Centrica plc 2017 Interim Results Announcement
Tuesday 1 August 2017

Iain Conn – Group Chief Executive
Morning everyone and welcome to Centrica's 2017 Interim Results presentation. We are in a different venue today and before we begin just a word on safety in this building. There are no planned fire alarms today, so in the event of one, listen to the verbal instructions from UBS staff who will direct you to the fire exits which are located at each side of the stage here and at the rear of the auditorium.

As usual I am joined here today by our Chairman, Rick Haythornthwaite, Jeff Bell up here with me, our Group Chief Financial Officer, Mark Hodges and Mark Hanafin who are the Chief Executives of Centrica Consumer and Centrica Business respectively and a number of other members of the Centrica team.

After some brief remarks from me, Jeff will take you through our detailed financial results. I will then provide you with an update on aspects of our strategic progress, including our perspective on the UK energy supply market and our pricing announcement this morning, before Mark and Mark join us on the stage to take your questions.

So moving onto the main headlines from today's first half results announcement. Firstly we delivered solid financial performance despite the effects of warm weather, competitive pressures and the prevailing political and regulatory uncertainties. Adjusted operating profit was down 4% to £816 million. Within this customer-facing operating profit was flat overall while profit from the asset businesses was down primarily reflecting the shutdown at Rough. Adjusted earnings were down by 11% to £449 million and earnings per share were 8.2 pence.

In terms of cash flow, EBITDA was up 2% and while adjusted operating cash flow was down 9% year-on-year at £1.2 billion, this reflected the one-off working capital inflows in 2016 in UK Business. We remain on track to meet our 2017 full year target of over £2 billion of adjusted operating cash flow. Underlying adjusted operating cash flow growth relative to the first half of 2016 was 0.3% reflecting the strong delivery in 2016 and the impact on gross margin this year from a number of factors, including the warmer weather. The cumulative annual growth rate relative to the first half of 2015 is now 2.6% per annum.

We delivered a further £124 million of efficiency programme savings in the first half of the year against our full year target of £250 million. We also made further strong progress on reducing net debt; down by over half a billion pounds in the first half to £2.9 billion. This means we are within our targeted £2.5 – £3.0 billion range and we continue to expect to be in this range at the end of the year. As we said in February, we believe this net debt range to be our optimum sustainable level with the current portfolio in the current environment.

Our second headline is that following completion of a number of transactions announced recently and implementation of the other aspects of our strategy, the company will have been fundamentally repositioned by the end of 2017. We have shifted the mix of our portfolio and have reallocated resources accordingly towards our customer-facing businesses. We have reduced E&P capital expenditure significantly and announced over £800 million of divestments in 2017 taking the total to over £900 million in the last two years, at the upper end of the £0.5 to £1.0 billion target range.

We have re-invested over £500 million incrementally in our customer-facing businesses since the start of 2016.

Our efficiency programme, targeting £750 million of efficiencies by 2020 relative to 2015, is well ahead of schedule and our efficiency delivery has allowed us to absorb the effects of inflation and foreign exchange and still fund our growth while keeping operating costs below 2015 in nominal terms.

Finally as we demonstrated at our Capital Markets Day, we have materially enhanced our capabilities and technology providing a strong platform for customer-led growth. In the first half of 2017 we launched new propositions focused on bundling and personalisation in our core energy supply and services businesses and on delivering growth in our Connected Home, Distributed Energy & Power and Energy Marketing & Trading business units.

I will touch upon all of these aspects in a little more detail after Jeff has taken you through the financials.

In summary we have carefully executed on our 2015 strategy over the past two years and in the last six months have been particularly busy. Centrica is on track to have completed the first phase of our strategic implementation by the end of 2017 and although there are continuing challenges including political and regulatory uncertainties in the UK, and strong competitor pressures, with new capabilities and markets we believe we are well placed competitively to deliver growth and returns to our shareholders over the medium term.

Let me now hand over to Jeff, thank you.

Jeff Bell – Group Chief Financial Officer
Thank you Iain and good morning everyone. As usual I will start with the commodity environment, then cover the financial headlines and review divisional results before finishing on cash flow and net debt.

So with respect to commodity prices, while oil, NBP gas and baseload power prices all fell in the first half of the year, they were significantly higher on average than the first half of 2016, and remained in a band between the "70/50/50" environment that broadly existed when we set out our strategy in July 2015 and our low case scenario of "35/35/35".

Let me now cover the financial headlines. Revenue was up 7% primarily reflecting the Neas Energy acquisition and the impact of foreign exchange movements on our North American business. As you have heard from Iain, adjusted operating profits fell by 4% to £816 million. And when including the impact of a £27 million reduction in the capitalised interest credit, adjusted earnings were down 11% to £449 million. Adjusted basic EPS was 8.2 pence and the interim dividend per share is 3.6 pence, 30% of last year's full year dividend and in line with our established practice.

On cash flow, EBITDA increased 2% to just under £1.3 billion and adjusted operating cash flow fell 9% to £1.2 billion which reflects the impact of the one-off working capital inflow in UK business in 2016. Adjusting for this impact and for foreign exchange and commodity price moves, underlying adjusted operating cash flow growth was 0.3%.

Group net investment including acquisitions and disposals was down 70% to £131 million, in part reflecting this net debt fell to £2.9 billion.

Returning to adjusted operating profit, here you can see the split across our two customer-facing businesses with increased profit from Centrica Business and lower profit from Centrica Consumer, effectively offsetting each other, and our asset businesses delivering lower profit primarily reflecting the operational issues at Rough.

In simple terms, the reduction in operating profit of £37 million has three components:

First external factors including commodity prices, foreign exchange movements and weather – with weather the largest component – reduced operating profit by around £70 million.

Second, choices we have made including taking the Morecambe field offline and ceasing storage activities reduced operating profit by a further £80 million.

And third, the change in the underlying operations of the business, primarily driven by cost efficiencies and Energy Marketing & Trading's significantly stronger margin contribution which more than offset the impact of customer losses, increased operating profit by around £110 million.

Let me now turn to each of the business units to provide some additional operational and performance detail starting with Centrica Consumer.

Profit from our Centrica Consumer Division fell 20%. UK Home profit was down 23% to £489 million within which energy supply profit was down 26% to £381 million, reflecting the impact of warmer weather on energy consumption, a reduction in the number of customer account holdings and the implementation in April of a tariff cap for pre-payment customers which we estimate will impact our full year 2017 revenue by about £50 million. This was partially offset by further cost efficiency with costs per UK Home account down 6% compared to the first half last year.

Ireland again delivered a good performance with operating profit increasing to £33 million driven by lower costs and a strong performance from our trading and power generation business and as a result first half operating profit was up 38%, and 26% on a local currency basis.

North America Home profit increased to £60 million, up 82% in sterling although only up 62% in dollar terms. This reflects a focus on more valuable customer segments, cost efficiency measures – with cost per customer down 5% – and reduced losses from the solar business. Despite actions taken to make the solar business more efficient and scalable, we have come to the conclusion that it could not become a materially profitable business. We have therefore taken the decision to close the business and expect to have exited the US residential solar market by the end of 2017.

In Connected Home, revenue increased by a third to £16 million, reflecting growth in the volume of products sold. In line with our plans to invest incrementally for growth, the business reported an increased operating loss of £44 million. Centrica Consumer

adjusted operating cash flow reduced to £484 million, broadly in line with the reductions in operating profit.

Now let me turn to Centrica Business where profit more than doubled to £222 million. This was despite UK Business only breaking even, reflecting the impact of reduced consumption from warmer weather and a 6% reduction in customer account holdings, and the impact of high wholesale electricity costs in the first quarter. UK Business first quarter loss was £13 million, however we returned to profit in the second quarter and at the half year was breakeven and we expect to be profitable in the second half of the year.

