2016 Preliminary Results Announcement

Thursday 23 February 2017

Iain Conn – Group Chief Executive

Good morning everybody, sorry about that, I was chasing the microphone guy and he was chasing me around the building so apologies. Welcome to Centrica's 2016 Preliminary Results Presentation. Before we begin, just a word on safety in this building, there are no planned fire alarms today and any building evacuation will be announced on a tannoy. Emergency exits are marked at the front and rear of the auditorium and Goldman Sachs staff will direct you to the muster point which is towards the rear of the building on the junction of Stonecutter and St Brides Street.

As usual I am joined here today by our Chairman Rick Haythornthwaite, Jeff Bell with me up here, our Group Chief Financial Officer, Mark Hodges recently appointed Chief Executive Officer of Centrica Consumer and Mark Hanafin recently appointed Chief Executive of Centrica Business. These new appointments represent a final major step in reorganising the Group around the customer with two new global divisions focused on the residential consumer and business customer respectively. Badar Khan, Chief Executive of North America Energy Supply and Services will be leaving the Group in early March to take up a new position. And I would like to thank Badar for all he has contributed to Centrica over the last 14 years.

After some introductory remarks from me, Jeff is going to take you through our financial results. I will then provide you with an update on the progress we have made in implementing our strategy and what you can expect in 2017, before Mark and Mark join us on stage to take your questions. And we expect the Presentation to last to just over an hour to an hour and 5 minutes.

2016 was a year of robust performance and progress in implementing our customer-focused strategy. We delivered our key objectives including improved safety performance, higher levels of customer service and more innovative offerings and solutions. While repositioning the portfolio, building capability and driving significant cost synergies as we build a platform for the future. It was a busy year for the Centrica team and I would like to thank them for their considerable efforts.

Firstly a word on safety. Safe and compliant operations remains our top priority. We have made material progress in 2016, but we manage a range of safety hazards every day in process safety, in customers' homes, working at heights and in driving. We have a strong, improvement programme in place and this gets a lot of management attention and receives first call on our resources.

Let me now turn to the headlines. There are three headlines in today's announcement. First our customer led strategic repositioning is on track. We are successfully shifting investment and focus towards our customer-facing activities. During 2016 in Energy Supply and Services, we delivered new customer offers and we are very focused on improving our customer service levels. For residential consumers we have developed energy offers with more customer control and bundled offers between energy and services and connected home products. In Connected Home, we now have over half a million hubs installed, supported by our proprietary connected home platform under the Hive brand.

While for business customers, the acquisitions of Panoramic Power, Neas Energy and ENER-G Cogen, have added leading capabilities in energy insights, optimisation and energy solutions and are performing ahead of our expectations. I will return to provide much more detail on our strategy for Centrica Consumer and Centrica Business later in the Presentation.

We also made progress in reducing the scale of our asset businesses and in simplifying the portfolio. We have now completed our exit from Wind Power Generation, while in E&P we announced the divestment of our Trinidad and Tobago assets. We are targeting the sale of our Canadian E&P assets this year.

The second headline is that the Group's financial performance in 2016 was robust. Adjusted operating profit and adjusted earnings were up 4% with adjusted earnings per share of 16.8 pence, down 2%, the dilution mainly as a result of the equity placing last May.

Adjusted operating cash flow was up 19% to £2.7 billion and after adjusting for foreign exchange, one-off strong working capital inflows in UK business and for changes in commodity prices between years, underlying adjusted operating cash flow growth was 14%. This is significantly in excess of the 3-5% per annum target on average from 2015 – 2020 and provides a strong underpinning to that objective.

An important driver of cash flow improvement was the strong performance in our cost efficiency programme delivering £384 million in the year with a like-for-like direct headcount reduction of over 3,400. This was a very complex task involving a complete reorganisation of the company. 8,000 people went through a consultation process. Jeff and I will cover this in more detail in a moment. The momentum we have built will continue into this year with a further £250 million of savings expected in 2017.

As part of this, cost performance in E&P was very strong. And when combined with reduced capital expenditure, this resulted in our E&P business being more free cash flow positive in 2016 than in 2015, despite lower commodity prices. We have therefore delivered on the performance improvement and cash flow objectives for E&P we set out in 2015.

As a result of our strong cash flows we made significant progress in reducing net debt in 2016, down by £1.3 billion to below £3.5 billion as we continue to strengthen the Group.

However we continue to face an uncertain economic outlook including, at least to date, continuing low interest rates, uncertain economic growth prospects and yet some early signs of inflationary pressures. In common with a lot of other companies, low interest rates over 2016 meant we saw an increase in our accounting pension deficit.

We have maintained the 2016 full year dividend at 12 pence per share and given the strengths of the Group and our projected cash flows, in the prevailing environment, we would currently expect to restore a progressive dividend linked to the growth in underlying adjusted operating cash flow once net debt is in the range of £2.5 to £3.0 billion.

