19 May 2006

Centrica 2006 AGM Statement

At the Centrica Annual General Meeting to be held today, Chief Executive Sir Roy Gardner will update shareholders on the Group's trading position in the year-to-date and on the outlook for the remainder of the year.

Period Review

The first two months of the year were particularly challenging with the positive financial effect of the recent retail tariff increase in British Gas not being felt until March. Even after our pricing announcement the wholesale cost of gas and electricity continued to escalate. This adversely impacted the profitability of British Gas Residential Energy, which will be loss-making in the first half, and the large industrial contracts. The relatively cold winter also placed exceptional demand on our engineers within British Gas Services and the resulting additional costs reduced profitability in the period.

Having started 2006 with a period of customer growth in British Gas Residential Energy, as anticipated we experienced an increase in churn following the announcement in February of our price rise. However, sales of energy accounts remained strong as a result of our sales and marketing activity and recovered within 4 weeks to pre-price rise levels. Sales of our 2009 fixed price product were particularly strong with around 700,000 sold, taking the total number of fixed price accounts to around 2.5 million. In the year to date, we have experienced a net loss of 350,000 energy accounts. Over recent weeks net losses have slowed substantially.

In parallel with the increased sales activity, after a number of successful migrations British Gas now has over 6 million customer accounts on the new billing system and we remain confident of completing the migration by the end of the year. All newly acquired energy accounts are also being placed directly on to the new system. We have also successfully begun operations in India with the outsourcing of certain non-customer-facing activities to our partners.

British Gas Business grew its customer base over the first few months of the year. Despite rising prices its strong contract renewal rate has continued, coupled with improved electricity account sales in the SME sector.

Upstream businesses have performed well, with the high wholesale prices bringing a year-on-year increase in profit levels in gas production. In March we announced progress on our upstream investment plans with the acquisition of a further stake in the Statfjord oil and gas field. Earlier this month we announced that we were bringing forward and extending the maintenance period at the South Morecambe field in order to carry out remedial work on the cooler units. We currently expect overall gas production volumes in 2006 to be down by around 15% on 2005.

Centrica Storage operations at Rough suffered a major interruption caused by a fire in February. Our investment in new emergency shutdown systems and prompt management action mitigated the damage to ensure no loss of life. Following a full assessment of the work needed to restore operations, and given our ongoing commitment to the customers of Centrica Storage, we now predict that the direct cash cost of the recent incident will result in an exceptional charge of around £40 million being recognised in the Interim results. Even after this charge, the forecast full year results for Centrica Storage remain in line with market expectations due to increased space availability and higher SBU prices, which averaged 65.6p for 2006/7, up 74% on the prior year.

Internationally our North America operations performed well. We added to our position in Texas with the acquisition of a third power station and a small customer block and continued to grow our Business markets operation in all regions. Profits in the year-to-date have been above management expectations. In Europe we saw signs of real progress in the regulatory landscape with the European Commission beginning to take steps against several companies over the slow progress towards competition and, in the Netherlands, the lower house voted in favour of separating monopoly network assets from commercial supply and generation activities.

As anticipated, the higher retail pricing has led to a rise in absolute customer debt levels and contributed to increased working capital requirements within the group. A restructuring of our upstream operations which was completed in late 2005 should result in a reduction in the group effective tax rate in the year from the previous estimate of 58% to a current estimate of 54%.

Outlook

Looking forward, with effect from 1 July, Sam Laidlaw will take up the role as Chief Executive following the retirement of Sir Roy Gardner. Over the past nine years, Sir Roy has led the transformation of Centrica into a successful energy business, delivered considerable shareholder value and created a strong platform for future growth. He leaves with the grateful thanks of the Board for his considerable dedication.

Through the remainder of the year, the group will benefit financially from the higher retail prices implemented in March, the effect of the continued strength of wholesale energy prices on our upstream activities and a return to service of the Rough storage platform.

Management will continue to reduce costs and increase efficiencies in the Residential Energy business, while investing in the further development and promotion of innovative customer offerings, designed to stabilise market share and maximise value. Additionally, the successful migration of all residential customers to our new billing system will reduce ongoing costs and improve our customer service capabilities.

These positives must be viewed against the background of record oil prices and continued high prices in the wholesale gas and electricity markets. There is still considerable volatility in the forward cost curve with wholesale gas prices in the fourth quarter currently 17% higher than at the time of the company's last retail tariff pricing announcement. At current retail tariff levels and without a drop in wholesale energy prices, British Gas Residential Energy would be loss-making in 2006.

As we said at the time of our last pricing announcement, whilst we will endeavour to hold residential price levels during the year, we will not be immune from these external pressures and remain committed to our policy of fully recovering costs over time to return the business to acceptable levels of profitability.

Summary

In summary, it has been a tough start to the year and at the operating level the Group has to date traded below its expectations due primarily to higher than expected commodity costs. This is partially offset at the earnings level by lower forecast tax charges. Overall these factors, combined with the one-off impacts of extending the South Morecambe maintenance period and the inability to withdraw gas from the Rough storage field, will mean that group earnings for the full year are forecast to be towards the lower end of market expectations.

However, operationally and strategically the group has made progress. We have also seen good industry progress towards bringing onstream further UK gas infrastructure, which should apply downward pressure on gas prices over the coming winters. We will continue to seek ways to mitigate the impact of the current high wholesale prices on our customers through rigorous operating cost control and innovative product offerings.

Enquiries:

Centrica Investor Relations +44 (0) 1753 494900 ir@centrica.co.uk

Centrica Media Relations +44 (0) 1753 494085 media@centrica.co.uk