centrica

27 April 2015

Centrica Interim Management Statement

Summary
Centrica is today providing an update on its business performance. Overall, the Group continues to trade in line with the guidance provided at the time of its 2014 Preliminary Results in February, with improved year-on-year profitability downstream expected to be more than offset by the impact of lower commodity prices on the upstream business. In the year to date, the Group has:

- experienced colder than normal weather in both the UK and North America, resulting in higher than expected energy consumption in British Gas and Direct Energy;
- progressed capital expenditure and cost reduction programmes in E&P against a continued low commodity price backdrop;
- made good progress in strengthening its balance sheet and financial metrics, through the issue of £1 billion equivalent of hybrid securities and the sale of Lincs wind farm debt; revised Moody's credit rating of Baa1 (stable outlook) is consistent with the Group's target to maintain a strong investment grade credit rating;
- launched group-wide strategic review covering: (i) outlook and sources of growth; (ii) portfolio mix and capital intensity; (iii) operating capability and efficiency; (iv) Group financial framework. The outcome will be presented at the time of the Interim Results in July 2015.

The Group's earnings remain subject to the usual variables of commodity prices, weather and asset performance, and the uncertain outcomes of the UK General Election and the Competition and Markets Authority investigation into the UK energy market.

Business update

British Gas
Average British Gas year-on-year residential gas consumption was 10% higher and average year-on-year electricity consumption was 2% higher in the first three months of 2015, reflecting colder than normal temperatures in the UK compared to a warm 2014. The number of residential energy accounts on supply is broadly unchanged at around 14.8 million since the start of the year, reflecting the 5% reduction in our residential gas tariffs from 27 February 2015 and our competitive fixed price and collective switch offerings. We are also dedicating further resource to improve customer service, and have set aside an additional £50 million to invest in this area over the next three years.

We continue to lead the industry in technology, innovation and smart connected homes. We have installed 1.4 million residential smart meters in the UK, and have sold nearly 200,000 smart thermostats, mostly under our Hive Active Heating brand. In March we completed the acquisition of AlertMe, the provider of the technical platform that underpins our existing connected homes activity, and the integration of the business is proceeding to plan.

In British Gas Services, the net promoter score for our engineers increased further from its record high in December 2014, to +69 in March 2015. The number of contract holdings fell by 62,000 to just over 7.9 million in the first quarter, with good retention of existing customers but the environment for new contract sales remaining challenging. In British Gas Business, the number of accounts fell by 28,000 to 826,000 in the first quarter, in a competitive market place. The resolution of transitional issues following the implementation of a new billing system is ongoing.

Direct Energy

In North America, Direct Energy remains on track to deliver material operating profit growth in 2015 relative to a weak result in the prior year. Total Direct Energy gas consumption in the first quarter was 1% higher than the same period last year as, like in 2014, we experienced much colder than normal weather in the first quarter. However a combination of more stable physical infrastructure, market re-design and management action meant we did not see a repeat of the additional costs incurred last year. We continue to make good progress in building our brand in North America. In March it was announced that Direct Energy was joining a range of well-known brands to launch Plenti, the first United States-based coalition loyalty programme, where consumers can earn and use reward points for purchasing a wide range of products.

Direct Energy Business is now benefiting from increased unit margins on contracts sold in prior periods, while average commercial and industrial sold unit margins again improved in the first quarter of 2015, and were higher than in the second half of 2014 for both gas and electricity. In Direct Energy Residential, the number of accounts fell by 62,000 to just under 3.2 million in the first quarter, in a competitive sales environment. We continue to make good progress in Direct Energy Services, although service contract relationships reduced by 42,000 to 855,000 as we focused acquisition and retention efforts on our highest value customer segments. Following the acquisition of Astrum Solar last year, we completed 42% more solar installations in the first quarter than Astrum completed over the same period in 2014, albeit from a low base. Astrum Solar was rebranded as Direct Energy Solar in April.

