

# POWER PLAYER



Centrica's high-flying group treasurer, Katherine Horrell, talks about ratings, relationships and raising funds

Words: **Sally Percy** / Photos: **Will Amlot**

➤ The modest Windsor headquarters of FTSE 100-listed Centrica made headlines last year when they were picketed by protestors. The protest was sparked by the energy giant's profits in an era of ever-rising gas and electricity prices. A handful of protestors even managed to break into the building and barricade themselves into an office, which they then proceeded to wallpaper with mock energy bills.

Today, a chilly spring day, there are no protestors in sight and the offices are warm (well, when you own British Gas, there's no excuse for keeping the heating turned down) and welcoming. And Katherine Horrell, Centrica's group treasurer, admits that she feels disappointed by the way the company is perceived. "I really believe this company is doing the best it can for its customers and the country," she says. "We are investing a large amount in the energy future. I find it sad to see the British media slating good British companies."

Centrica notched up profits of £2.7bn for its financial year ending 31 December 2012 and Horrell confirms that British Gas is a "cash-generative" business. But she is swift to clear up any misconceptions that Centrica might be sitting on a huge multibillion-pound cash pile that it is stubbornly refusing to spend. The energy company's cash reserves were £931m at the end of the financial year, a comparatively small sum for a group of Centrica's size. "In my time at Centrica, I have managed cash reserves of between £100m and £3bn," Horrell reveals. "But we're trying to hold less cash."

Horrell's strategy of keeping low cash reserves stems from her confidence in Centrica's ability to draw on external funding as and when it needs to. It has £3bn in committed back-up facilities provided by a group of 26 banks, and the group's cash flow is sufficient to cover interest, tax and dividends as well as a large proportion of the group's capital expenditure. Horrell just has to fund any costs in excess of these, such as debt maturities and M&As.

She does this mostly by drawing on the debt capital markets. "The way the markets have moved over the past few years, the capital markets have become a much better place to go for cash funding, especially for a strong credit such as Centrica," she explains.

Last year, Centrica splashed out £1.2bn on a large portfolio of upstream assets in the North Sea, acquisitions that it successfully funded through two bond issuances. The first, in March 2012, raised £750m over 17 years with a coupon of 4.375%. It followed this in August with a further £500m bond that had a coupon of 4.25% and a tenor of 32 years. This bond was the first that Horrell had led since taking up the post of group treasurer. "It was the longest term and the lowest coupon that we've ever issued," Horrell reveals. "At the moment, the low interest rates are quite helpful." On average, Centrica taps the bond markets once a year and it mostly issues sterling bonds. It did issue a €750m bond in 2008, however, which matures this year and may need to be refinanced. "But euros are not my favourite place to go," Horrell admits, "because we don't have a natural requirement for euros and we have to manage bank counterparty risk. We're a lot more nervous on cross-currency swaps than we were in the past."

➤ Centrica has operations in North America and it would consider tapping the US or Canadian capital markets in future. This is most likely to happen if it needs to fund M&A activity or market dynamics change, making sterling too expensive. "Over the past few years, we've looked at currencies where we have natural balance sheet requirements," says Horrell. "But it needs to be the right time and the right opportunity for us." The company has undertaken a few medium-term note placements in dollars, but commercial paper is its main method of funding after bonds.

Maintaining Centrica's relationships with its credit rating agencies, Moody's and Standard & Poor's, is one of treasury's top >

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VITAL STATISTICS

7

the number of countries in which Centrica operates

31 million

the number of customers who have accounts with Centrica

40,000

the size of Centrica's global workforce

£2.7bn

the amount Centrica invested in 2012

£4bn

Centrica's net debt as at 31 December 2012

£18.21bn

Centrica's market capitalisation as at 31 January 2013

£2.7bn

Centrica's adjusted operating profit for the financial year ending 31 December 2012

priorities. Centrica has a prized A credit rating that it zealously aims to maintain at all times. "We help the business to understand how the rating agencies look at investment," Horrell explains. "The key is to keep up to date with the way the agencies are thinking. How the agencies place Centrica in the industry is always part of our strategy." But keeping abreast of the rating agencies can be a challenge since they are wary of the energy industry's large capital expenditure requirements. "You can never be sure that they won't wake up one morning and decide the whole industry should be BBB," she says, only half joking.