North American Business operating profit of £112 million was up 81% and 57% in dollar terms. Despite consumption being lower than normal due to another extremely warm winter in the US, optimisation of our wholesale gas positions improved compared to 2016 and as a result the operating profit margin improved to 2.7%.

Distributed Energy & Power gross revenue was up 25% to £84 million, primarily reflecting the impact of the ENER-G Cogen acquisition in May 2016. The operating loss increased to £19 million as a result of planned incremental investment in growth.

Energy Marketing & Trading reported a £105 million operating profit in comparison to a £14 million loss in the first half of 2016. This reflects a strong trading performance in the UK, the impact of the Neas Energy acquisition and the phasing of realised profit in the year of our flexible gas contracts which were loss making in the first half of 2016, but contributed £40 million of operating profit in the first half of this year. These contracts are expected to make a small loss in the second half of 2017, and as a result, we expect Energy Marketing & Trading 2017 profit to be heavily weighted to the first half.

Moving onto Central Power Generation, operating profit was flat at £24 million with lower realised power prices in Nuclear and the disposal of the Lincs windfarm being offset by higher achieved spark spreads in our CCGTs. Centrica Business adjusted operating cash flow increased by 3% to £445 million, less than the growth in profit largely reflecting the one-off working capital inflow in UK Business in 2016.

Moving on to Exploration and Production where our future focus will be on Europe following the disposals of our Canada and Trinidad and Tobago assets. Overall production was down 7% to 35.2 million barrels of oil equivalent, and in Europe, production was similarly down 7% reflecting natural portfolio decline and our decision to undertake asset integrity works at Morecambe to help improve safety, operational efficiency and underpin the residual life of the asset. This was partly offset by production from Cygnus gas field in the UK North Sea which came on-stream last December. In the Americas, production was down 6% primarily due to the disposal of the Trinidad and Tobago assets in May.

European gas and liquids achieved prices were up contributing to a 2% increase in overall realisations despite the lower volumes. European total cash lifting and other production costs also increased by 4% primarily driven by the impact of weaker sterling on foreign currency denominated costs in Norway and the Netherlands, while additional costs due to Cygnus coming on-stream, were offset by additional cost efficiencies in the business. When taking into account the lower production volumes, unit cash lifting and other production costs increased 12%.

Reflecting all of this, adjusted operating profit increased 13% to £99 million. However adjusted operating cash flow fell 18% to £276 million reflecting higher

decommissioning spend in the first six months than last year and higher cash taxes paid. E&P was again free cash flow positive for the first half of 2017, slightly more so than the first half of 2016 reflecting lower capital expenditure due to the phasing of project spend and disposals.

Finally Centrica Storage reported an operating loss of £43 million for the period with revenue down 85% reflecting significantly reduced operations at Rough as we worked through the well testing programme. We announced in June that we would be making all relevant applications to permanently end Rough's status as a storage facility and to produce all recoverable cushion gas. Reflecting this change in operational use from a storage asset to a producing asset, a £224 million post-tax charge was recognised in the half year accounts. Centrica Storage has now applied to the Oil and Gas Authority to produce up to 30bcf of cushion gas in order to reduce the operating pressure of the reservoir to safe levels. Subject to approval we would expect to produce about half this volume by the end of the year with the remainder in the first quarter of 2018. As a result we expect Centrica Storage to make a smaller loss in the second half. Longer term we expect the cash flows from the cushion gas sales to broadly offset the cost of decommissioning the asset at the end of its life.

Turning now to costs. Total reported operating costs were down 3% in the first half of 2017. As efficiency programme savings more than offset the impacts of inflation, foreign exchange movements and investment in growth. After adjusting for items such as depreciation and amortisation, impairments, smart metering and portfolio changes to get to a like-for-like number, adjusted operating costs were down 5% and after excluding growth investment they were down 7%.

Taking into account controllable costs of goods sold, you can see here we delivered a further £124 million of efficiencies in the first half. Foreign exchange movements impacted our 2016 baseline by £102 million, while inflation added a further £44 million. However when also including other net savings not part of our efficiency programme, total like-for-like controllable costs were lower in the first half of 2017 than in the first half of 2016. The efficiency savings delivered in the first half are a combination of the annualisation of 2016 savings and new 2017 initiatives, including the transformation of our customer operations, the utilisation of digital and technology capabilities to enhance customer service and reduce call volumes, and the creation of a more integrated field operations model to drive efficiency and further supply chain improvements.

We also saw continued reduction in our global function costs as shared service operating models became more embedded and the procurement function continued to leverage the Group's scale to reduce third party costs.

Moving on to net investment, capital expenditure was down 9% to £385 million. Within this, E&P expenditure reduced by 24% to £220 million and we remain on track to spend around £500 million for the full year, within our current targeted range. As planned we also saw increased organic investment in the growth areas.

Total Group net investment fell by 70% to £131 million which reflects increased disposal proceeds predominantly related to the sale of the Lincs Windfarm and no material acquisitions.

Overall we delivered net cash inflow of over £500 million in the first half of 2017 with just under half coming from the disposals and the remaining from organic sources. As already referenced, EBITDA increased by 2% although adjusted operating cash flow

was down 9% with the benefit of in-year phasing of 2017 cash taxes more than offset by a return to more normal working capital flows in UK business.

Cash interest payments also returned to more normal levels following a one-off interest payment received in 2016 relating to the windfarm disposal. Higher SCRIP take-up resulted in lower cash dividends paid while other cash flows relating mainly to exceptional and pension deficit payments were broadly unchanged in total.

Let me now turn to the outlook for our sources and uses of cash. This is a similar chart to the one we showed at our Capital Markets Day in June, updated for the disposal of the CCGT's at Langage and Humber which is expected to complete in the second half of the year. With more than £800 million of disposal proceeds expected for the full year and our targeted adjusted operating cash flow of over £2 billion, we remain on track to achieve our targeted net debt range of £2.5-£3.0 billion by the end of the year, after taking into account working capital increases we typically see in the fourth quarter.

Let me now summarise using our financial framework. For the first half of 2017, underlying adjusted operating cash flow growth was 0.3%. The interim dividend of 3.6 pence is in line with our established practice of paying 30% of the previous year's full dividend. Controllable costs were down reflecting our continued progress on our efficiency programme. Capital expenditure was £385 million in the first half of the year and we expect to be below the £1 billion limit for the full year. Net debt was £2.9 billion and we expect to remain within our targeted net debt range of £2.5 to £3.0 billion at the end of the year – a level consistent with our financial framework parameters for our existing portfolio of businesses, and also consistent with achieving the financial metrics for strong investment grade credit ratings. And the Group's return on capital employed remains well above our 10-12% boundary conditioning.

With that, let me hand it back to Iain.

Iain Conn – Group Chief Executive
Thank you Jeff. Let me now provide a strategic update. We covered a lot of ground at the recent Capital Markets Day, so I will mainly focus on the half year and more recent developments.

Let me start by returning to the summary slide from our Capital Markets Day six weeks ago. The key conclusions were that we have a clear purpose and strategy and we have been executing against all aspects of this strategy over the last two years. The portfolio will have been fundamentally repositioned by the end of 2017 with a relative shift away from E&P and Central Power Generation towards our customer-facing businesses.

Centrica is in a much stronger position – both competitively and financially – given the progress made on cost efficiency and in reducing net debt. And Centrica is capable of delivering customer led growth with clear strategic frameworks for both Consumer and Business divisions, stronger core businesses and new businesses demonstrating growth with attractive unit margins. Our capabilities – people, processes and technologies – have been materially enhanced. Although our markets are changing rapidly and competition remains intense, we remain confident that we have established the initial platform from which to deliver the medium term underlying growth and returns which underpin our shareholder proposition.