We believe this net debt level to be our optimum sustainable level with the current portfolio in the current environment and we are aiming to achieve this by the end of 2017.

Finally let me turn to the third headline - the medium term outlook, our goal to deliver both returns and growth and our objectives for 2017.

Given the encouraging underlying momentum we have built in 2016, Centrica enters this year a stronger company. 2016 performance has enabled continued confidence in our ability to deliver at least 3-5% per annum underlying adjusted operating cash flow growth on average between 2015 and 2020. This is the key growth objective established in 2015 as part of our strategic review.

For 2017 we again expect adjusted operating cash flow to exceed £2 billion, sufficient to cover all of our planned uses of cash. When we taken into account the divestment proceeds from the Lincs Windfarm disposal which closed last week, and the targeted sale of our Canadian E&P assets, we would therefore expect healthy free cash flow in 2017 while continuing to invest for the future.

Our organic capital investment (including small acquisitions) is again targeted to be no more than a billion pounds in 2017 and, having now built the base capabilities necessary to compete; in 2017 we will be making an incremental £100 million of revenue investment in our growth businesses, including the full launch of Hive in North America.

We have a lot of exciting new offers and opportunities for growth and I am pleased that we will be able to showcase these for both Centrica Consumer and Centrica Business at our Capital Markets Day which will be on 21st June.

Let me now hand over to Jeff. Thank you.

Jeff Bell – Group Chief Financial Officer

Thank you Iain and good morning everyone.

As we often do, I would like to start with commodity prices. As you can see from the charts at the top, gas, oil and baseload power prices have risen significantly since they rose at the start of 2016, and they are now well above our 35 dollar per barrel Brent oil, 35 pence per therm UK gas, and £35 per megawatt hour of UK baseload power low-case scenario we demonstrated the Groups robustness against last February.

However oil and gas prices were on average lower in 2016 than in 2015 as you can see from the charts at the bottom. Baseload power prices were also lower for most of 2016 before rising sharply in the fourth quarter, resulting in average prices up marginally on a full year basis.

And as a reference, prices remain below the 70-50-50 environment that broadly existed when we set out our strategy in July 2015.

Let me now summarise the financial results. Revenue was down 3% reflecting the impact of lower commodity prices on our asset businesses and on tariffs in our energy supply businesses as well as a small reduction in customer accounts.

As you have heard from Iain, adjusted operating profit increased 4% to over £1.5 billion. Profitability from our customer-facing businesses was up 9% driven by a return to profitability of UK Business and strong Energy Marketing & Trading performance. This more than offset the impact of a lower commodity prices on our asset businesses. Adjusted earnings were up 4% to £895 million while EPS was 16.8 pence per share and the full year dividend per share is 12 pence.

Turning to cash flow. EBITDA was broadly stable at £2.4 billion. Adjusted operating cash flow increased 19% to around £2.7 billion and underlying adjusted operating cash flow growth was 14%.

Total Group net investment including acquisitions and disposals was slightly over £1 billion. While net debt fell to just under £3.5 billion. Average return on capital was 16%.

Net post tax exceptional items generated a credit of £27 million in 2016 with £228 million of restructuring charges and the impairment of our Rough storage asset being offset by write-backs of previously impaired E&P and Central Power Generation assets, and accounting gains related to our disposals. This compares to a £1.8 billion charge in 2015 which included the impact of significant impairments of our E&P and Central Power Generation assets, against a backdrop of lower commodity prices.

Now turning to the businesses.

UK and Ireland Energy Supply and Services operating profit was up 2% to £906 million.

Profits in UK Home reduced 8% to £810 million. Energy Supply profit was down 11% to £553 million, reflecting competitive market conditions and a 3% reduction in customer account holdings. Whilst services profit was flat year on year with a reduction in customer accounts being broadly offset by cost savings.

Our Efficiency Programme delivered a 9% reduction in controllable costs in Energy Supply and Services in the UK and Ireland, although after the impacts of inflation, lower customer accounts and a one-off pension credit in 2015, annualised cost per UK home customer was only down 1%.

UK Business returned to profitability in 2016, following an operating loss in 2015. With the operational issues associated with the new billing and CRM system having been rectified, bad debt costs reduced and operating cost improvements began to take hold.

Ireland again delivered a good performance with customer accounts up 4% and operating profit increasing to €56 million, a 37% increase over the prior year and a 53% increase in sterling.

Adjusted operating cash flow for UK and Ireland increased to over £1.5 billion, primarily due to the recovery of the additional working capital built up in UK Business following the billing issues in 2015, and further improvements in working capital management and timing of payments over year end in UK Home.

In North America, operating profit was £314 million, down 3% on last year in sterling and 17% on a local currency basis.

This primarily reflects the impact of warmer weather on consumption and wholesale commodity optimisation in the first half on North American Business, where full year profit was down 10% or 24% on a dollar basis.

