22 November 2018
Centrica plc ("the Company")

Centrica expects to achieve 2018 Group targets despite upstream operational impacts

Centrica has maintained its focus on performance delivery and financial discipline, and despite the unexpected outages and operational issues in E&P and extended inspections and outages in Nuclear outlined below, and ongoing competitive trading conditions, the Company continues to expect to achieve its Group targets for 2018 as set out in the Preliminary Results in February.

Good progress is being made on introducing new propositions for customers, on delivering further cost efficiencies and in re-positioning the UK Home energy supply business in advance of the introduction of a default tariff price cap.

For the 2018 full year the Company expects:

- Adjusted operating cash flow in the £2.1-£2.3bn range.
- Net debt within the £2.5-£3.0bn range.
- In-year efficiency delivery of over £200m.
- To maintain the full year dividend per share at 12.0p, consistent with the targets of delivering £2.1-£2.3bn per annum on average of adjusted operating cash flow and net debt in the £2.25-£3.25bn range over the period 2018-20 as outlined in February.
- Adjusted operating profit and EBITDA to be above 2017 levels.
- Full year adjusted earnings per share of around 11.5p, with a Group adjusted effective tax rate of around 40% reflecting a changed profit mix.

Iain Conn, Centrica Group Chief Executive

"As we have done over the last four years, we are focused on driving significant underlying improvements in performance and delivering attractive returns while re-positioning the portfolio towards the customer. Our efficiency delivery and new customer propositions are helping to offset the effects of strong competition and regulation in energy supply. Our financial performance has remained resilient despite weaker than planned volumes from our E&P and Nuclear activities and cash generation remains strong. Maintaining a focus on performance delivery and financial discipline and demonstrating resilient cash flows remain our objectives for 2019 and beyond, as we deal with the impact of the UK energy supply default tariff cap."

Operations and trading conditions

Operationally, the Company has in recent months experienced two unexpected developments affecting its asset businesses which will have a negative impact on 2018 full year financial performance:

- In E&P, Spirit Energy forecast production for 2018 has fallen to about 47.5mmboe from around 50mmboe at the time of the Interim Results, reflecting unplanned outages and operational issues in both operated and non-operated fields. 2019 Spirit Energy production is currently expected to be at broadly similar levels to 2018; and
- Performance in Nuclear has been impacted by extended inspections and outages at the Hunterston B and Dungeness B power stations, with Centrica's share of expected full-year nuclear output impacted by around 0.2TWh since the Interim Results.

Trading conditions for our commodity exposed customer-facing businesses continue to be highly competitive in the UK, Ireland and North America. Market volatility and extremes of weather have also been challenging in 2018, including in the third quarter in the US North East, but the Group has managed this effectively with its strong energy risk management and optimisation capabilities.

Against this backdrop, the Company is seeing encouraging results from the integration of energy with our non-commodity propositions of in-home servicing, other peace-of-mind offers, home energy management and home automation for consumers, and energy insight, energy optimisation and energy solutions for business customers. This underscores the changes in customer needs which Centrica is now capable of addressing and growth rates in both Connected Home and Distributed Energy & Power continue to be attractive.

Performance and progress update

- Annualised efficiencies of £189m delivered to the end of October. On track to deliver over £200m of annualised efficiencies by the end of 2018.
- Overall customer service and complaints continue to improve and NPS levels are stable.
- UK Home energy supply accounts have reduced by 372,000 in the four months to the end of October, reflecting our continued focus on value over volume, our efforts to move customers off the Standard Variable Tariff, continued high levels of market switching and the announcement of a second Standard Variable Tariff increase this year in August.
- 280,000 new Connected Home customers added and 767,000 products sold since the start of the year. Connected Home gross revenue was up 50% for the ten months to the end of October and up 74% for the four months to the end of October compared to the same periods last year.
- Distributed Energy & Power 2018 order intake to the end of October was up 107% relative to the same period in 2017 and the committed forward order book is up 24% since the start of the year. Gross revenue for the first ten months of the year was broadly flat compared to the same period last year reflecting the phasing of order book conversion, a larger proportion of sales of higher-margin multi-year contracts and a lower level of small acquisitions than anticipated.

UK energy supply price cap

On 6 November, Ofgem confirmed the level of the default tariff price cap for customers who pay by direct debit at £1,137 for the first quarter of 2019, £68 lower than the current British Gas Standard Variable Tariff. We currently have 3.1m customers on the Standard Variable Tariff, down from 4.3m at the start of the year, and we expect to have reduced this number to below 3.0m by the end of the year as outlined in February. We currently have 0.5m customers on our lower-priced fixed-term default Temporary Tariff who would also be covered by the default tariff cap.

As previously indicated, we expect the price cap to result in some negative near-term impact on earnings and cash flow, particularly in 2019 before we have fully realised planned cost efficiencies. The ongoing impact of the level of the cap is in line with our base-case assumption, which was based upon previous statements from the UK Government. However, Ofgem's revision to the methodology for calculating supplier wholesale and hedging costs during the transitional period, and our inability to retrospectively mitigate this change, is expected to result in a one-off negative adjusted operating profit impact of around £70m in the initial period of the cap in the first quarter of 2019.

The General Court of the European Union ruling on the UK Capacity Market

On 15 November, the General Court annulled the European Commission's decision not to raise objections to the state aid scheme establishing an electricity capacity market in the UK. We are currently awaiting further updates from the Department for Business, Energy & Industrial Strategy in order to determine the full implications for the capacity contracts in place for our Nuclear, battery and gas-fired generation assets, and for our UK energy supply businesses and the associated allowances for capacity market charges.

Balance of Year

2018 financial performance remains subject to the usual variables of weather patterns, commodity prices and operational and commercial performance in November and December.

Adoption of IFRS16

The introduction of IFRS16 will result in companies recognising assets and lease obligations in respect of operating leases which previously did not meet the requirement for recognition on the balance sheet. This is effective from 1 January 2019 for Centrica and the impact of this accounting standard change on Centrica's net debt and its 2018-20 target net debt range will be disclosed with the 2018 Preliminary Results in February 2019.

2018 Preliminary Results

The Company is due to release its 2018 Preliminary Results on 21 February 2019.

Enquiries

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