With that as context, over the next 25 minutes or so I would like to cover six topics. I will remind you of the progress we have made in refocusing the portfolio. I then want to cover how we are thinking about customer accounts in the Consumer division and provide a breakdown. I will then provide a brief update on progress in our Consumer and Business divisions and our asset businesses. Following a progress report on our multi-year efficiency programme and an update on recent developments in the UK energy supply market, including our pricing announcement this morning, I will conclude with a summary and outlook.

Regarding the transformation of the portfolio, we have been reallocating resources from our asset portfolio to the customer-facing businesses. We announced back in 2015 that by 2020 we would shift around £1.5 billion of investment from the asset businesses towards our customer-facing activities. We would target this additional resource on our focus areas for growth, energy supply, services, Distributed Energy & Power, the Connected Home and Energy Marketing & Trading. Over the past two years we have therefore reduced capital allocation to the asset businesses by around £600 million, reducing E&P capital expenditure down into the £400-600 million range from about £800 million per annum. We have also announced divestments of over £900 million.

In terms of reinvestment into the customer-facing businesses, we have so far spent over £500 million in incremental investment with the majority of the cash flow released from the asset portfolio therefore being used to pay down debt and strengthen the Group. Our investment focus into the customer businesses has been on building and accessing new capabilities, technologies and markets. This includes the customer-facing acquisitions of Panoramic Power, ENER-G Cogen, Neas Energy and Flowgem, additional organic capital expenditure and revenue investments in our Connected Home and Distributed Energy & Power businesses. We remain on track to invest the additional £100 million of revenue investment in our growth areas in 2017.

So far we are paying for our incremental revenue investment for growth through our own efficiency programme which I will return to in a moment.

We have also committed material resources towards new capabilities and propositions in our core areas in energy supply and services. This includes investing in new marketing capabilities, new propositions such as Local Heroes and reward and loyalty schemes such as British Gas Rewards in the UK and Plenti in North America.

And earlier this year we announced the establishment of Centrica Innovations, under which we plan to invest on average about £20 million a year over the next 5 years. It will help identify, incubate, accelerate and partner with new technologies and innovations that will enable us to develop further offers, products and services for our customers. In the first half of 2017 we made our first investment under Centrica Innovations, acquiring the assets of Rockitt Astra, a company who have developed a proprietary data discovery software solution that uses algorithms to extract meaningful information from structured and unstructured data which when combined with our own database management IP, developed within Centrica Consumer, has allowed us to create a product, IO-Tahoe which is currently being commercialised. We are using this combined technology to advantage in our own businesses.

We have also been focused on simplifying the portfolio of customer-facing businesses – in North America with the divestments of the non-core services businesses, Airco and Airtron Canada, and the recent decision to close our residential solar business, and in the UK with the disposal of the legacy energy management systems business.

I would now like to turn to the subject of Consumer account holdings. In our Consumer division, we have seen significant movements in our customer account holdings with an overall reduction of nearly 700,000 since the middle of 2016. However 60% of the net reduction is a direct consequence of our own choices with the remaining 40% or 276,000 accounts reflecting the underlying movement in our core portfolio over the last year. This illustrates the problem with focusing on a single aggregated number and we have decided to provide you with some additional granularity.

So this chart shows the movement of customer accounts within Consumer since the middle of 2016. The three bars in yellow on the left reflect choices we made. We lost 257,000 customer accounts as a result of the roll-off of a number of collective switch deals in the UK and low margin aggregated customer books in North America. Just over half these losses were in the UK. We are currently no longer actively prioritising customer acquisition in these channels because they are very low value.

We have also decided to scale back our door-to-door channel in the United States which has had an impact of 66,000 accounts. This is a challenging channel to manage to a consistently high standard and there is considerable regulatory pressure in this area. In addition in the US we were running 90,000 services protection plan trials which have come to an end. These three choices we made accounted for over 400,000 of the reduction in customer accounts as we focus on value not volume, with two-thirds of this reduction in North America.

So turning then to the underlying effects in green here, competitive pressures have resulted in a net 572,000 energy and services accounts switching away from us on both sides of the Atlantic in the last year. Against this reduction we have added nearly 300,000 Connected Home customer accounts over the same period which carry attractive gross margins. This gives us an underlying net reduction in our core of 276,000 accounts. This is split 144,000 in North America and 132,000 in the UK. Even though the UK has higher losses in energy and services, Connected Home offsets two-thirds of these, whereas we have only just launched Hive in North America. As Connected Home continues to grow and we look to also grow our services accounts, we will be looking to stabilise and then begin to grow our overall Consumer account holdings. This reduction of 276,000 is the net impact on our core and within that we have also seen large numbers of customers joining us.

We have been actively engaging more strongly with our standard variable tariff customer base and offering them more tailored propositions. We also have a number of other new offers being tested currently. We have seen significant numbers of customers choosing new offers, such as our multi-year fixed price offer. As a result of these actions we are also seeing improved complaints and NPS levels, customer take-up of new propositions and tariffs and higher levels of customer engagement. This is all part of our approach to customer segmentation and value management which Mark Hodges outlined at the Capital Markets Day.

This chart is the slide Mark showed at the time, providing an illustration of how our energy customer base is distributed by value. Using the UK as an example, during the first half of the year we retained 97% of our customers in the high and medium value segments and 91% of customers in the low and negative value segments. We are convinced that a stronger focus on customer segmentation and value management, new innovative propositions and improved service and cost efficiency will serve our customers better and deliver more enduring value for Centrica.

Let me now complete the Consumer picture with an update of progress against the five pillars of our strategic framework. In energy supply we saw a significant reduction in complaints in the UK, Ireland and North America and delivered further material cost efficiencies in the first half of 2017. We launched British Gas Rewards, a loyalty scheme which will allow our customers to select personalised benefits and have seen strong early sign up with 150,000 members to date. In services we have now launched our technology led on demand services platform, Local Heroes, nationally in the UK with very high initial growth rates and over 8,000 jobs now completed with 60% of customers new to British Gas.

We also continue to lead in the smart meter roll-out in the UK and I mentioned earlier that we decided to exit residential solar in the US.

Across the pillars of peace of mind, home energy management and home automation, served by Connected Home, we continue to make good progress. We had sold 660,000 connected hubs by the end of June, including 30,000 in North America, following the launch of our HVAC smart thermostat. In the early stage of the North America campaign we have been selling about 2,000 hubs a week, mostly bundled with energy. We launched a camera in June and plan to release our water leak detection and Hive Active Hub products which we showed off at the Capital Markets Day in the second half of 2017. Although it will require a material acceleration and success on key market campaigns in the later part of the year, our plans continue to indicate that we will have sold one million hubs and one and a half million products by the end of 2017 and we have just passed the one million product milestone recently.

Also in Connected Home I am pleased to say that as of last week, we are now live in another new market, Italy. We have been prioritising Italy for launch and potential partnerships and we will update you on progress later in the year.

In addition to one-off sales of hubs and products we have launched a range of subscription offers including our ‘Welcome Home’ and ‘Home Check’ propositions in the UK and North America. These are easy to use solutions that enable customers to personalise, control and interact with their home through the Hive product range, and initial take-up has been good.

Moving now to Centrica Business, where complaints were also down in the UK and North America energy supply. UK Business delivered a disappointing operating result as you have heard from Jeff, however performance improved in the second quarter and we have a clear recovery action plan in place.

In Wholesale Energy we delivered further strong performance in Europe with Neas Energy continuing to perform ahead of its investment case and good optimisation in performance in North America.