North America Home profit increased 21%, or 6% on a dollar basis, reflecting increased gross margin per customer from focusing on higher value customer segments, and continued growth in the annuity segment of the service business, partly offset by increased losses in our Solar business. Annualised costs per customer increased 3% with cost efficiencies being more than offset by inflation, lower customer account holdings and investment in our growth segments.

However as you can see from the chart on the bottom right, second half operating profit was much higher than in the first half as we benefited from higher forward net margin we had under contract at half year. Our return to more normalised weather, further cost efficiencies and reduced losses in the North American Home Solar Business, as actions we took in the first half to close underperforming regions were realised.

Adjusted operating cash flow was down 13% to £431 million, driven by the same factors impacting operating profit.

Turning now to Connected Home, Distributed Energy & Power and Energy Marketing & Trading. As you can see on the chart on the right, Connected Home revenue increased by 74% reflecting strong growth in the number of hubs installed and Hive products sold. However the business reported an operating loss of £50 million as we continue to invest in developing our technology and capabilities to drive growth.

Distributed Energy & Power gross revenue was also up, while the operating loss narrowed to £26 million, driven by lower costs as a result of the closure of the Killingholme Power Station, and an initial contribution from ENER-G Cogen.

Energy Marketing & Trading profit more than doubled to £161 million, reflecting good trading performance and our ability to optimise a number of our flexible gas contracts in the second half of 2016, and a strong initial contribution from Neas Energy. Adjusted operating cash flow was down, reflecting the timing of tax payments and working capital.

Moving on to Exploration & Production. Production was down 9% to 71 million barrels of oil equivalent. European production was down 8%, despite stable production in Norway, reflecting natural portfolio decline and a longer than expected maintenance outage at Morecambe.

In the Americas total production was down 12% as we reduced drilling activities and shut-in some producing fields for economic reasons in the low gas price environment. Gas and liquids achieved sales prices were down in both Europe and the Americas, with the lower commodity price environment and the roll off of hedges impacting realisations by around £400 million.

Despite the lower production and unit sales prices, strong cash cost reductions - which I will come to shortly - and lower non-cash depreciation charges from impairments taken at the end of 2015 meant that operating profit nearly doubled to £187 million. However adjusted operating cash flow fell as lower revenue was not fully offset by cash cost savings.

E&P has had a strong cost focus over the last two years in response to the lower commodity price environment. In 2016 the European unit lifting and other cash production costs reduced by 15% to £12.9 per barrel. Whilst in the Americas unit lifting costs reduced by 39% to £4.7 per barrel. In total 2016 lifting and other cash production costs were £352 million lower than in 2014.

This reflects both supply chain adjustments in the lower commodity price environment and specific initiatives undertaken by the business, including working with our partners to drive asset efficiency and moving from a regional to an asset based organisational structure, which has reduced duplication and enabled headcount reductions.

These cost savings, combined with a reduction in capital expenditure meant that the E&P business was again free cash flow positive in 2016 despite the lower price environment. Across 2015 and 2016 the businesses generated over £250 million of free cash flow.

Moving onto Central Power Generation, operating profit reduced 41% to £75 million despite higher gas-fired and nuclear volumes, reflecting lower achieved power prices. Adjusted operating cash flow was marginally negative, driven by the same factors impacting operating profit as well as £50 million of payments related to financing arrangements on the wind farm joint ventures. Generation from our share of wind assets was 39% lower than 2015, driven primarily by the disposal of our interest in the Glid wind farm in March.

And finally, Centrica Storage reported an operating loss of £52 million for the year. Revenue was down 40% reflecting low seasonal spreads - the 2016/17 standard bundled unit price was the lowest since we acquired the asset - and well integrity issues which resulted in the cessation of operations for much of the second half of the year. Costs were also higher due to the well issues and increased maintenance expenditure.

We announced last week that Rough would not be available for injection operations until at least the end of June. This will negatively impact revenue and we currently expect Centrica Storage to report an increased operating loss in 2017.

Turning now to operating costs.

In line with our 2015 Strategic Review, total reported operating costs were broadly flat as we absorbed the impacts of inflation, significant 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, operating costs were down 7%, and after excluding growth investment, they were down 8% on a like-for-like basis.

Taking into account controllable costs good sold, you can see here in the graph the progress we have made towards delivering our stated efficiency target.

Foreign exchange movements impacted our 2015 baseline controllable costs by just over £200 million, while inflation added a further £100 million. However, efficiencies of £384 million - roughly half of our total target of £750 million - more than offset these impacts.

As Iain said, delivering this scale of efficiencies has involved a substantial reorganisation of the company and overall direct like-for-like headcount reduced by over 3,400 in 2016.

We have implemented a new organisational structure in our Energy Supply and Services businesses and reduced management layers, allowing us to serve customers more effectively as well as reduce costs and headcount.

