

Centrica Interim Management Statement

12 November 2009

Overall Centrica's business is performing in line with market expectations, with lower gas production volumes and profitability being offset by a lower effective Group tax rate and the strong performance from the UK downstream business.

British Gas continues to perform well. Between the end of June and the end of October the number of Residential Energy accounts on supply rose by around 200,000, and now stands at 15.7 million, and the number of Services accounts were up by around 100,000 to 8.3 million. In the year to date, the number of customer product holdings in the downstream business has now grown by over 400,000. We have launched our first integrated energy and services offering, "EnergyExtra", and continue to step up cross selling activity. As a result, the number of households which hold both an Energy and a Services product at the end of September was up by 25,000 from the middle of the year. We continue to help our customers reduce their bills through energy efficiency, and average gas consumption per residential customer in the first nine months was down 7% against the same period last year. Trading results from both Business Energy supply and from Services are ahead of expectations, with strong year on year growth expected from these businesses, as well as from Residential Energy.

With the integration of British Gas progressing well, we are on track to exceed our target of £100 million of cost savings, allowing us to re-invest in the business as we build on the strength of the British Gas brand, and establish the platform to develop growth areas further. We are in-sourcing meter installation operations as we prepare for smart meter roll out, and we are developing capabilities across energy services, energy efficiency and micro-generation that will allow us to offer our customers the broadest range of products and services. Some one-off costs will be incurred as we integrate British Gas, with an exceptional charge of around £50m expected in 2009, and additional exceptional costs expected in 2010 as we drive for further ongoing savings.

Upstream in Centrica Energy, we acquired a controlling interest in Venture Production plc at the end of August and we now own 100% of the issued share capital. Integration of Venture and our existing UK upstream business is progressing well, with a combined organisational structure being implemented. We have been impressed with the quality of the team that has joined us with Venture, and we are confident of developing a high performance, sustainable business in the enlarged structure.

During the third quarter, Centrica's gas production, including one month's production from the Venture assets, was 209 million therms, down 50% on the same period in 2008. With wholesale gas markets well supplied we have been able to conserve our own reserves, using our production flexibility, by leaving South Morecambe shut in following its summer maintenance shutdown. The field restarted production in early October. Full year gas production, including four months' production from the Venture assets, is expected to be down around 25% against 2008, although oil and condensate production volumes will be around 35% higher. Combined with lower average selling prices, this lower production will lead to profits* from the upstream business this year being less than half of those recorded in 2008, despite the four month contribution from Venture.

In Power Generation, the operating performance of Centrica's gas fired power stations (CCGTs) and wind farms has been good, with reliability for the CCGT fleet running at 96% so far this year. Low gas prices have led to higher spark spreads, and we have responded by increasing running hours for the CCGT fleet. As a result, generation volumes in the third quarter were 6.8TWh, 15% ahead of the same period in 2008. Subject to the outlook for spark spreads in the last two months of the year, the power generation segment is expected to record profits* ahead of current consensus.

At the end of October, we announced the sale of a 50% equity stake in three of our existing wind farms, Glens of Foudland, Lynn and Inner Dowsing. Financial close is anticipated before the year end. We also announced that we will be proceeding with the construction of the 270MW, £725 million Lincs offshore wind farm. This model, recycling capital from completed wind farms into new projects, gives Centrica the ability to capture significant development value, without tying up financial resources in capital intensive investments for the long term. And with Lincs benefiting from two renewable obligation certificates per MWh, the new project offers attractive returns.

Commissioning of the 885MW, £400 million Langage CCGT plant located near Plymouth is underway. Both gas turbines have been started and commercial operation is anticipated around the end of the year. With a thermal efficiency of 52%, Langage will be one of the most efficient CCGTs on the UK system and will raise the installed capacity of Centrica's CCGT fleet to 5GW.

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A decision from the European Commission on the sale of our 51% stake in Belgian business SPE to EDF is due imminently. Approval will allow the sale to complete, simultaneous with the acquisition by Centrica of a 20% stake in British Energy.

Centrica Storage continues to perform well operationally, with the Rough storage facility at the highest ever recorded storage stock level going into the winter. With the price for 2009/10 standard bundled units fixed for the remainder of the year, expectations for Centrica Storage's full year results are unchanged. Concept engineering is complete for all three of our potential storage projects, Caythorpe, Bains and Baird, with more detailed front end engineering design work also underway for both Caythorpe and Baird. We expect to take final investment decisions on all three projects in 2010.

In North America, low wholesale energy prices continue to impact the financial performance of Direct Energy's upstream gas production business and the Texas CCGT's. However, our mass markets and C&I businesses continue to perform well, despite the weak economic conditions, and overall Direct Energy is trading in line with full year expectations.

The Group net interest charge is forecast to be around £175 million, reflecting the increased debt taken on to fund the Venture and British Energy transactions. At the end of the third quarter, net debt stood at £2.5 billion, with net margin cash held by counterparties of £700 million. The increase in net debt from 30 June reflects the acquisition of Venture. Net debt includes the debt within Venture at the time of acquisition, with £340 million of this now having been refinanced, utilising some of Centrica's cash balances.

The reduction in profits* from the highly taxed UK upstream business will reduce the Group's effective tax rate which is now expected to be around 36% for the full year.

The principal variables impacting the group's trading results for the remainder of the year are gas consumption levels by customers, driven mainly by weather, and commodity prices. Assuming normal weather patterns, and based on current forward commodity prices, the group's adjusted earnings* are expected to be in line with current consensus.

The next scheduled reporting event in the financial calendar for Centrica is the 2009 full year results on 25 February 2010.

* - before certain re-measurements, exceptional items and additional depreciation as a result of fair value uplifts under acquisition accounting

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