We also continued to make good progress on our newer focus areas of energy insight, energy optimisation and energy solutions. Revenue and customer sites were up in our Distributed Energy & Power business unit. In energy insight we deployed a further 6,000 Panoramic Power sensors in the first half taking the cumulative number to 44,000 across 1,500 sites in 30 countries.

In energy optimisation, we now serve customers who own decentralised assets with installed capacity of over 10GW and we have now commenced our pioneering Cornwall Local Energy Market trial. In energy solutions, ENER-G Cogen continues to perform in line with our expectations and we now have over 1,400 long-term contracted sites across 13 countries and overall we have 600MW of capacity under contract.

Let me conclude the business review with a brief update on our asset businesses. I mentioned earlier that our announced and completed divestments now total over £900 million, near the top of the £0.5-£1.0 billion target range. In Central Power Generation, we completed our exit from wind generation ownership with the sale of the Lincs windfarm following on from the disposal of our interest in the GLID windfarm in 2016. And in June agreed to sell our large gas fired power stations at Langage and Humber. In E&P we completed the disposal of our Trinidad and Tobago gas assets and announced the disposal of our portfolio of assets in Canada. Once this transaction is complete in the second half of 2017, our E&P activity will be focused solely on European assets.

In gas storage as you have already heard from Jeff, we announced in June that following the results of our extensive well testing programme and the decision that we could not safely continue injection and storage operations, we would be making all relevant applications to permanently end Rough's status as a storage facility and to produce all recoverable cushion gas.

Completing the picture for our asset business portfolio transformation, last month we announced an E&P joint venture with Stadtwerke München and their Bayerngas Norge assets. The combination of both parties' assets will create a strong and sustainable independent E&P business with a compelling strategic rationale.

The joint venture brings together two likeminded shareholders and combines a complementary mix of producing and development assets in North-West Europe. It will extend Centrica's reserves to production ratio from under 7 to above 8 years and reduce our net exposure to decommissioning. The entity will be self-financing with an 80% reinvestment rate with the remaining post-tax operating cash flow being distributed to the shareholders. Our share of production will be 30-40 million barrels of oil equivalent per annum, lower than our previously announced 40-50 million barrels of oil equivalent targeted annual range. However we believe that this lower level is adequate to allow E&P to fulfil its role in Centrica's portfolio of providing cash flow diversity and balance sheet strength for the Group and the JV will have sufficient materiality overall to be sustainable.

The transaction is expected to generate £100 to £150 million of gross NPV through synergies and importantly we see the joint venture as having the opportunity to participate in further consolidation should value enhancing combinations arise. We also do not rule out the possibility of an IPO in the medium term. Centrica would be open to having a lower ownership percentage in a larger entity just as we have done in this step, provided we retain sufficient influence to shape the strategic direction of the business. The transaction is expected to close in the fourth quarter.

Let me touch briefly on progress in our £750 million efficiency programme which is important to enable us to remain competitive and to build much stronger and scalable foundations for the future.

Jeff has already covered our continued strong performance in the first half of 2017, with delivery of a further £124 million of savings and an additional 1,100 of like-for-like headcount reduction. We remain on track to achieve our 2017 full year target of £250 million of efficiencies and a 1,500 reduction in direct like-for-like headcount. If we deliver on that target in 2017, by the end of this year we will have delivered around £650 million of savings since 2015 and be well ahead of our original plans.

In line with those plans these efficiencies have been delivered from a number of areas including the implementation of new organisational structures and operating models in our energy supply and services businesses, efficiencies in E&P, the creation of global functions, as Jeff outlined in our large support activities such as IT, procurement, finance and HR, to drive simplification and standardisation, and the unlocking of material savings and third party costs. We have also reduced organisational layers and increased spans of control across Centrica.

Before summarising, let me turn to the UK energy supply market. The market remains highly competitive with the number of suppliers increasing over the past six months to nearly 60 and customer churn continuing at high levels. As you will be aware following a request from the Secretary of State, Ofgem has committed to consult on new measures to help make retail competition more effective and to protect vulnerable customers. This would be in addition to the tariff cap for customers on pre-payment meters which was implemented in April of this year, following the comprehensive two year Competition and Markets Authority Review.

We have made clear proposals for how the market should be reformed and have done so in writing to BEIS, Number 10 and to Ofgem. Although there are a number of specific sub-recommendations, our proposals can be summarised into two themes. The first is effectively phasing out the standard variable tariff as we know it by the market-wide ending of evergreen contracts and changes to the default tariff mechanism.

The second area of our proposal is to "level the playing field" with all suppliers paying a share of Government imposed social and environmental policy costs. Along with differences in pace of Smart Meter roll-out, this cost disparity leads to market distortions and having reached nearly 60 suppliers, the additional incentive for new entrants is no longer necessary.

We will continue to engage constructively with both the Government and Ofgem to help deliver the best outcome for our customers and other stakeholders.

We announced this morning that following our price freeze which has now been further extended effectively to the middle of September; from that time we would be increasing the price of our standard electricity tariff by 12.5%. This is our first standard tariff increase for nearly four years and follows four consecutive price cuts. It affects 3.1 million of our 8.4 million customers. With our gas price remaining unchanged, this means the average annual dual fuel bill for a typical household will rise by £76 or 7.3% to £1,120. Since 2014, the costs of delivering electricity have been increasing. This has been largely driven by increases in transport and distribution costs and Government policy costs which generally affect electricity costs only. Centrica has obviously experienced the same cost pressures from these areas but we have been able to hold off increasing prices until now thanks to our own efficiency programme. However we have been selling electricity at negative margins for some time and with additional increases in these areas we have had to announce this price rise beginning in mid-September.

The electricity only increase announced today means the overall dual fuel increase is at the lower end of competitor price increases this year. And you can see on the chart on the right – it looks a bit like the CN Tower – but you can see on the chart we will retain a very competitively priced standard variable tariff position even after our increase has been implemented. Of the ten largest suppliers, British Gas would be the third cheapest – only £11 above the lowest priced and £67 below the most expensive. Our dual fuel standard tariff rate will still be cheaper than 84% of the contracts in the market.

One area we have been discussing with the Government is the protection of vulnerable customers and especially as we go into this Winter, before any further changes to the market have been recommended by Ofgem. As a result we have also announced this morning that we will be unilaterally protecting an additional approximately 200,000 vulnerable customers from our announced price increase. These customers are those who automatically quality for the Warm Home Discount, but are not protected by the pre-payment tariff cap. They will therefore see their average dual fuel bill protected at an average tariff level of £1,044.

So let me now summarise.

2017 has been a very busy year so far, and although some of the political uncertainty hanging over us has dissipated, energy supply markets in particular remain highly competitive and we have seen impacts of very warm weather on our results. However, we have delivered a solid performance in the first half of 2017. We remain on track to achieve the 2017 Group targets we set out in February. We expect to deliver adjusted operating cash flow in excess of £2 billion again this year. Per our financial framework, Group capital expenditure remains limited to £1 billion in 2017 with E&P capex expected to be around £500 million. Having invested £39 million of incremental revenue investment in our growth businesses in the first half of the year, we intend to spend around £100 million for the full year.

We remain on track to deliver a further £250 million of cost efficiencies in 2017 and to reduce direct like-for-like headcount by a further 1,500 and we expect net debt to end the year within the £2.5-£3.0 billion range, the optimum sustainable level with the current portfolio in the current environment. We are meeting all boundary conditions of our financial framework and have announced a 3.6 pence per share interim dividend. As we laid out in 2015, any decision to reintroduce a progressive dividend will continue to be linked to our confidence in our ability to deliver underlying adjusted operating cash flow growth over the medium term, of course assuming that we also will have achieved net debt levels within our targeted range by the end of the year.