As you have already heard, we saw significant savings in our E&P Business.

And the creation of global functions in our large support activities such as IT, Finance, HR and Procurement has unlocked further efficiencies through avoiding duplication, driving simplification and standardisation. The move towards a functional model has also unlocked material savings in third party costs with the consolidation of existing suppliers and a renegotiation of key contracts in areas like IT.

In Procurement, a central view of all expenditure has enabled us to leverage our scale across our existing contracts and deliver further savings.

In addition to the efficiency programme savings, we saw other cost reductions compared to 2015 of £261 million. This comprised of reductions in costs that are non-repeating in nature, for instance one-off charges we incurred in 2015 related to tariff costs in E&P. Other recurring savings, not part of our efficiency programme, such as the normalisation of UK business operating costs and bad debt, and portfolio changes such as the disposals of the Glid wind farm joint venture and non-core North American Service activities.

In total, like-for-like controllable costs fell by over £300 million in 2016 compared to the prior year.

Total net investments, including small acquisitions, was down 20% to £842 million. As you have heard, E&P capital expenditure reduced by 28% to £518 million which includes spend on the Cygnus field which achieved first gas in December. We saw increased organic investment in our growth areas to build our technology and capability.

The material acquisitions in the year were ENER-G Cogen and Neas Energy, and the disposal proceeds of £125 million related primarily to the sale of the GLID wind farm joint venture and proceeds from some small non-core E&P assets. As a result, total net investment was just over £1 billion, 22% higher than last year.

Overall we delivered net cash inflow of just over £1.3 billion in 2016. In addition to the increases in adjusted operating cash flow and net investment, cash interest payments were lower as a result of a one off accrued interest payment received on a shareholder loan, realised as part of the Glid wind farm disposal while cash dividends increased. The other cash flows you see are primarily the cash impact of exceptional charges related to the efficiency programme restructuring and the termination of the Rijnmond tolling agreement in the Netherlands, and pension deficit payments.

2016 also includes the £700 million cash inflow from the equity placing. Excluding the equity placing and the material acquisitions of ENER-G Cogen and Neas Energy, the Group generated more than £900 million of net cash inflow in the year or roughly two-thirds of the £1.3 billion reduction in adjusted net debt.

Let me now turn to what this means for our sources and uses of cash.

You can see here our 2015 and 2016 sources and uses, and also a forecast view of 2017. Our expected level of adjusted operating cash flow in excess of £2 billion would be adequate to fund our £1 billion capital investment plan, the current level of the dividend and our interest commitments. It will also be able to fund other cash flows, such as restructuring, which we expect to be around £150 million in 2017 and pension deficits which having finalised at March 2015 triennial review with the Pension Trustees will result in an additional £76 million per annum over the coming years.

We have also reflected the remaining disposal proceeds equal to achieving the lower end of our half billion to one billion pound disposal programme, which has already been partly achieved through the disposal of the Lincs wind farm joint venture, completed last week.

So the reduction in net debt has had a positive impact on the strength of the Group's balance sheet and credit rating agency financial metrics. As a reminder, our rating with Moody's is Baa1 with stable outlook, and BBB+ with negative outlook with S&P.

As you can see on the graphs, the key financial metrics for both agencies improved in 2016 on a like-for-like basis compared to 2015, although final calculations of the metrics are still to be confirmed with each agency. However, in common with many other companies, the fall in gilt rates post the Brexit referendum and the resulting impact on the discount rate used for calculating our accounting pension liabilities has resulted in the Group's pension deficit increasing significantly. At the end of 2016 this stood at £1.1 billion, compared to just over £100 million at the end of 2015.

As a result we expect our final credit rating metrics for 2016 to be similar to or slightly ahead of 2015 - shown by the purple bars on the right hand side of each chart. With the forecast continued reduction in net debt in 2017 and continued capital discipline, we would expect to be broadly in line with the financial metrics consistent with our existing strong investment grade credit ratings by the end of 2017, given current market conditions.

I would like to finish with our financial framework that we set out as part of the 2015 Strategic Review.

But let me first briefly touch on 2017 earnings per share. It is still early in the year and as is our normal practice at this stage, we are not providing specific guidance. Clearly there are a number of items which will impact us this year differently to in 2016, including the pre-pay tariff cap in UK Home Energy, the Centrica Storage well programme and associated uncertainty with respect to our ability to offer storage products for this coming winter, higher non-cash interest charges resulting from the higher pension deficit and our choice to invest ahead of revenue in our growth businesses.

On the other side, we have material momentum in our efficiency programme. We would assume more normal weather in North America. The commodity price environment is better for E&P and there are a range of possible outcomes in UK energy. We will have a clearer sense of those underlying performance and the full year impact of all of the above later in the year.

