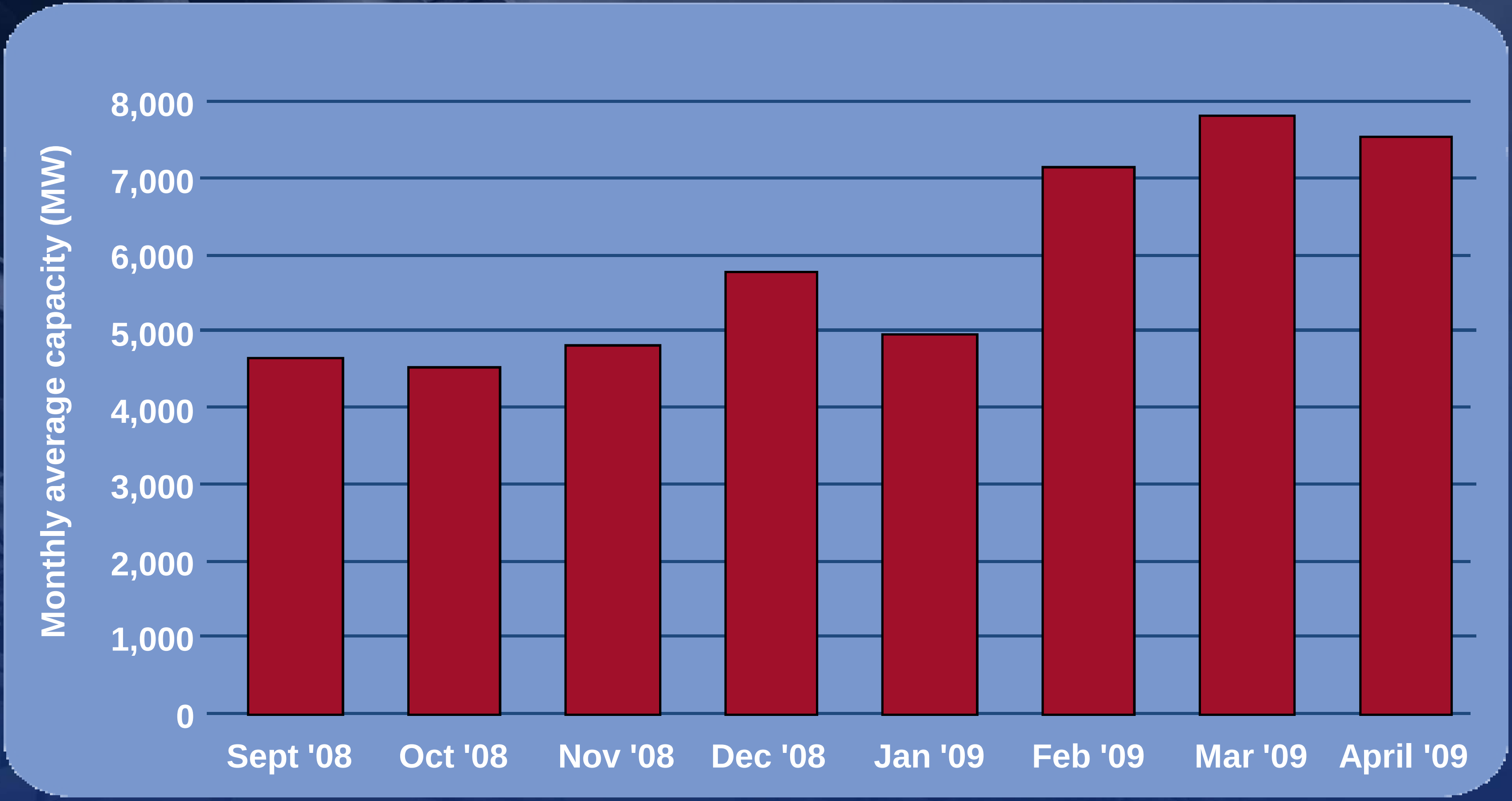
Drivers of value

Wholesale power prices have fallen



centrica

British Energy output has increased



Source: Exelon "Balancing Mechanism Reporting System (BMRS)"

centrica

Governance Package

- Joint venture is a long term partnership
- Centrica is a 20% investor in Lake Acquisitions
  - EDF has day-to-day operational control
- Centrica rights
  - Board representation on both Lake Acquisitions and British Energy Group
  - full information rights
  - minority protections
- 100% dividend policy
- Centrica will benefit from synergies EDF extracts from British Energy

Nuclear new build opportunity

- Centrica has the right to participate in EDF's new nuclear build programme in the UK
  - final investment decision on 1st reactor in 2011
- British Energy sites best positioned for building new nuclear reactors
  - disposal of certain sites as agreed with EC
  - recent NDA auction showed strong value of sites
- EDF intends initially to build four EPRs (6.4GW)
  - 2 reactors at each of Sizewell and Hinkley Point
  - first commissioning targeted for end 2017
- New build will make a long term contribution to the structural hedge and deliver lower cost electricity