In summary, the strategic progress we have made over the past two years means that Centrica will have been fundamentally repositioned by the end of 2017, we have clear strategic frameworks for both the Consumer and Business divisions and with enhanced skills, capabilities and technology, we can now address new customer needs and customer segments and apply ourselves to new markets in addition to strengthening our core.

Although the world remains uncertain and our markets are highly competitive, we have established a strong platform from which to compete and to deliver long-term shareholder value through both returns and growth.

Thank you and I would now like to ask Mark and Mark to join us on stage to take your questions. As usual, just raise your hand to ask a question, when I get to you please identify yourself before asking your question and there are microphones at each station, you can lift them out. A very fancy room this, I am just saying this for our UBS colleagues.

Questions and Answers

Iain Conn
Lakis why don't you go first, you caught my eye.

Q1. Lakis Athanasiou, Agency Partners
Lakis Athanasiou, a few questions. One routine. On Rough cushion gas, are you planning to do more than the 15bcf you mentioned in Q1 through 2018?

And what is happening with DE services? You are backing out of solar, what about the rest of the business, is that going to go to profit or were the losses, which we presume are going to be in there, because we don't really know, since you reduced the quality of reporting on North American Home. So what is happening there?

And also mass markets, you have got a customer reduction but we don't know where, again because you have stopped splitting out regional customer numbers, so what is happening? Is it Canada, North East, Texas, what is going on?

Answer: Iain Conn
Okay, I am going to ask Mark Hodges to talk about services in North America and talk about the current situation and the future. I think it is a little bit unfair to say we have stopped providing information and splitting these out. We do split things out regionally by business unit, obviously not sub-regionally I accept. But just before we do, on Rough. On the cushion gas, there are two stages in this effectively. The first is a safety related permission we are seeking to reduce the pressure in the reservoir to below 1500lbs per square inch. The reason for that is that we believe the well stock will be particularly secure at pressures below 1500lbs. We saw some failures in our test regime at that sort of level and if we take the pressure down to that level, the barriers will be even more secure. So that is step one.

Step two, is for us to get permission from the Oil and Gas Authority and the Competition and Markets Authority to cease storage obligations and operations and therefore Rough would be returned to a producing asset. We currently have a production licence for the area but we are bound by the obligation to run it as a storage asset at the moment. So once we get those permissions we would then be able to produce all remaining recoverable gas in the field. And as you know the value of that gas broadly covers the future net present cost of decommissioning, depending on the technology curve that we apply. So that is what we are going to be doing on Rough.

Now Mark in terms of services in North America?

Answer: Mark Hodges, Chief Executive, Centrica Consumer
A couple of things. One, we do see services in North America as an opportunity to grow. An important part of this has been laid out at the Capital Markets Day. If you

take the US year-on-year improvements, around half of the improvement is down to performance improvements in solar that were made anyway before the decision to exit. And then in terms of the rest of it, the energy and services, it makes up the other half of the profitability improvement. Services is broadly flat from a profitability perspective which is really ongoing, competitive pressures because it's a competitive market as you know, offset by our own operational efficiencies. So we continue to drive costs out of that business. What we are looking at is the franchise model. We are looking as we explained at Capital Markets Day, how do we improve sophistication around some of the pricing and some of the products in North America as well as in the UK. And in services a core pillar of the strategy as we explained. I would like to grow it both here in the UK and in North America and if we need to think about more disclosure to help you understand that then I am sure the man on my right will help me think about that.

Answer: Iain Conn
And just to finish, one more comment on that. We are not just bound to the UK and North America in the matter of services either. The model that we launched showed you at Capital Markets Day, the Local Heroes model could be applied in other markets as long as we can find the right mechanism to guarantee the quality of the work. So we are seeing services as a diversification, an important diversification beyond energy supply as well as all the other pillars to the right of energy supply in both divisions.

Answer: Mark Hodges
One data point on your question in terms of services, Iain showed there were 90,000 in terms of the protection payment trials, if you take that number out of the US services business, actually grew by 18,000 accounts in the first half of the year. So whilst that hasn't translated into any significant uplift in profitability, it did grow marginally in the first half of the year in terms of the business we're really interested in being in.

Q2. Mark Freshney, Credit Suisse
Mark Freshney from Credit Suisse, I have two questions. Firstly on balance sheet. You have got over £6 billion of gross debt. Net debt looks as if it is going to be less than half of that at year end. So you have got a balance sheet which is entirely inappropriate for the current size of the business. Is there anything you can do to try and reduce the interest charge and actually make that more efficient?

And secondly on Connected Homes. I know you have given us a lot of detail at the CMD last month or two months ago but by my calculations, the annualised run rate of growth of revenue in Connected Homes needs to be 100% each year for the next five years to reach kind of a billion pounds indicative. Can you give us more colour on what the revenue uplift from going to new markets might be because it appears a very, very aggressive target?

Answer: Iain Conn
I think that one is definitely one for Mark Hodges. Similar to questions I have been asking him. That will be one for Mark.

Jeff on the gross and net debt and interest charge?

Answer: Jeff Bell
Yes. I very much take the point because in building financial resilience of the Group and getting net debt to the level that we think is appropriate for the businesses we have, that has meant that we have a lot of liquidity and a lot of cash because obviously the gross debt is termed out to a longer period. We are absolutely looking at all options and ideas in terms of how we could potentially improve that. You would imagine though that in the current low yield environment, typical types of liability management

options are more expensive, but we continue to look at those but to date we haven't found anything that we have felt is economically attractive, but we will continue to look at that going forward.

Answer: Iain Conn
And on that point, if I can just add one other dimension Jeff, at the Capital Markets Day we were very clear that we are not rushing out to do this, but we would re-expand the balance sheet if we found the right things to enter into - joint ventures or acquisitions - but it is not like we are going on a wild spending spree, we have been very, very careful about what it is that we target for investment. But clearly large acquisitions are outside of the current financial framework, sources and uses of cash that we have been presenting.

Mark, Connected Home growth?

Answer: Mark Hodges
Yes, well the answer is very much along the lines we gave at the Capital Markets Day. If you think about the dimensions of growth and what we are trying to do and recognise that we do need some attractive growth rates. I think about it in terms of the product range which, as you know, we are expanding, Iain has already referenced the camera, the Hive Hub with the audio analytics capability, the leak detector, adding to the capabilities we already have. And of course over time we would expect to integrate some third party devices into our ecosystem to give customers more choice. So that is one dimension that would promote growth. There is the subscription model that we are pushing hard on now that lowers some of the price point pain from one-off purchases and fulfils an enduring revenue model which carries on year-on-year so you are adding to it over time. We are working hard having launched the subscriptions here and in North America to really make those work for our customers.

There are then the channels that we go to market so we have more I think we can do in our existing businesses whether that be British Gas, Direct Energy or Bord Gáis, those are customer bases that we want to penetrate more with the product range. And then in the current markets we are in there is more we can do so we are only a few weeks into our North America launch, we are learning a lot about our digital sales journey and what we can do to activate customers to access our products. And then finally, as you referenced, the partnership conversations that are really important in new markets. We are talking to a number of very large organisations. I mentioned at the Capital Markets Day, they are not routed in the energy sector so in Telecoms, in Banking and some energy players. And some of these conversations are with people who have huge customer bases in the way that we do in the UK. And I think that is a critical part of the growth agenda for Connected, is tying up those deals.

The good news is that people are really interested in our capability, they look at what we have done in the UK and that is perceived to be very successful and they are looking for us to help them replicate that kind of success in their home markets. So those things all need to happen. I don't think it will happen in some straight line basis. Iain does often ask me how we are going to meet the challenge but as we said and Iain said in his remarks, we are confident of getting to the million hubs this year which will be a great start.