Now returning to the financial framework, we have made good progress in 2016, and we are targeting to achieve all elements of the financial framework by the end of 2017. Underlying adjusted operating cash flow growth was 14% and we have indicated that in the prevailing environment, we would expect to restore a progressive dividend once net debt is at £2.5 to £3.0 billion range.

Operating costs were broadly flat despite significant foreign exchange moves as we benefited from our cost efficiency programme. Capital investment - excluding material acquisitions - was less than a billion pounds, in line with our 2016 and 2017 limit.

Net debt fell £1.3 billion to just under £3.5 billion, strengthening our balance sheet and we expect further net debt reduction in 2017. This will continue our progress towards our target of achieving the credit rating financial metrics consistent with our strong investment grade credit ratings by the end of the year.

And return on capital employed was 16%, above our boundary condition in the framework.

With that, let me hand back to Iain.

Iain Conn – Group Chief Executive

Well thank you Jeff.

I would now like to update you on the progress we have made in implementing our strategy.

First I will cover the repositioning of our portfolio and briefly the performance of our asset businesses.

Next I will cover our cost efficiency programme delivery and our efficiency goals for 2017. I will then spend some time summarising our progress in building capability, particularly in technology and innovation which has been significantly enhanced over the past 18 months - and also the launch of a new focus for technology led growth, Centrica Innovations - which we announced earlier this week.

After touching on the UK energy supply market, I would then like to spend some time on our future strategy in Centrica Consumer and Centrica Business.

Finally I will summarise our 2017 targets and outlook.

As we announced back in 2015, we are shifting investment and focus towards our customer-facing activities while reducing the scale of our capital intensive asset businesses. As planned, E&P capital expenditure last year was reduced further by about £200 million to the middle of our targeted range and we are on track to reduce capital and operating resource allocation to E&P and Central Power Generation in total by more than £1.5 billion by 2020, relative to 2015.

At the same time in 2016 we invested an additional £400 million of capital and operating resources in our focus areas for growth. We increased organic capital expenditure and revenue investment in Connected Home and Distributed Energy & Power. We also enhanced our customer-facing capabilities with the acquisitions of Neas Energy and ENER-G Cogen to complement the 2015 acquisition of Panoramic Power.

We made good progress in moving towards an E&P business with production of 40-50 million barrels of oil equivalent per annum, focusing on the UK, Netherlands and Norway. We announced the divestment of our Trinidad and Tobago assets in November and expect the transaction to complete in the first half of this year. And we continue to progress the exit of our position in Canada and are targeting disposal also in 2017. We continue to evaluate all options to strengthen our E&P business including through possible partnerships and joint ventures.

In wind power generation, we have now completed our exit from asset ownership, following the sale of the Lincs joint venture earlier this month and of the Glid joint venture in 2016. In thermal generation, we closed the Killingholme gas fired power station in the first half of last year.

Although we are reducing the scale of our asset businesses, we have also achieved some key milestones operationally.

In E&P, the Cygnus gas field delivered first commercial gas in December 2016, it is performing ahead of expectations and is expected to ramp up towards peak production this year.

Our focus for future developments is on the most attractive opportunities, including ongoing projects at Maria and Oda in Norway. We will also continue with further infrastructure led exploration and we have had a recent success at Valemon West.

I will cover the overall cost efficiency programme in a couple of minutes, but as you have heard from Jeff, our progress in E&P was particularly strong, total cash lifting and production costs were more than £350 million below 2014 levels. In nuclear, excellent operational performance resulted in generation volumes being the highest since we acquired our 20% stake in the UK fleet in 2009.

In Centrica Storage, the Rough asset was unavailable for operations for much of the second half of this year, after we identified an issue with one of the wells in June as part of our ongoing testing programme. We were able to return 20 wells to service for withdrawal operations in December in time for the majority of this winter season.

Our programme to test all of the wells is ongoing. Last week we announced that although we are on track to complete the testing, on a previously announced date of 30 April, Rough would not be available for injection operations before 30 June as we evaluate the test results.

Completing the testing programme will give us the necessary information to assess the future of the asset. Return to injection operations in 2017 remain subject to successful completion of well testing and timely implementation of any necessary remedial actions. Given we don't yet have all the facts, there is uncertainty around available capacity for winter 2017/18.

Let me now move onto our efficiency programme.

Jeff already talked about the strong progress we have made on our £750 million cost efficiency programme across the Group. Although making significant in-year savings is very good, the key goal is to build much stronger and scaleable foundations for our future.

Our 95 projects in 10 major work streams have involved fundamental changes in how we operate and have unlocked significant savings across the Company with the biggest impact in four main areas: the reorganisation of our customer-facing energy supply and services businesses; in E&P; in IT and other group functions; and in our supply chain.

The strong delivery in 2016 de-risks the overall programme and has accelerated value capture. It also provides us with strong momentum as we enter 2017.

