14 May 2018

Centrica plc (‘the Company’)

Trading Update

In advance of its 2018 Annual General Meeting to be held at 2pm today, Centrica plc is providing an update on its performance, strategic progress and outlook.

Overall financial performance has been good in the year to date. Colder than normal weather has increased energy demand and the significant commodity price volatility we have experienced has been managed well by our energy supply businesses and Energy Marketing & Trading. High levels of competitive intensity continue in our core markets, however net Consumer customer account losses in the year to date have slowed materially relative to the average of 2017. Growth continues to come through in both Connected Home and Distributed Energy and Power and we expect to reach the milestone of 1 million cumulative customers in Connected Home this week. We are on track to deliver our 2018 growth targets for these businesses, although revenue growth is expected to be weighted to the second half of the year. A number of innovative new products and propositions have been introduced by both Centrica Consumer and Centrica Business in 2018, and those introduced in 2017 such as British Gas Rewards and Local Heroes continue to grow and enhance customer relationships.

In E&P, full year production from Spirit Energy is now expected to be in the lower half of the 2018 targeted range of 50-55mmboe as a result of unplanned outages at Morecambe Bay and production issues on certain non-operated fields in Norway. In Central Power Generation, nuclear volumes will be negatively impacted by the recently announced extended outage at one of the reactors at Hunterston B.

There has been good progress on the delivery of the next phase of cost efficiency. The Company is maintaining a strong focus on financial discipline and remains on track to achieve the 2018 Group targets set out in its 2017 Preliminary Results announcement. These targets are detailed below:

- Adjusted operating cash flow expected to be in the range £2.1-£2.3bn.
- Group capital investment expected to be no more than £1.1bn, including Spirit Energy capex of around £500m.
- Full year dividend expected to be 12.0p per share.
- Efficiency savings of £200m expected to be delivered as part of the Group’s increased £1.25bn per annum cost efficiency programme.
- Like-for-like direct headcount expected to reduce by around 1,000 during the year.
- Closing net debt expected to be in the £2.5-£3.0bn range.

2018 full year financial performance remains subject to the usual variables of weather patterns, commodity prices and operational and commercial performance over the balance of the year, as well as the impact of an uncertain regulatory environment for the UK energy supply business.

Iain Conn, Centrica Group Chief Executive
“2018 has begun well and overall financial performance in the year to date has been good, despite high competitive intensity in all our markets. Our customers continue to see new products and propositions and stable service levels, other than in UK Home Services which was impacted by extreme weather. We are making good progress against our cost efficiency targets. While the outcome of regulations to impose a temporary cap on all default energy tariffs in the UK remains uncertain, we continue to participate actively in the consultation process. Our focus remains on performance delivery and financial discipline and we remain on track to achieve our 2018 Group targets.”

Divisional performance and progress

Centrica Consumer

Consumer account holdings fell by 62,000 in the first four months of the year. Energy supply accounts fell by 110,000 in the UK, largely reflecting market switching trends, and 28,000 in North America, predominantly in the US North East. Account holdings in Ireland, UK services and North America services were broadly stable. We added 91,000 Connected Home customers in the first four months of the year and expect to reach 1m customers in total this week.

We remain focused on developing new customer offers and product bundles. In North America we continue to grow our protection plan customer base, while in the UK we have over 900,000 customers signed up to our British Gas Rewards programme and over 40,000 jobs have been completed through our digital platform-enabled on-demand services offering, Local Heroes. In Connected Home, we have launched a series of new products and integrations in the year to date, including our new camera, Hive View, and our new advanced hub, Hive Hub 360. We sold 255,000 connected home products in the first four months of 2018 and launched our commercial partnership with Eni gas e luce in Italy in April. Connected Home gross revenue over the first four months was up 37% compared to the same period last year and for the full year we continue to target a doubling of Connected Home revenue, 500,000 new customers and over 1m product sales.

We continue to focus on improving customer service levels and customer outcomes. Brand net promoter scores (NPS) were stable while total energy supply complaints were lower across the UK, Ireland and North America in the first four months of 2018 compared to the same period in 2017. In UK services, we experienced an exceptionally high number of central heating boiler breakdowns during the extreme cold weather in February and March. We fixed 145,000 breakdowns in one week, our busiest week ever and more than twice the normal weekly number. We did experience an increase in services customer complaints following the cold weather which have now returned to more normal levels, although additional call-out costs due to the cold weather are expected to result in UK services H1 2018 adjusted operating profit being lower than in H1 2017.