Iain Conn
Thank you Mark and Mark Freshney, thank you.

Q3. Chris Laybutt, JP Morgan
Good morning, Chris Laybutt JP Morgan. Just a couple of questions. Firstly on the dividend. You said that you have got confidence of growing operating cash flow and you are now within the band for net debt. Has your confidence increased significantly would you say or moderately? How confident are you would be the question I suppose? And so therefore how confident can we be of seeing dividend growth in February?

On the standard variable tariff customer margins, can you give us an idea of – perhaps at a Group level – where you see margins at the end of the year? And if we could also just on the standard variable tariff customers themselves, are those customers now paying a slightly higher margin or are you just recouping costs for those customers?

And then one more sneakily, Energy Marketing & Trading, out of the £105 million Jeff, could you give us an idea of how much was UK trading? You mentioned those three buckets; an indication would be very helpful? Thank you.

Answer: Iain Conn
Well to suggest in addition to Jeff commenting on energy marketing trading is to ask also Mark Hanafin to talk a little bit about what is going on in Energy Marketing & Trading, it has been a great result in the first half.

So firstly on the dividend it is not a very sneaky question it is a very overt question, but look, first of all we have been very clear about the philosophy which is we need to be confident in our ability to grow operating cash flow in the medium term in line with our goal of 3-5% per annum. Now I am encouraged that hitherto it is now 2.6%. If you take it off a first half 2015 basis. The analysis that we show you, you know where we have to correct for foreign exchange and commodity prices and one-off working capital movements, it is obviously highly sensitive to small adjustments to cash flow in any particular period. But we are doing our best to form a judgement from that and obviously as we go forward and get the balance sheet into the right place we will be looking really closely at, not only our historical delivery, which so far has been broadly in line with that 3-5%, but obviously most importantly what do we think about it going forward. We said in 2015 that the cash flow growth in the 2015-2020 period would be dominated by our cost efficiency in the early part and would then have to do a handshake if you like, with cash flow growth from gross margin in the second part. And clearly we will be updating you in February around both aspects – how we feel about growth and how we feel about our cost efficiency going forward. At the end of the day, the dividend decision is a matter for the Board and we will obviously take all of these factors into account as we walk towards February, but I can't say any more than that. The man in the front row would not appreciate it.

Mark Hodges on SVT various aspects of it and then we will move to Jeff and Mark.

Answer: Mark Hodges
Thanks, so Chris without trying to be unhelpful, we probably won't want to give a kind of prediction of where net margins would be at the end of the year, but typically as you know, looking backwards we have operated somewhere between 4-6% £42 to about £65 dual fuel customer profitability, we don't have a target range. We genuinely believe profitability is an outcome of competition as Iain described earlier, we've positioned - we think – our standard variable tariff well in the market to be competitive. The only thing we don't do is have deeply discounted fixed deals so the profitability of our fixed deals is pretty much on a par with where we are on standard tariffs and there is not a huge margin disparity. And the other thing we showed you was the value segmentation and customers will disperse around that segmentation across all product types, it is not

as if one product is in one end and another product is at another end. As we described at Capital Markets Day, the drivers of some of those value are things like propensity to churn, propensity to buy a second product. So that can happen with a fixed product or a standard product. And I think that is probably at this stage all we would say on margins looking forward.

The other big factor of course that we are very thoughtful about is at the end of the day this would partially be down to consumption of weather in the second half of the year as well, which at this stage is the biggest variable with concern to our performance looking forward.

Iain Conn
Thanks Mark. Jeff and the other Mark?

Answer: Jeff Bell
Yes I will just comment briefly and turn it over to Mark. I think my observation would be that the Energy Marketing & Trading business is broadly in the UK which includes the proprietary trading business, LNG, origination is a bigger business than Neas and so of the remainder that isn't the flexible gas contracts it would be weighted towards historically UK EM&T business as the majority of it, but the Neas business makes a significant minority or reasonable minority of the balance as well.

Answer: Mark Hanafin, Chief Executive, Centrica Business
So I said probably about a third of the net margin that's pre-opex of the first half of the results is UK proprietary trading. But it has been a strong performance across the board. LNG has performed very well. Origination has performed very well and Neas is running at maybe twice what we expected, and part of that first half performance is the extreme volatility we saw in electricity prices across north-west Europe at the end of last year and beginning of this year. Of course volatility on its own does not create profit, you have to be able to execute and I think across both Neas and the traditional trading businesses we have been able to execute very well on that. In Jeff's presentation he mentioned that there was about £40 million in the first half related to legacy flexible gas contracts some of which are take-or-pay and we are looking at phasing small losses in the second half. So when you take all of that into account, I think the results are very heavily weighted towards the first half.

Iain Conn
Thanks Mark. When we get to the end of the year we will need to explain this structural part which are these legacy contracts. They go back 20 years, some of them; two out of three of them are going to be rolling off over the next year which is in some ways good in terms of demystifying the result. But they are some of the more valuable ones that will be rolling off. So we are going to need to explain how this is all going to evolve when we get towards February.

Q4. Martin Brough, Deutsche Bank
Hi, it's Martin Brough from Deutsche. Just a quick question on UK Nuclear. Obviously you are a minority investor there so not in full strategic control of what happens there, but in terms of the balance between prices gradually being squeezed over time and very good operating performance in terms of output, but then issues around timing of capex investments into the fleet. How do you regard the outlook for dividends there? Is it a stable one? Do you expect a bit of a squeeze on dividends or is there any chance of having to put the cash in at some point if you need to do some investments that would then result in some paybacks later on?

Answer: Iain Conn
As you know, we have said that we hold the Nuclear business as a financial investment effectively as its strategic optionality is limited especially after we exited Hinckley Point C, which I don't regret. But Mark, how should people think about the dynamics in the Nuclear business?

Answer: Mark Hanafin
Yeah I mean I think obviously there is uncertainty around production levels, but performance has been you know exceptional and the team in Barnwood have demonstrated over the period that we have owned the asset you know terrific engineering skill to manage the plant and improve the load factors and this year is also shaping up to be a very good production year. It is of course exposed to the absolute electricity price. From that perspective I would say that the capacity market revenues that are going to start coming in particularly in 2018/19 when you see the first of the T-4 options delivering, clearly add a lot of revenue into our Nuclear business. And we mustn't forget it is zero carbon electricity production. And that will benefit from whatever mechanism that the Government ultimately decide needs to be in place to reward low carbon generation and at the moment that is the carbon price support mechanism.

Iain Conn
Thanks Mark.

Q5. Nick Ashworth, Morgan Stanley
Morning everyone, it is Nick Ashworth at Morgan Stanley. A couple just on the growth businesses. Firstly on the revenue investment, you talked about the £100 million that you are going to be investing in these new businesses through the course of this year. You also talked about getting into a new market, Italy. And I guess the question is around further new markets in that business. I know some of them were talked about at the Capital Markets Day. Are there more on the agenda for this year and into next year? And presumably the revenue investment will continue into next year given that there could be new markets or continuing in the investment in the markets you are growing into this year. So if we could get a little bit more colour around how that could progress over the next year or two?

And secondly a bit wider from that. We got a lot of detail around the growth businesses at the Capital Markets Day and we got the revenue targets for 2022. But in terms of a bit further down the P&L and thinking about the EBIT contribution, the profitability of these businesses, at what point do we get more colour on that? How do you think that can evolve? And are there certain KPIs or targets that we should be thinking about as these businesses grow?

