

## **Iain Conn, Group Chief Executive**

### **Performance and outlook**

Centrica delivered a solid set of results against some quite difficult external aspects, including warmer weather, which has impacted this year's results versus last. As well as impacts from choices we made such as the shutdown of the Morecambe field and the shutdown in the Rough storage facility. And this was offset by some pretty good underlying performance in efficiency terms and particularly in some of our businesses such as energy, marketing and trading.

This resulted in operating profit being down 4% at £816 million and earnings being down 11% at £449 million. Our underlying operating cash flow was flat year-on-year. And we saw continued debt reduction with net debt at £2.9 billion at the end of the period.

We continue to make good strategic progress. And by the end of the year the first phase of repositioning Centrica will be complete.

We've announced and completed £800 million of divestments this year, bringing the total to over £900 million, close to the top end of our targeted range. And as a result, we've seen our net debt fall. And we've redistributed resources into our customer businesses for future growth.

Our strategy is ultimately to deliver not only returns to our shareholders but growth through cash flow growth over the medium-term. And we are targeting 3% to 5% per annum underlying growth.

In 2015 we said that in the early part of the 2015 to 2020 period we'd see our growth significantly coming from our cost efficiency. And indeed, our programme is well ahead of schedule. We are going to be approaching £650 million out of the £750 million programme by the end of 2017, so that's really significantly early. And then in the second half of the period we would expect gross margin growth from our new propositions and customer offers to start to take over from the cost efficiency.

So far, so good. We've developed the capabilities necessary for that gross margin growth. And we are beginning to see some really encouraging signs and the cost efficiency programme is delivering well ahead of schedule. So I remain confident in our ability, having created this platform, to deliver returns and growth over the longer term.

### **Focus on customers**

I believe that the platform we've now created allows us to serve our customers in a much more effective way in our core businesses of energy, supply and services while developing new propositions for those customers and investing in our new businesses for growth. These strategies are responding to the fundamental trends that are changing the energy and services market. These trends are global. And we are equipping ourselves to be able to respond not only in our traditional markets but also in new markets. And I find that quite exciting for the future.

We've made significant progress in both our Consumer and Business divisions, which were established earlier this year to create a consistent, approach to our customers both the residential consumer and the business customer. We outlined significant developments at our capital markets day recently. And these range from investments in new capabilities such as customer segmentation and customer value management through to technology.

We've invested an additional £500 million in resources into the customer businesses since the beginning of 2016, through a mixture of acquisitions, revenue investment for growth and investment in capability and technology.

### **Customer accounts**

Over the last year our consumer division has seen a reduction in customer numbers of some 700,000. Out of this, however, over 400,000 have been because of choices we have made. We've exited certain channels in the market such as the bulk acquisition of customers, we've not renewed those. We've decided to dial back on our door-to-door programme in the United States. And we've ended some trials in the United States on services products. All of that accounts for over 400,000 of the reduction.

That means the net underlying reduction is 276,000 customers. And that's made up of 570,000 or so from the energy business predominantly and growth of about 300,000 in the Connected Home. Those customers in the Connected Home are very valuable with very good gross margin quality. And what we are looking to establish is the trade-off so that we stabilise the underlying numbers and then start to see them grow as we deliver new propositions for our energy customers, new propositions for our services customers and deliver new customers to Centrica through the Connected Home.

### **British Gas electricity price rise**

Today, we've announced after a lot of thought an increase in our electricity tariff by 12.5%, which increases the dual fuel average tariff by 7.3% or £76 taking it to £1,120. The reason for this increase is that transmission and distribution costs and policy costs, which largely affect electricity, have gone up by about £98. And that has been offset partly by our view of wholesale electricity cost, which have gone down by £36, making an increase of £62. The regulator, Ofgem, has also signalled recently that the average costs of the average supplier have gone up by about 15% over the last year.

This is the first time that we have put a price increase through since November 2013. And since that time we have made four decreases to this point. The first one for both gas and electricity and then the last three for gas as we aim to pass-through the costs that we were saving from lower commodity prices to our customers.

The second point that I would emphasise is that many of our competitors increased prices earlier this year. And very publicly we held off implementing a price freeze until August. And, in fact, that price freeze will continue until this increase comes through in the middle of September.

The third point I want to emphasise is that we are very sensitive to the fact that there are vulnerable customers, some of whom are not protected by the prepaid tariff cap that came in earlier this year. There are about 200,000 of them who automatically get the Warm Home Discount but are not protected by that tariff cap. And we have elected, on our own, to protect them from this price increase through a rebate that we will provide them on their bill.

This price increase doesn't affect all of our customers. It affects 3.1 million out of 8.4 million customers because obviously we have many on prepayment metres, we've got many who chose fixed priced products and we've got quite a number who only take gas from us and not electricity.

Finally, I just want to emphasise that this still leaves Centrica's dual fuel tariff, on average, at £1,120... cheaper than 84% of the contracts in the market. We are determined to continue to offer good value, improving customer service and better and better propositions for our customers.

## **UK energy market proposals**

We recognise that this market hasn't served customers as well as it could in parts. We also recognise that it's the role of governments and regulators to set the boundaries in which the market operates.

We don't actually believe that a market-wide price cap would be helpful. We think that it would ultimately reduce competition and choice and not be good for the customer.

As Ofgem considers how to further improve the market we have very clear views on how it should be improved, principally in two ways. There is a lot of discomfort with the standard variable tariff. And even though many of our customers choose it, we are recommending that it's changed so that 'evergreen' contracts, ones that don't have an end, are eliminated and all contracts have an end date. And that this automatic default onto the standard variable tariff is changed to give customers more choice.

The second area of emphasis that we recommend Ofgem look at is to level the playing field for all sorts of costs, from government policy costs such as the Energy Company Obligation to the Warm Home Discount and others, which we think every supplier should now pay for. The smaller suppliers are not required to pay some of these costs. And this puts a disparity into the market.

And now that we've reached nearly 60 suppliers we think it's time to level the playing field. We think these would result in fundamental improvements in the market. And we've made these recommendations in writing to the Department of Business, to Ofgem and indeed to Number 10 Downing Street.