Interim Management Statement

10 May 2010

Centrica has performed well in the year to date. Downstream, the UK residential energy supply business has benefited from its strong competitive position, while upstream the business continues to face low gas prices and modest clean spark spreads.

Our Downstream UK business, British Gas, has had a very strong start to the year, and the number of joint energy and services households we serve grew by 50,000 in the first quarter. Energy efficiency measures have continued to reduce underlying average energy consumption, however the colder than normal weather in each of the first three months of the year resulted in average residential gas consumption being 7% higher and average residential electricity consumption being 2% higher than the same period in 2009. Despite this higher consumption, the total energy bill for a British Gas residential customer was, on average, lower in the first quarter of 2010 than over the same period in 2009, as a result of our market leading reduction of 7% in the standard gas tariff at the start of February. This made British Gas the cheapest supplier for both gas and electricity, at average consumption, across Britain and helped to drive customer growth in both fuels. At the end of April, we had over 15.9 million residential energy accounts on supply, an increase of more than 200,000 since the start of the year. Given current trading conditions, residential energy supply is expected to perform strongly in 2010 with profit heavily weighted towards the first half.

Our business energy supply and services segment is performing well. Our focus continues to be on the SME market and on higher value Industrial and Commercial customers, where we are able to offer high levels of service to multi-site organisations and other accounts requiring more sophisticated solutions. Improvements in operational performance, strong renewals and higher than expected demand for energy as a result of the cold weather, have enabled us to deliver further improvements in margin. We again expect to be able to deliver strong year on year profit growth in this business.

The residential services business has continued to increase customer numbers, with over 100,000 contracts added in the first three months of the year, and we have now converted over one million contracts onto our new insurance based offering. In addition, the number of central heating systems installed was up around 20% on the same period last year, reflecting a more competitively priced product range and benefits from the Government's boiler scrappage scheme. However, the business experienced additional costs as a result of the higher incidence of boiler breakdown callouts during the cold weather in the first quarter.

We continue to make progress in developing those activities that will underpin future growth in British Gas. By the end of April, we had installed 80,000 smart meters in homes and businesses and now have over 300 employees working in our insulation business. We also remain on track to reduce the like for like cost base in British Gas by more than the £100 million originally targeted, allowing us to reinvest additional savings to capitalise on our current strong competitive position.

In our Upstream UK business, wholesale gas prices have remained low. Gas and oil volumes produced in the first quarter of 2010 were 59% higher than 2009 reflecting the additional contribution from the Venture portfolio, and full year production volumes are currently expected to be in line with previous guidance of around 300bcfe, subject to running patterns of flexible production. Following the successful integration of Venture, we continue to make progress with our gas development projects. The third development well at our Chiswick field, in the North Sea, was successfully drilled and brought on stream in early 2010 and the fourth well is currently being drilled. Both the Eris and Ceres gas fields commenced production in March 2010. The first of two appraisal wells in the western part of our non-operated Cygnus field was also successfully drilled and development planning is ongoing. In exploration we made discoveries with both the Olympus prospect in the southern North Sea and the Fogelberg prospect in Norway. Results from both wells are encouraging, and early indications are that these will be commercial development opportunities. In February we announced the acquisition of Suncor's portfolio of Trinidadian LNG assets. Field partner consent for this deal has now been received, and the transaction is expected to be completed around the end of May.

In power generation, the operating performance of Centrica's gas fired power stations continues to be strong with reliability of the fleet running at 99% year to date. Healthy UK system margins during the first quarter resulted in clean market spark spreads averaging only £7.71/MWh, and a load factor of 53% across our gas fleet. On the current forward curve, clean spark spreads remain below £10/MWh for the rest of the year. Commissioning at our 885MW Langage power station is now complete and baseload operation commenced in March. In February, we completed the joint venture agreement with DONG and Siemens Project Ventures for the development of the Lincs 270MW offshore wind project. All major contracts for this project have been awarded and onshore works have commenced. In nuclear, Centrica's share of the output from the British Energy fleet was 2.8TWh during the first quarter and we continue to benefit from British Energy's forward sales, at prices above current market levels.

In gas storage, our Rough asset continues to perform strongly. We announced at the end of April that we have sold out all space for the 2010/11 storage year at an average SBU price of 39.7p, down from 46.8p in 2009/10. This achieved price was partially impacted by a narrowing of summer / winter spreads towards the end of the sales period.

In North America, our residential and business energy supply segments have had a good start to the year, with underlying profitability above 2009 levels in the first quarter, in part reflecting improved customer retention in Texas, and our focus on improving the quality of the customer base. In addition we are beginning to see the benefits of improved operational efficiency, with a reduction in operating costs compared to the same period last year. However, low gas and power prices across North America continue to impact the financial performance of our gas production assets in Alberta and our power stations in Texas.

Outlook

In the UK, our integrated energy model is performing well in the current low wholesale commodity price environment. Downstream our competitive position, supported by our performance to date, should enable us to deliver strong returns while remaining price competitive. Upstream the forward outlook for gas prices will impact returns from our gas and oil assets, while the industrial and commercial segment will benefit from a modest reduction in losses from legacy contracts. In power generation, although the marginal cost of gas fired generation remains below that of coal for most of the year, forward clean spark spreads continue to be modest. In North America, the ongoing operational improvements being made to our downstream businesses should enable improved returns in 2010, while the weak commodity price environment continues to impact the upstream business.

The Group's net interest charge is expected to be close to £200 million in 2010, and given the profit mix currently projected the Group effective tax rate is anticipated to be in the 35%-40% range. Net debt at the end of March stood at £3.3 billion, including margin cash out of £700 million.

Overall the outlook for Group earnings for the full year remains positive, subject to the usual variables of commodity price movements and weather patterns.

Centrica is due to release its Interim Results on 28 July 2010 and plans to publish its next Interim Management Statement on 17 November 2010.

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