In addition to the continuation of our 2016 initiatives in 2017, we will focus on transforming our customer operations using enhanced digital and self-serve capabilities to deliver market leading and lower cost customer service. We will also further optimise our field operations activities in the UK, focusing on creating a more integrated and flexible model to drive efficiency as well as further supply chain improvements.

We also expect further savings in global support functions as we improve process standardisation and pursue a move to global shared services. These initiatives will result in a targeted further £250 million of savings and further headcount reductions on top of the 3,400 roles reduced in 2016. We expect like-for-like direct headcount to reduce by around a further 1,500 in 2017.

The next topic is our progress in building customer-facing capability and technology.

Our strategy is built around the customer. How we fulfil their needs will be crucial to our success.

We have improved our customer service capability and performance: investing in employee training, improving processes and important customer journeys such as “Moving Home”, allowing us to interact with customers in a more personalised and consistent way across all of our channels.

In both Consumer and Business, a greater understanding of customer preferences and more sophisticated customer segmentation is enabling us to develop more targeted offers as we focus increasingly on customer value.

We are now able to offer a greater variety of compelling propositions and offers for our customers utilising our broader product range.

We have invested in our digital platform and an increasing proportion of our sales are now coming through digital channels, with more and more customers now managing their accounts online.

And we are very focused on improving our technology capability, which is playing an increasingly important role in developing offers for customers.

Our markets are changing and harnessing technology and digital skills and innovation will be key to our success, influencing how we compete and the propositions that we can offer. We already have strong data analytics and data science capabilities, allowing us to provide valuable energy insights to our customers.

We now have a scaleable Connected Home platform which has been tested to handle 8 million hubs and we have the capability to develop our own Connected Home devices - launching 5 new products in 2016 - and configuring these devices to different geographies enabling us to launch our Hive product range in North America.

The acquisition of Panoramic Power in 2015 has given us access to technology which allows us to dis-aggregate energy data for business customers, helping them improve the energy efficiency of their operations and gain insight into the performance of their businesses.

And the acquisitions of Neas Energy and ENER-G Cogen have given us the ability to manage and optimise distributed energy systems and despatch assets for our customers and to develop virtual power plant - or “VPP” - capability.

The acquisition of ENER-G Cogen gives us leading combined heat and power capability while we have also been focused on developing battery technology at scale.

On micro-grids and distributed systems, in December we announced a pioneering trial to develop a local energy market in Cornwall, which will see the development of a virtual marketplace and the installation of new technology into over 150 homes and businesses. The programme will allow us to test the use of flexible demand generation and storage, rewarding local people and businesses for being more flexible.

Technology is key to our success, and we have made good progress in developing our own and making a few key targeted acquisitions which have enhanced our capabilities. Given the pace of market change, another important dimension is our ability to nurture and incubate early-stage technology.

We announced earlier this week the establishment of 'Centrica Innovations', a unit focused on innovation and new technology.

Centrica Innovations will enable us to scan for, accelerate, incubate and partner around new innovations. We will do this with both in-house innovations in partnership with our businesses and access and promote external opportunities.

We plan to invest up to £20 million a year over the next 5 years up to £100 million in total. We already have a presence in key locations as we scan for new opportunities - in Seattle, Houston, London, Cambridge and Tel Aviv.

Centrica Innovations will support and accelerate existing in-house ventures by providing tools and methodologies to support rapid growth, such as lean start-up approaches, performance expectations and measurement frameworks.

It will act as an 'incubator' for external ventures which are not yet at maturity level for material investment and require different types of support, for example business expertise, mentoring or product piloting.

All of this builds on what we have already achieved through Ignite, our £10 million social enterprise investment fund, which becomes a part of Centrica Innovations.

The world of energy and services is changing rapidly and technology innovation will play an increasingly important role in our future. Before I turn to our Consumer and Business strategies, let me spend a few minutes on the UK energy supply market.

In June the Competition and Markets Authority published a final report on its in-depth two year investigation into the UK energy market. We believe that many of the remedies will further enhance the market and we are currently working to implement them for the benefit of our customers. One remedy was the pre-payment price cap, the level of which was announced earlier this month. We currently expect the price cap will negatively impact 2017 revenue by about £50 million.

The UK energy supply market is highly competitive with over 50 domestic suppliers and levels of industry churn have increased by around 50% over the past two years. Against this backdrop we are focused on delivering high quality customer service innovative offers and cost efficiency to aid competitive pricing. And the CMA remedy to remove the 4 tariff restriction allows us to provide more choice and be more innovative in our propositions for our customers.

Our UK energy supply competitive position has improved materially over the past two years. Service levels are much better with complaints down 31% in 2016 and we achieved a 10 point improvement in brand NPS over the year.

In the first quarter of 2016 we reduced our residential gas tariffs by 5%. This followed two 5% gas price reductions in 2015, meaning that British Gas is the only large supplier to have reduced prices three times since the start of 2015. We currently have a standard variable dual fuel tariff that is cheaper than 95% of the market.

