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Centrica Interim Management Statement

11 May 2009

Centrica confirms earnings guidance and makes progress with upstream investments

Period Review

Centrica has performed well in the year to date, due mainly to the combination of cold weather which increased demand for gas and power in the UK and North America and falling wholesale commodity prices, caused by consistent supply and weak demand from large industrial users.

British Gas Residential has had a strong start to the year, ahead of the same period in 2008. The benefit of unusually high demand due to cold weather and falling wholesale commodity prices enabled British Gas to lead retail prices downwards in February 2009, with a 10% reduction in residential gas prices. This was followed by a 10% reduction in residential power prices in early May, making British Gas the lowest-priced supplier of electricity in every region in Great Britain. The improved customer service achieved through 2008 has been maintained and this combination of lower prices and better quality service has resulted in an increase of around 60,000 jointly-held products across British Gas and greater stability in energy customer numbers. At the end of April, British Gas Residential had 15.5 million customer accounts on supply.

British Gas Services came through the cold winter well, with improved customer service levels, high levels of retention and continued good financial performance. Although the economic backdrop remains challenging we continue to forecast good profit growth in 2009. British Gas Business has experienced a very strong start to the year, with the benefit of low wholesale prices and higher demand than forecast due to the cold weather. Here we have also had the positive impact of higher customer numbers, continued high contract renewal rates and the ongoing reduction in operating costs. This combination has more than offset a small increase in the incidence of bad debts. The transition to "One British Gas", combining our Energy and Services businesses, has begun and the new management team is in place.

Upstream in Centrica Energy, to the end of April, gas production volumes were down by 39% on the same period in 2008. This constrained production level was a result of the falling wholesale gas price in the UK. During 2009 we have made solid progress on our North Sea gas field development projects. At the Grove field commercial gas was delivered from the second well and we successfully drilled and tested the third. We are also completing the well at Seven Seas and work has commenced on modifications to the West Sole Alpha infrastructure to enable first gas to be achieved this winter. The lower wholesale gas prices experienced so far this year have also further reduced losses slightly in the legacy industrial and commercial gas supply contracts.

In the power generation business the reliability of the gas-fired fleet has been strong. However lower power prices and narrower spark spreads are currently impacting the operating results of this business, although they are still forecast to be well ahead of 2008. On the new construction projects, the wind farms at Lynn and Inner Dowsing are now fully operational but, as we advised in February, Langage is not expected to be fully operational until the end of 2009.

Good progress is being made on our strategic goal of adding new sources of gas and power to reduce the risk in the business model and the exposure to volatile commodity prices. In a separate announcement today Centrica confirmed that it has entered into an agreement with EDF to acquire a 20% equity stake in British Energy for £2.3 billion, and that Centrica has the right to participate in a 20% interest in EDF's UK new build nuclear programme. The £2.3 billion cost of the investment in British Energy will be funded by approximately £1.1 billion in cash and the disposal of Centrica's 51% stake in SPE to EDF for €1.325 billion. In March we acquired a 23.6% stake in Venture Production plc for a cash consideration of approximately £250 million.

In Centrica Storage, it's been a good start to the year, with strong reliability during the withdrawal season and in the switch to injection. At the end of April we announced that all Standard Bundled Units (SBUs) at the Rough field for the 2009/10 storage year had been sold at 46.81 pence per SBU. We continue to expect full year profitability to be lower than the prior year as the 2008 result included non-recurring revenue from the sale of reservoir cushion gas. In February Centrica Storage acquired a 70% interest in the Baird gas field in the Southern North Sea and we have commenced early stage engineering studies.

Trading conditions remain challenging in North America, with low wholesale energy prices leading to reduced profitability in our upstream and wholesaling business, and lower margins in our Texas retail business in the first quarter owing to higher-priced forward-purchased commodity. There are also no signs yet of any improvement in the new home construction market which impacts our services business. However these downsides have been offset by improved profitability in our Canadian and US North mass markets businesses and in our C&I business where we are now seeing the upside, post integration, from the acquisition of Strategic Energy in 2008.

In Belgium, short term earnings at SPE have been reduced by the delay in implementation of the Pax Electrica 2 agreement and lower wholesale power prices. In The Netherlands, Oxxio is recovering from the challenges it faced in 2008.

To the end of April, falling wholesale gas and power prices have resulted in a non-cash negative mark to market movement on forward commodity procurement contracts of approximately £350 million (before tax), and a similar level of net outflow of margin cash. To date in 2009 we have issued an additional £1.1 billion of long term bond market debt.

Group outlook

The reduction in wholesale commodity prices in the UK provides an encouraging backdrop for the downstream energy supply businesses. Upstream profits are adversely impacted by lower commodity prices, reducing total Group operating profit. This is offset by the lower tax rate that results from the change in profit mix, with the tax rate for the existing business currently expected to be around 40% and after tax earnings therefore expected to be ahead of 2008. The Group net interest charge for the full year is forecast to be in excess of £150 million due to the impact of the fall in interest rates on the cash on deposit.

Overall, the outlook for Group earnings for the existing business for the full year continues to be in line with expectations.

Centrica is currently scheduling its 2009 Interim results for 30 July 2009.

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