Expansion through a mixture of organic growth and acquisition is Centrica's stated strategy. It is also focused on improving financial returns and financial discipline – hence treasury has a vital role to play here. When the company is looking to make an investment, it reviews the potential impact of that investment on earnings, cash flow and credit rating. "There's a suite of financial indicators that we look at," Horrell explains. "When you go through the growth process, you can't just buy for the sake of it. You need to be looking at what an acquisition will do for the company's finances and performance." A valuable tool for Centrica's treasury is the new treasury management system that was implemented last year. Previously, the team had followed a manual process that involved lots of rekeying into different systems. Now, it is automatically linked to four different systems: an online trading system for FX; a confirmation system; messaging provider SWIFT via a SWIFT bureau; and the company's SAP accounting system. "It's been quite a radical change for our daily processes," Horrell confirms. "The processes are still bedding down a little bit, but it's made a huge difference to the way we run our day. We are able to spend more time helping the business."

> Centrica manages its FX exposures across three main areas – balance sheet and funding (which entails hedging some of the balance sheet exposures from overseas operations); the energy trading business (for example, converting US dollars into Canadian dollars according to where the company buys and sells gas); and capex (for example, the upstream production business has dollar-based rig costs that need to be swapped back into sterling). As such, treasury handles FX transactions worth "many billions" on an annual basis although the actual exposure is less than £1bn and that is mainly to meet the requirements of accounting rules. "We trade across online platforms to get competitive rates, but I would prefer to be trading less if I could," says Horrell. Group treasury also hedges interest rate risk although Centrica's energy trading business unit is responsible for hedging exposures in the energy market. Treasury manages counterparty risk as part of a wider process within



the business, which also incorporates the energy trading units, and is overseen by the group risk team. "It's a bit more complex than when it's just part of treasury," Horrell reveals.

Having been appointed Centrica's group treasurer last year, at the tender age of 35, it's hard to escape the conclusion that Horrell is something of a high-flyer. After graduating from Oxford University with a degree in maths, she joined the graduate finance scheme of industrial gas supplier BOC in 1998. Three years later, she moved into a group treasury analyst role – "I didn't know quite what I was doing; I wanted to do a job that wasn't just doing reports every month" – but once she had got there, she found she loved treasury and didn't

Horrell says she's not got her sights on a CFO job (well, not yet anyway). "I'm more concerned with getting to grips with the treasurer role," she explains. "I see myself staying in treasury"



want to leave. After that, she made a conscious decision to pursue a career in treasury, taking a succession of roles in well-known companies, such as printer manufacturer Hewlett Packard and logistics business Christian Salvesen, until she arrived at Centrica as assistant group treasurer in 2008, attracted by the excitement of working in the energy industry. Four years later, she succeeded Tony Kendall as group treasurer with the backing of both Kendall and Centrica's CFO, Nick Luff. Horrell has never seen her gender as an issue in her career, but as she has responsibility for Centrica's graduate finance programme, she is conscious of the importance of diversity. "We get more men coming to assessments and I would like to see more women making the choice to go into finance," she says.

Although Luff is himself a former treasurer, Horrell says she's not got her sights on a CFO job (well, not yet anyway). "I'm more concerned with getting to grips with the treasurer role," she explains. "I see myself staying in treasury." For now, Horrell might still feel she's just getting her feet under the table, but she will undoubtedly be a finance woman to watch in the years to come. ♡

Sally Percy is editor of *The Treasurer*

## KATHERINE'S TOP TIPS FOR SUCCESS:

◆  
**"When I first went into treasury with BOC, I barely knew what treasury was, so I found the AMCT very helpful. I also found the MCT qualification useful, although I did not realise its benefit until a couple of years after I took it. My financial analysis improved, which has been useful later in my career."**

◆  
**"Building good relationships with the business has helped me to be successful - that's keeping in touch with the business, knowing who people are and what they're working on."**

◆  
**"My CFO asks lots of difficult questions because he's very clever and an ex treasurer. The difficult question is the one you haven't thought of before he asks it."**

◆  
**"I'm not really a gadgety person. I'm more of a 'hastily drawn diagram on the back of an envelope' person."**

◆  
**"The best way to wind down after a difficult day is to talk to my partner, do some exercise or gardening, or watch some rubbish television."**

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## KATHERINE'S CURRICULUM VITAE

**March 2012-present**

Group treasurer, Centrica

**2008-2012**

Assistant group treasurer, Centrica

**2007-2008**

Interim treasurer, Christian Salvesen

**2006-2007**

Treasury manager, RHM

**2003-2006**

Treasury consultant, Hewlett Packard

**2001-2003**

Treasury analyst, BOC

**1998-2001**

Finance graduate programme, BOC

**Qualifications**

MCT, CIMA