Centrica Interim Management Statement

17 November 2011

As a result of the unusually warm weather experienced in the UK in recent months, and the corresponding impact on consumption, it is currently anticipated that Centrica's 2011 earnings may be marginally lower than current market expectations, with the reduction in operating profits offset in part by lower interest and tax charges. Subject to weather conditions for the remainder of the year, we continue to expect growth in full year earnings, despite significantly lower margins in our downstream residential business than in 2010.

UK wholesale gas costs are 26% higher this winter than last, reflecting the significant rise in worldwide gas and oil prices and the country's increasing dependence on imports. The higher wholesale prices, together with higher non-commodity costs, meant that the British Gas residential business had become loss making since April. We protected customers from the effect of higher costs for as long as possible, before reluctantly taking the decision to increase our domestic gas and electricity tariffs. Customer churn increased following the price move and as a result, the number of customer accounts on supply now stands at 15.9m, slightly lower than at the start of the year.

Due to milder weather so far this year and underlying energy efficiency improvements, average residential customer bills for the first ten months of the year were slightly lower than for the same period last year. Average residential gas consumption was 17% lower than for the same period in 2010 and average residential electricity consumption was 3% lower. Average consumption by business customers has also been affected by the mild weather, which together with the impact of weak economic conditions, led to a reduction in consumption of 15% for gas and 12% for electricity.

Recognising the impact that higher prices will have on household budgets, British Gas has announced a series of measures to help customers through the winter. These include a commitment to hold prices for residential customers on variable tariffs, help for eligible customers to claim the Warm Homes Discount, an extension of our free insulation offer and a 'Tariff Checker' system that will allow British Gas customers to find the best deal for them.

In residential services, despite the challenging economic climate we have continued to see growth in the number of contract holdings, which increased by 59,000 in the ten months to the end of October. However the market for central heating installations in particular remains difficult and although we have grown our market share, the number of installations was 10% lower than in the same period in 2010. Against this backdrop we continue to keep a close control on costs and have announced this week a substantial headcount reduction in the residential services business, while maintaining our frontline capability. We have also reached agreement with our engineers on a restructuring of their pension benefits, allowing the scheme to remain open to existing members on a sustainable basis going forward.

We continue to make good progress in our upstream gas and oil business, particularly in our development projects and in exploration. We took the decision to shut-in the highly taxed Morecambe field for commercial reasons for 20 days through September and October and as a result we now expect to achieve full year sales production volumes of slightly below 50 million barrels of oil equivalent, subject to running patterns for the remainder of the year. Overall our upstream activities benefit from the higher commodity price environment, and while spot gas prices have declined recently, our hedging activity serves to protect the after tax earnings of the business.

We have a sustainable upstream business, delivering stable production at current levels, underpinned by development of existing resources and exploration. Our Ensign gas development project is on track to produce first gas around the end of this year, with the Seven Seas, York and Rhyl developments all expected to deliver first gas in 2012. In exploration, oil was discovered at the Centrica operated Norwegian Butch prospect and further appraisal is now underway.

We will also invest for further growth in our upstream gas and oil business, strengthening the energy hedge and lengthening the production profile. Accordingly, we will seek value-enhancing opportunities to deploy capital, building on our upstream capabilities to increase scale and improve the long term sustainability of the business.

In power generation, our share of nuclear output for the first ten months of the year totalled 9.5TWh, 20% higher than the corresponding period last year, while wind load factors have also been higher on average than in 2010. However for our gas fired fleet of CCGTs, market clean spark spreads remain low and consequently gas fired generation volumes for the first ten months of 2011 were 32% lower than for the same period in 2010, at

13.2TWh. As a result of the low market spreads, we have carried out a portfolio review of our older and less efficient CCGTs, which may result in the closure of certain plants in 2012. We are also acting to maximise returns of the portfolio through flexible operation.

Our 270MW Lincs offshore wind project remains on track to generate first power in 2012. We are currently reviewing the economics and timing of our next offshore wind project, Race Bank, following the Government's announcement on the ROC banding review in October.

In storage, gas volumes at Rough are now at record levels, however summer / winter differentials remain depressed. As announced earlier this month, we have now sold more than 90% of capacity for the 2012/13 storage year.

Our North American business continues to make good progress and we expect substantial year on year profit growth. We have now completed the acquisition of First Choice Power, a Texas energy supplier. This acquisition takes our number of electricity customer accounts in Texas to more than 830,000 and represents another important step towards growing scale and leadership in our North American business. The exceptionally hot summer in Texas, which resulted in extreme power price volatility at peak times, provided a challenge for all residential energy suppliers. However Direct Energy performed well and, after taking account of the higher prices we achieved in our power generation business, total profitability in Texas was not materially impacted. Overall, we have successfully increased our customer count in the US North East and in Texas, offsetting customer losses in Ontario as a result of the Energy Consumer Protection Act. In the ten months to October, total customer accounts had increased by 63,000, benefiting from the Gateway acquisition, but before the addition of customers acquired as part of the First Choice Power transaction.

Electricity volumes in the North American business energy segment were 18% higher in the first ten months of 2011 than for the same period of 2010 and we continue to expect good profit growth from this division. Our services business is also expected to deliver substantial year on year profit growth, reflecting a full year's contribution from Clockwork following its acquisition in 2010. In November we further enhanced our services capabilities with the acquisition of the home protection plan business, Home Warranty of America. Upstream, gas prices and spark spreads remain low. However with higher volumes from Wildcat Hills and its low unit cost of production, combined with the positive impact of the spikes in summer power prices in Texas, overall we expect our upstream activities to make a small operating profit in 2011.

In light of the challenging commodity price and economic environment, we are undertaking a review to identify cost savings across the Group, to ensure that the business can remain as competitive as possible. In this context, to date we have already identified a number of areas of potential cost reduction, including initially in our UK downstream business and in UK power generation. As a result, we expect to incur a number of associated one-off charges in the second half of this financial year. We also expect to record a substantial credit in respect of changes to the pension scheme arrangements across the Group.

The Group's interest charge is expected to be around £160 million, and based on current estimates of the mix of profits and prevailing tax rates, the Group's effective tax rate is expected to be around 42%. At the end of October, net debt stood at £3.2 billion with margin cash held by counterparties of less than £100 million.

Centrica will host an investor day on its Upstream UK business, Centrica Energy, on 1 December 2011. Centrica is due to release its 2011 Preliminary results on 23 February 2012.

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