Answer: Iain Conn
Thanks Nick. If it is okay guys I will quickly answer the first part. Clearly in a success case, we would want to grow the revin. Now that will mean that we will deepen the J-curve essentially before we actually get back to breakeven and then, but it would result in a higher growth rate. Clearly these businesses are showing signs of natural growth with the trends of the market. So we will be updating obviously on what our investment plans are for these businesses in February, but we are right in the middle of beginning the planning process at the moment. But we are cautiously optimistic on that. I think in terms of the new markets, we mentioned a number of them, but Italy, for Connected Home, is first, but in DE&P we have already entered into Denmark and Sweden and Hungary and Italy and so there are some material shifts going on.

In terms of the quality of EBIT margin, we are not disclosing that fully, but Mark Hodges did talk about 20-40% unit gross margin in his presentation at the Capital Markets Day which I think gives you a pretty good clue as to the quality of businesses we see. And therefore provided they are attractive and I can assure you we are not going to invest in them if we don't think they have attractive unit margins. We will be showing you as the growth curves accelerate and hopefully they will, we clearly recognise the need to provide you with some better operating KPIs, it is just a bit early.

Q6. Edmund Reid, Lazarus

Edmund Reid, three questions. The first one is on the cost of the smart meter roll-out in H1. And also your expectation on the trajectory going forward in terms of the roll-out given that you are quite a long way ahead of your other big 6 competitors?

Second question is on pre-payment customers. Are those customers profitable post the price-cap?

And the third question is on EV charging, clearly that is in the news. Seems like a huge opportunity, is that an area that you are looking at?

Answer: Iain Conn

Okay, just briefly on EV charging, we had it in the media call as well. We have been involved in that a little bit in terms of deploying charging points. We are looking as a technology vector into how the EV market is going to change ultimately the way in which the distributed system works. And we will be looking at the integration within the home of EVs. Whether we are going to get into the charging part of it, I don't know yet. There are lots of companies across Europe that are doing that with integration with wi-fi and other things. It is early days.

But Mark Hodges, on the other two, smart meters and pre-payment profitability?

Answer: Mark Hodges

Yes on smart meters as you know we continue to lead. As you say we are up to about 4.5 million meters installed. We still think it is a good thing to do for customers. The NPS of those customers is still higher than the average, about 15 points higher so makes it a good way of engaging our customers. We also know that calls to us on billing inquiries are a lot lower. And we know that customers are saving money, on average with that many meters now we know that annually they are saving about 3.5% of their annual bill. So we are fundamentally still in the position where we think smart meter roll-out is a good thing to do. There are challenges; we have been round them a number of times in this room. The number of SMETS 1 meters becomes a slightly bigger concern because we need to figure out how to make those inter-operable, we have had continued delays with the DCC and SMETS 2 although we are hopeful that we are working through those now and we can begin SMETS 2 at scale in the first half of next year. But there are challenges – to your point, about how will this continue, and it will have an effect on cost. There are some challenges and there are some public perception issues, there has been a lot in the media recently around smart meters and safety. We put a huge amount of emphasis on safety of the installations and that we are involved in. And there are some customers who at this stage don't want a smart meter. And because it is an opt in scheme, not an opt out scheme, nobody quite knows what will happen as you go well beyond early adoption and nobody is going to in the end force customers to take these meters. There is I think a belief amongst certain people that as more players install more meters and it becomes the norm, that take-up will naturally increase. I think that is still to be proven.

And in terms of cost, we don't disclose separately the cost of the programme, but of course it is one of the contributing factors to the underlying costs we talked about this morning going up. It is a small part, but it is part of why we have increased the electricity prices today.

Oh sorry and pre-payment meter customers. In terms of the profitability, I mean they are making a contribution. Jeff outlined the financial impact in the year. What we are doing to maintain or improve the profitability has obviously reduced our costs to serve and generally our whole cost efficiency programme is to make sure that any gross margin impact that we see we try to offset as much as possible with our own cost efficiency.

Q7. Fraser McLaren, Bank of America Merrill Lynch
Good morning, McLaren from Merrill's, just three quick questions please. First of all on vulnerable customers. Does the 200,000 reflect your view on the extent to which caps might be extended or is it just a starter for ten?

Secondly how should we think about the timing of accounting in earnings terms for Rough given the mismatch between gas revenues and the closure costs?

And then finally on pension payments, you made an extra £76 million of additional contributions in the first half, could you remind us please how much we should expect in the future?

Answer: Iain Conn
The last two are going to be for Jeff and vulnerable customers, Mark Hodges.

Answer: Mark Hodges
Yes there is a debate to be had around what is the right group of vulnerable customers. Ofgem we are expecting to come out and consult with the industry in the next few weeks. We will obviously actively participate in that debate. There are various definitions it is quite difficult to tie down – vulnerability. What we wanted to do today was at least make a start. So we are not really making a declaration of limiting it to this group, but equally these are the people we feel have been missed and they are not covered by the pre-payment meter cap and we think it is the right thing to do to shield them from this particular increase, whilst the broader debate takes place. And I am sure it will take some time to resolve this issue. So we wanted to be front footed and do what we think is the right thing for this group of customers and then let the wider consultation take its natural course.

Answer: Jeff Bell
In terms of Rough, the decommissioning liability is effectively set up, it kind of has a two sided balance sheet entry. One for liability, one for the asset itself. So effectively the P&L impact so to speak will occur over the next 4-5 years, assuming we are successful in turning it into a producing asset. And that will effectively run through the DD&A effectively of that asset. So that at the end of it once we have produced the gas it will be a balance sheet cash flow item at that point as it is decommissioned.

On the pension, can you say again the pension question?

Further question
You made an extra £76 million of payments in the first half of this year into the fund to reduce the deficit, how much are you planning to....

Answer: Jeff Bell
Yes so the £76m is part of our natural asset backed contribution profile that we have in place. We as part of the last triennial deficit negotiations that we concluded with the pension trustees at the end of last year, sees that broadly continuing on for about a 15 year period. In the short term though, in this year, sorry into next year, it is a little higher as the old one isn't kind of completely rolled off while the new deficit payments come in. It is a little higher next year, it is about £100 million and then it sort of falls back down to about £75 million in the future years after that. Obviously every three years we end up back revisiting that and the next one is March 2018 which does not seem that far away now. So as we get later next year we will be relooking at that and we will have to see where both asset values and discount rates have got to in that time.

Q8. John Musk, RBC
Morning everyone, it is John Musk from RBC. Just one question left which was on the rising complaints in home services in the UK. Just to get some colour on that and whether that is potentially any indication that you are going too fast on some of your cost initiatives?

Answer: Mark Hodges
Thanks John, yeah we had a disappointing performance in Q1 actually in terms of services complaints. Our complaints are down in home energy in the UK significantly, 18% or 100,000 complaints in absolute terms. In home services they were up by 42% which is actually 20,000 additional complaints. And really it was the hangover of a move we made at the back end of last year, we closed a site in Oldbury and we shifted some work that was distributed around our network to Stockport and we just didn't quite execute it as well as I would have liked to do, there is a lot of learning in that as we move forward. But the good news is most of those complaints were for inconvenience so we were getting some of the scheduling and despatching of engineers wrong. We have fixed that, that was fixed by the beginning of Q2 and we have seen a significant improvement during Q2 and I would expect that to continue during the second half of the year. So it is certainly not a trend. And something we extracted the full learning from in terms of making those kinds of organisational changes.

Q9. Deepa Venkateswaran, Sanford Bernstein
Thank you, this is Deepa from Bernstein. I have two questions and a follow-up to an earlier question. Firstly for Mark Hodges. Could you explain what led to the breakeven situation in British Gas Business and how much was that driven externally versus any internal changes and what are you doing to basically bring the business back to profitability?

My second question is to Mark Hanafin. A similar question actually. Your lifting costs are up year-on-year by 12% after showing some very strong progress in recent years. How should we think about this going forward, the lifting cost metric?