Bord Gáis

In Ireland, Bord Gáis has performed well in the year to date, with colder weather resulting in higher customer consumption. The number of residential energy accounts remained broadly flat over the first quarter, at around 600,000, while the Whitegate gas-fired power station operated in line with expectations.

Centrica Energy

Our upstream gas and power businesses both continue to be impacted by the low commodity price environment. In E&P, we remain on track to meet our target of a 25% reduction in capital expenditure to around £800 million in 2015, and a 40% reduction to around £650 million in 2016. We have also identified a number of initiatives to reduce costs and remain on track to achieve a £100 million reduction in cash production costs by 2016. Overall E&P production was in line with our forecasts in the first quarter, and we continue to expect full year output of around 75mmboe in 2015. This includes production from the large-scale Valemon project, which came onstream in January.

In March, the UK Government announced changes to upstream tax rates, reducing the supplementary charge on UK gas and oil assets from 30% to 20%, backdated to be effective from 1 January 2015, and the petroleum revenue tax rate from 50% to 35%, effective from 1 January 2016. A new single investment allowance equal to 62.5% of expenditure was also announced, effective from 1 April 2015. These changes are positive for our E&P business, however given current low levels of profitability the impact on 2015 earnings is expected to be limited.

In April, the Federal Energy Regulatory Commission (FERC) issued authorisation to allow Sabine Pass Liquefaction LLC to construct and operate the fifth train expansion at their LNG facility in Louisiana. A final investment decision on the project is targeted in the second quarter, and the project remains on track to enable the first commercial delivery under our US export contract by the end of 2018.

In UK power generation, our share of nuclear output in the first three months of the year was 3.2TWh, up 5% compared to the same period in 2014. This reflects good operational performance, despite the Heysham 1 and Hartlepool power stations only running at 75-80% power. In gas-fired generation, market spark spreads remain low, while generation volumes were lower in the first quarter than in the same period in 2014. In February, we announced that we were planning to close the Killingholme and Brigg power stations. We have now ceased operations at Killingholme, while we are reviewing options for the Brigg site having reduced the plant's capacity. We have also taken the decision to reduce the maximum output from our South Humber plant until March 2017, in response to current market conditions.

Centrica Storage

In March, Centrica Storage announced that due to a technical issue it was limiting the maximum operating pressure of the Rough wells to 3,000 psi, the equivalent of limiting the maximum stock in the Rough asset to 29-32TWh. The maximum level reached in 2014 was 41.1TWh. It is anticipated that the limitation will last for up to six months while testing and verification works are undertaken. These works will determine whether or not it is necessary for the limit to be extended. As a result, the business has suspended the marketing of additional space for 2015/16. The sale of standard bundled units (SBUs) is unaffected by the limitation, and it was announced in April that the average price paid for 2015/16 storage year SBUs was 21.14p/SBU.

Group

On 19 March 2015, Moody's Investors Service downgraded the issuer and senior unsecured ratings for Centrica plc to Baa1 (stable outlook) from A3 (negative outlook), primarily as a result of the financial impact of the fall in energy prices and the continuing political, regulatory and competitive risks in the UK energy supply business. On 25 March 2015, Standard & Poor's Rating Services affirmed its A- (negative outlook) credit rating for Centrica plc. Both ratings are consistent with the company's target to maintain strong investment grade credit ratings.

The Group remains committed to strengthening its balance sheet and in April concluded the issuance of €750 million and £450 million hybrid securities, helping underpin the Group's financial metrics. The Group also disposed of the portion of the Lincs wind farm project financing debt owned by Centrica. The transaction will result in a cash inflow to Centrica of £176 million. Reflecting these actions, the 2015 Group net finance cost is currently expected to be slightly above £300 million.

We continue to engage with the Competition and Markets Authority on their investigation into the UK energy market. Provisional findings are expected to be announced in mid-to-late June 2015.

On 14 April 2015, Centrica announced the appointment of Mark Hodges as Managing Director, British Gas with effect from 1 June 2015, at which time he will also join the Centrica plc Board.

Centrica is due to release Interim Results for the first six months of 2015 and present the outcome of its strategic review on 30 July 2015.

Enquiries

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