Centrica Business

UK Business has delivered improved operational performance and customer outcomes in the year to date, with a further improvement in brand NPS and lower complaints. North America Business has also performed well, with strong gas optimisation performance during periods of cold weather and higher brand NPS. Competitive intensity remains high for both energy supply businesses, particularly in power retail in North America where delivered unit net margins remained at low levels as indicated in the 2017 Preliminary Results announcement. However, despite these continued competitive pressures, both UK Business and North America Business are expected to deliver improved full year adjusted operating profit compared to full year 2017.

Energy Marketing & Trading delivered strong performance during periods of cold weather and commodity volatility in Q1. We also continue to make good progress in Distributed Energy & Power, with the order book 24% higher at the end of April than at the same point last year. Given the current anticipated realisation of the order book we expect 2018 revenue to be weighted towards H2 and we continue to target a full year increase in Distributed Energy & Power revenue of at least 50% compared to 2017.

In Central Power Generation, volumes from our investment in nuclear were 4% lower in the first four months of 2018 than in the same period last year, largely reflecting higher planned and unplanned outages. In May, it was announced that Reactor 3 at the Hunterston B nuclear power plant would remain offline while EDF Energy, as the operator of the plant, works with the Office for Nuclear Regulation to ensure the long-term safety case reflects the findings of recent inspections and results from other modelling and analysis. The unit is expected to return to service before the end of 2018, with a negative impact on Centrica's share of full year nuclear output of up to 0.6TWh.

Exploration and production

Spirit Energy production has been slightly below expectations in the year to date, predominantly reflecting some unplanned outages at Morecambe and lower volumes from certain non-operated Norwegian fields. For the full year, Spirit Energy is now expected to achieve production in the lower half of the 50-55mmboe targeted range. On development options, an appraisal well has been successfully drilled at the Spirit Energy-operated Fogelberg field which indicated resources ahead of our expectations and flow test results are expected later in May. CSL's Rough asset continues to deliver strong production and is now expected to deliver 2018 full year production in the range 9-11mmboe, slightly higher than original expectations.

Group net finance charge and tax rate

In March, the Group completed the repurchase of £1.1bn of gross debt, at the upper end of the targeted £0.6-£1.1bn range. In line with the guidance given at the time of the 2017 Preliminary Results, this will generate a one-off 2018 exceptional charge of around £140m, and deliver ongoing interest savings of around £35m per annum over the first four years and total lifetime savings of around £300m. The Group continues to target strong investment grade credit ratings and consistent with this, S&P affirmed Centrica's BBB+ long-term credit rating with a negative outlook in April. The 2018 Group effective tax rate is expected to be higher than 2017, as indicated in the 2017 Preliminary Results announcement.

UK energy supply market

The legislative process to give Ofgem a duty to implement a temporary default tariff cap in the UK is ongoing, and while the precise timeline is as yet unclear, we are assuming a temporary cap will be in place at the end of 2018.

We continue to believe that price controls in competitive energy markets are not good for customers and that the actions and proposed measures we announced in November 2017 as part of our 14-point plan are a much more sustainable solution than a tariff cap. We have now implemented the seven unilateral actions we committed to, including ending the standard variable tariff for new customers and the introduction of a new fixed-term default tariff, the Temporary Tariff, which is priced below the standard tariff. We currently have 3.8m customers on the standard variable tariff, down from 4.3m at the end of 2017, and we expect this to have reduced to around 3m by the end of 2018. We continue to drive service improvement, encourage customers to actively choose one of our fixed-term tariffs instead of the standard variable tariff and to improve our cost efficiency to make our energy propositions as competitive as possible.

We continue to encourage the Government and Ofgem to implement the other seven actions we recommend, including levelling the playing field so that customers of all suppliers pay a fair share of energy policy costs. We continue to call for energy policy costs as a whole to be funded through general taxation rather than through people's energy bills.

We are fully engaging with the UK Government and Ofgem during the consultation process. Whatever the outcome of the proposed legislation, we continue to believe we can deliver a sustainable and attractive business in UK energy supply.

2018 Interim Results

The Company is due to release its 2018 Interim Results on 31 July 2018.

Enquiries

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