We also made a number of commitments to our British Gas customers coming into the 2016 winter. These included leaving our domestic standard variable tariff unchanged until at least April 2017. This has now been extended to August with our announcement two weeks ago, enabled by the reduction in our own cost base, despite industry cost pressures.

We are committed to ensuring that existing customers have access to the same energy deals as new customers. And in December we also launched a tariff which allows customers to fix their energy prices through three consecutive winters until March 2019.

Having proactively engaged with half a million of our standard variable customers towards the end of 2016, we intend to actively engage with our remaining SVT customers by June 2017.

As part of this, yesterday we announced a new reward programme, 'British Gas Rewards' which will allow our customers to select personalised benefits ranging from discounted energy linked to how long they have been with us, home services and connected home offers bundled with energy, and even home entertainment propositions. This is backed by a £100 million commitment over three years.

In UK Home, our customer numbers were broadly flat in the second half of 2016. While customer numbers are an important indicator, our focus must be on value, not volume. For the customer, value is represented by fairly priced energy, good service, rewarding their loyalty and giving them propositions they want and need. For Centrica, value means a tighter focus on delivering propositions tailored to those customer segments that deliver economic value to us over a reasonable timeframe. We will provide more insight into our customer segmentation and propositions at our Capital Markets Day.

Household bills are hugely important to our customers and helping them with good value, rewarding their loyalty and providing new offers and services must be to the heart of what we do.

Let me touch on household bills in the UK.

This chart shows the build-up of the average level of the British Gas customer bill since 2009. This is the dual fuel bill. The bill has risen by only 1% per year on average over the past 7 years, materially less than the rate of inflation. This reflects lower commodity prices and lower consumption due to energy efficiency in the home and is despite a 50% increase in transportation and network costs and a doubling of environmental and social policy costs over the same period. We expect further upward pressure on both of these elements of the bill in 2017.

Despite these effects, our profit per dual fuel customer has remained in the range of £42-65 over the same period and at £52 was broadly in the middle of this range in 2016,

Centrica is committed to be a leader in delivering good value, rewarding loyalty and offering new propositions for our customers in the UK, in what is now a highly competitive market. We are demonstrating we can not only position ourselves effectively this way, but also begin to change the market dynamics.

I would now like to focus on the future direction and strategies of our new divisions, Centrica Consumer and Centrica Business which have been organised to serve the residential consumer and the business customer respectively.

Let me start with Centrica Consumer.

Residential consumer demands and desires in Energy Supply and Services are broadly similar across our markets. The home is a focal point for a number of service and added value offerings which we know our customers value and are willing to pay for in addition to receiving good value energy supply.

You can see here where we intend to concentrate our efforts which will be delivered through our Consumer business units - UK Home, Ireland, North America Home and Connected Home.

There are five pillars to our strategic framework, the first of which is the supply of gas and electricity, and the second relates to our traditional service offerings. These two pillars remain core components of our consumer offer.

In Energy Supply, our focus will be on providing value for money, rewarding loyalty and ensuring customers are able to choose from products that meet their individual needs and providing an easy and effortless relationship.

In Services, our unique capability to provide service and repair, fulfilment offerings and being trusted to do so in customers' homes remains a key strength of Centrica. Where 'physical meets digital' is somewhere we will continue to have unusually strong competitive advantage.

The other three pillars reflect areas of customer need, which we are now in a much stronger position to address.

We are focusing on providing 'Peace of Mind' products, not only through our traditional insurance offering, but also including other home risk management and insurance products where we can draw on customer data and our fulfilment capability. We are developing capabilities in remove diagnostics and monitoring for the home.

In 'Home Energy Management', we will help customers better understand their energy consumption, giving them the ability to control it and ultimately offer services to optimise their consumption and generation.

And finally in 'Home Automation', we will provide customers with the convenience of being able to control other home appliances remotely and operate their home under conditions of their choosing.

We are already active in all of these areas today.

And let me highlight some areas of recent progress.

In Energy Supply, cost efficiency and excellent customer service remain core requisites. We delivered material cost efficiencies and saw a significant reduction in complaints and higher NPS scores in the UK, Ireland and North America in 2016. We continue to focus on offer innovation and launched our smart meter enabled FreeTime tariff in the UK in 2016. This follows successful deployment of smart meter related propositions by North America Home in the Texas market.

We are increasingly looking at the bundling of energy, services and connected home products. And I mentioned earlier our commitments to our customers and the British Gas Rewards programme.

In Services, we maintained already high customer service levels and our base of around 12,000 engineers and technicians across the UK and North America gives us strong fulfilment capability to deliver both insurance based and on demand offers, including a new on demand offering we are testing – 'Local Heroes'.

Regarding 'Peace of Mind', Boiler IQ, our innovative connected boiler device and first subscription based product is already in around 30,000 UK households, while the acquisition of FlowGem in the second half of 2016 gives us important access to water leak detection technology which we plan to start offering to customers in 2017.