And a follow-up on the previous question on the 200,000 customers that you have automatically given the £76 credit – is this the extent of all your customers who receive Warm Home Discount or is this a sub-set of the customers?

Iain Conn
Deepa thank you. Because of our organisation changes, actually Mark Hodges is not going to answer the one on UK Business so it has been passed to Mark Hanafin so he will cover that. I will cover the lifting cost item because that now reports directly to me and then Mark Hodges will continue to talk about the 200,000 customers.

So Mark Hanafin on UKB?

Answer: Mark Hanafin
Okay. So yes we had a disappointing first quarter. There were quite a number of factors that all went against the business here in UK Business. We had warmer weather, we had extreme electricity costs, so there was electricity cost volatilities as described, helping EM&T hurt UK Business. Some of that will come back because you are signing contracts over 1,2,3 years and therefore those very high costs at the beginning causing losses in those contracts, but obviously they have been priced appropriately to deliver value over the period. The third area was about lower costs of numbers. There was a couple of other aspects as well that hurt. One was continued highly competitive environments and margin pressure. And there was also some variances in the settlements process of estimating imbalances which is part of the nature of the business which were outside of the usual range, and that is just a variable that happens in all of the supply businesses. So that was the reason. There are some very positives though in the business. I mean customer retention in the higher value SME area was down just 1% since the middle of last year. The losses were mainly planned; they were in the very low margin multi-site I&C area where we had looked to reduce. Bad debt charges are continuing to fall significantly. We have had very strong debt collection performance. Complaints are down very significantly and NPS is up, so I think there are some positives there.

In terms of the new organisations, so since March we have created Centrica Business which UK Business is now part of. And immediately we see the interface with trading potentially gives us some opportunities to improve the value proposition for UK Business. And similarly some of the innovations in North America, some of you will have seen the energy portfolio products on the Capital Markets Day. Those kinds of innovations we look at for the UK as well.

Answer: Iain Conn
Thanks Mark. And Deepa on lifting and other production costs. I mean firstly there are a number of factors going on, but as Jeff mentioned in his presentation, there is a bit of inflation starting to re-enter the market as you have seen higher prices and also stable prices which is encouraging more activity. But actually there is quite a long way to go before the supply chain is anywhere near tight. So I don't expect that to be a rapid acceleration.

The second is that our volumes are actually down in the first half, partly because Morecambe was shutdown, and the shutdown of Morecambe is also adding costs as we are repositioning Morecambe for the new configuration.

And then finally, prices are up in the first half versus last year and that obviously indicates that you are starting to see better margins and that is flowing through into adjusted operating profit.

I think in summary I would say that the lifting costs still of around £12.5 are feasible, we need to keep a very close eye on that because the sustainability of our new joint venture with Bayerngas Norge depends on the ability to replace reserves at a sensible rate.

And lastly we had the 200,000 Warm Home discount customers again, what was the question again?

Answer: Mark Hodges
Was it the narrow group or the broader group? It is the narrow groups that are people who automatically qualify for Warm Home Discount as a matter of right and who are not already covered by the pre-payment meter cap are the ones that we have looked after and with the announcement we have made this morning.

Further question
How many more customers did you pay last year, Warm Home Discount?

Answer: Mark Hodges
It varies every year, but this group 200,000, last year it was around 600,000 I think from memory was the broader group so they are means tested.

Q10. Iain Turner, Exane BNP Paribas
It's Iain Turner from Exane. Just going back to the Warm Home Discount, what is your thinking there between differentiating the core group and the broader group in terms of your policy going forward? Is it just a question of cost or do you think, I think the plans that people have put forward were for the broader group to be covered by some sort of vulnerable cap?

Answer: Mark Hodges
In terms of today I think it is quite simple. This is a defined group; there is no argument about who they are. Because with the broader group it is a degree of means testing and it is actually to do with people having to apply as you know for the discount. So this is relatively straight forward, easy to apply, easy for us to credit the money back to that group. And what we really wanted to do was make sure that what we would consider the most vulnerable we had shielded from today's increase. So that we can then go and have a much broader ranging debate with the regulator around what the long, or certainly the medium term, solution to this particular issue should be. That was the thinking behind the action we took today. It is not a statement of intent, we are not drawing up any kind of boundary lines, we will engage in the conversations in good faith. It is obviously a very, very topical issue it has been a very thorny issue for some time. And I would like to think that we will play our role in now trying to think about how we can resolve it.

Answer: Iain Conn
Iain I think I am right in saying Mark; the 200,000 customers are actually contained within the 3.1 million who are affected. So from an economic point of view, if we manage to rebate them correctly, actually there is only about 2.9 million who will be economically impacted by our price rise, although we have counted them within our 3.1 million because technically speaking it applies to them.

A couple more questions, manageable I think, Jenny first?

Q11. Jenny Ping, Citi
Thanks, it is Jenny Ping from Citi, just one from me. You talked about the volume effect because of the warm weather. Have you done any work or analysis on what part of that decline is actually due to the weather versus just general decline in consumption volumes?

Answer: Mark Hodges
Yes we have seen over many years consumption volumes coming down and there are actually predictions each year, as you know, made. So we tend to see somewhere between about 1-1.5% in terms of homes becoming more efficient over time. People becoming more aware with smart meters with managing their energy efficiency, things

like rolling out thermostats. So there is a general trend. It then gets very difficult because actually you are down to the behaviour of the customers and a warm period following a cold period means that actually people can actually leave their heating on or vice versa so it becomes quite difficult to disentangle in detail. But there is an element of a trend over the last five years that consumption is declining a little bit every year.

Q12. Dominic Nash, Macquarie
Hi, it's Dominic Nash, Macquarie, just two very quick ones actually both on Hive. Firstly you say you are selling 20,000 Hives a week in run rate in the US, is that on target?

And secondly, who is your partner in Italy or what sort of industrial segment are you looking at for your partnership?

Answer: Iain Conn
Firstly it is 2,000 a week not 20,000 a week so far in North America. Clearly we have been selling somewhere in the region of 5,000 – in a low week about 5,000 a week – 20,000 a month. We were with Amazon last week and they were bragging about how many Alexas they are selling and they are measuring that in tens of thousands a month. And we are starting to measure Hives in tens of thousands a month too. So we are at the low end of the tens, but we are hopeful.

Mark then partnerships do you want to say any more? I don't think we probably want to disclose?

Answer: Mark Hodges
No don't want to disclose and I wouldn't get into any territory, but the key point I was making earlier, is we are not restricted to just energy, we are talking to Telcos, we are talking to insurance companies. There are other sectors who are very interested in what our technology can do for their business and their customers. And I think that is actually very exciting.

Answer: Iain Conn
This genuinely is a lot of incoming, it is not us rushing around trying to market Hive to lots of people, we are getting a lot of incoming interest in partnering with it. And the judgement we have to make is who do we select and getting the commercial terms right. But as Mark outlined earlier, many of these companies that are ringing us up are actually, they have got very large customer bases. We have been doing a bit of seeking people out too, but it is quite encouraging the number of incoming calls we have.

Are there any last questions?

Closing Remarks

Well ladies and gentlemen, thank you very much. I mean in summary, a solid set of results. I think hopefully in line with what many of you expected. We have made a lot of progress in strategically repositioning the portfolio this year. And by the end of this year we will have finished phase one of repositioning Centrica after the collapse in oil and gas prices. And we are very encouraged by the platform we have developed to deliver our returns and growth going forward. And obviously we will be talking more about our growth prospects when we meet you again in February. And obviously we have a Trading Update to come later in the year. But in the meantime, thank you very much.

And for those of you who get a break over the remainder of the summer, I hope you enjoy it. Thank you.

End