SPE sale

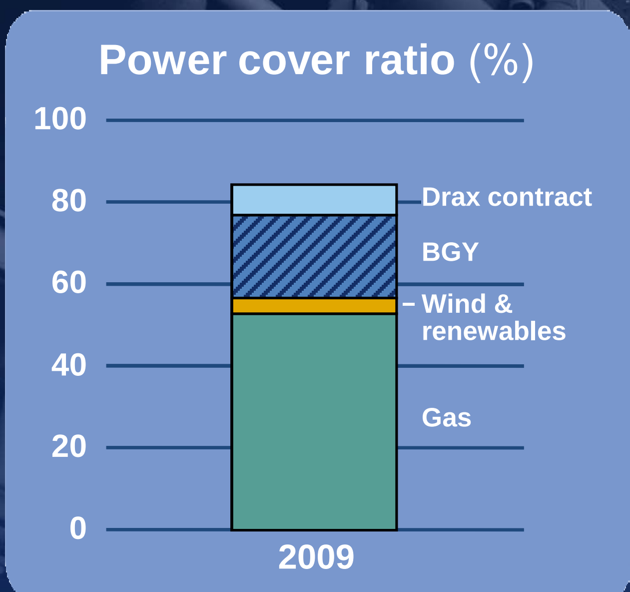
Disposal of SPE

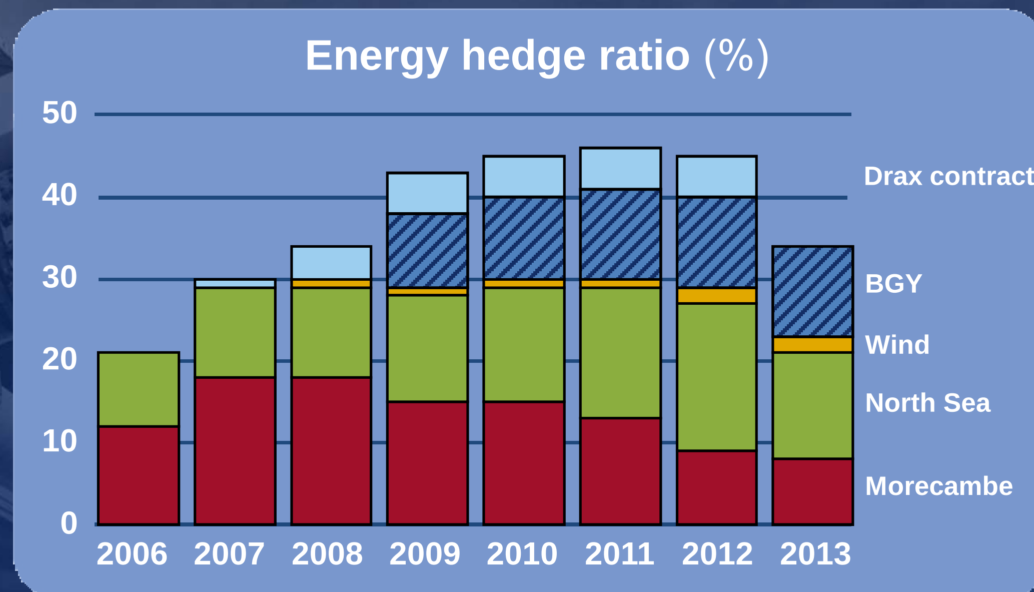
- Landscape for energy retailing in Europe remains difficult
- Short term profit outlook reduced by lower commodity prices
- Attractive sale price
- Remaining European positions are under strategic review
- Will retain a presence in Europe
  - infrastructure for delivery of gas remains important to Centrica's business
  - continued need for midstream market intelligence

centrica

Impact of the Transaction

Substantially increases the upstream hedge





Energy hedge ratio: Proportion of UK floating gas demand covered by own production. Floating gas demand includes non-fixed price BGR and BGB demand, I&C gas demand, power station fuel requirements and equivalent gas requirements to meet floating power demand in BGR and BGB.

2009 British Energy output shown as full year proforma position

Earnings impact

- Key variables – output, power prices, operating costs, synergies
- Forward power sales: 2010: 46TWh, 2011: 28TWh, 2012: 14TWh
- Based on prices achieved plus current forward curve for remaining output, acquisition (net of SPE sale) expected to be broadly neutral from 2010 (before the impact of fair value adjustments)
- Power price sensitivity: ± £5/MWh => 2010/11 ± 1% on EPS
- Output sensitivity: ± 5TWh => 2010/11 ± 2.5% on EPS
- Fair value adjustments
  - mark to market of forward sales – negative in 2009, small positive in 2010 and 2011
  - additional depreciation – estimated earnings impact £80-100m pa
- Assumes net cash cost funded by equity – remaining Rights Issue proceeds applied to other investments; from current position, post Rights Issue, funding cost is minimal given low interest rate being received on cash on deposit

centrica

2010 / 2011 earnings impact

	Starting from pre Rights Issue	Starting from post Rights Issue
Before Fair Value accounting	neutral	accretive
After Fair Value accounting	dilutive	neutral

centrica

Group structure going forward

- Reduced Group earnings volatility
- More balanced portfolio of upstream and downstream positions
- Business concentrated in UK and North America
- Investment opportunities
  - Nuclear new build
  - North Sea gas
  - UK gas storage
  - UK wind
  - North America – strengthen downstream positions, upstream integration
- Strong balance sheet will be maintained

Timetable

Timetable for completion of transaction

- Sign and announce transactions → 11 May
- Commence regulatory processes → mid May
  - British Energy acquisition subject to UK competition approval
  - SPE sale requires EC approval
- Post Circular to shareholders → mid May
- General Meeting → June
- Estimated closing → Q3
  - closing of the two deals is interconditional

centrica

Summary

Summary

- Significant reduction in scale of net transaction
- Improved terms reflect commodity price environment
- Joint venture delivers value for Centrica shareholders
- Positions Centrica strongly
  - improves business risk profile
  - reduces earnings volatility
  - enhances long term value growth
- Strong funding position integral to Group going forward
  - wide range of investment opportunities