In 'Home Energy Management', in addition to around half a million Hive home heating control installations, the number of households taking 'My Energy' in the UK, or 'Direct Your Energy' in North America, is now 3.6 million - providing customers with valuable disaggregated insight into their energy usage and allowing them to take control. In the UK we are the leader in the rollout of smart meters which enables this and the development of further real time energy offers and services.

In 'Home Automation', our Hive products can now be interlinked through recipes, for example, setting a command for a light to come on when a motion sensor is triggered. We are also the UK smart home partner for Amazon Echo which allows our customers to control their heating, lighting and devices simply by speaking through the Alexa voice assistant.

While there is much to do, we have made a significant start in expanding our activities and service of residential consumers under all five strategic pillars. Our Connected Home business unit has been key to developing capability for the pillars of 'Peace of Mind', 'Home Energy Management' and 'Home Automation', and I would briefly like to update you on recent growth.

As you can see, we saw a significant acceleration in growth over the second half of last year, reaching 527,000 installed Hive hubs by the end of 2016. And we have now sold over 750,000 Connected Home devices in total following the launch of new products during 2016.

Connected Home is a key growth node and is now becoming material. Residential consumers like the product and are paying for it.

By the end of 2017 we would expect to have installed over one million hubs and to have sold over 1.5 million products, doubling our end 2016 position.

Let me now move onto our strategy for business customers.

As for residential consumers, business customer demands are similar across all our markets, and we also have a five pillar strategic framework in response.

These will be delivered through our 'Centrica Business' division and its associated business units - UK Business, North America Business, Distributed Energy & Power, Energy Marketing & Trading and Central Power Generation.

Energy supply remains a core activity and in addition we will offer a tailored pricing and risk management services.

We will also continue to focus on being a wholesale energy trading partner to business counterparties - purchasing and selling energy commodities and risk products to suit their needs and participating in the wholesale markets. This includes our Energy Marketing & Trading wholesale activities, the LNG Portfolio and the management and optimisation of Central Power Generation and its interface with wholesale markets.

The other three pillars we touched upon briefly at our 2016 Interim Results last July. We will continue to provide energy insights to our customers from data collection and analytics, to help performance manage energy and operations and enable preventative maintenance across their businesses.

In 'Energy Optimisation', we will deliver value for business customers by managing and optimising all of their energy resources and giving them real time control. We will provide a route to market for energy and demand side response to the commodity markets, capacity markets and grid services.

And in 'Energy Solutions', we will be able to supply a full range of multi-technology on-site solutions from a specific product right through to a fully integrated solution, able to design, install, operate, maintain and service our customers energy infrastructure.

Let me update you on our progress in 2016.

As in our consumer energy supply businesses, we delivered improved customer service levels and cost efficiencies, and UK business returned to profitability, following the resolution of our billing issues.

In wholesale energy, we already had strong capabilities which have been enhanced by the Neas Energy acquisition. We have also made good progress in developing our global LNG presence, signing a number of agreements during the year, including with Tokyo Gas JERA, a Japanese joint venture, and an extension to our deal with QatarGas.

In 'Energy Insights', the circuit level energy use disaggregation and analytics we acquired through Panoramic Power is already creating value for the customer, allowing them to take action and save costs or improve utilisation and productivity based on the insights received. 40,000 sensors have already been deployed for a diverse range of customers and we are now receiving 10 billion pieces of data a month from this channel.

Neas Energy has also enhanced our energy optimisation capability. It provides services for 2,500 customer assets including wind farms, solar plants and combined heat and power plants with an installed capacity of approximately 8.6 GW, nearly double the capacity of Centrica's existing power fleet in the UK. It also has analytics and IT capabilities which provide the tools with which we decide how best to optimise our customers' assets to save costs and maximise revenue.

We are building new projects in the UK, including two 50MW fast-response gas-fired units and a 49MW rapid-response battery.

In Cornwall, as I mentioned, with our partners we are developing an automatically optimised local energy market.

In the fifth pillar, ‘Energy Solutions’, we already offer solar PV and energy efficiency advice and solutions to our customers and the acquisition of ENER-G Cogen provides us with significantly expanded combined heat and power technology and capabilities both in the UK and internationally.

So there is a lot going on in all of the pillars of our business strategy.

As I did with Connected Home, let me touch briefly upon growth in our Distributed Energy & Power business unit whose activities span three of the pillars.

You can see here how we have grown the scale of our DE&P business over the past two years. Our flexible distributed energy capacity under contract has grown by nearly 50% over the past two years to 543MW. While following the ENER-G Cogen acquisition we now have nearly 4,000 active customer sites.

As in Connected Home, the technologies and capability we have built in DE&P leave us well positioned for growth and confident to be able to make further investments.

That concludes my review of the strategies for Consumer and Business. We will be updating you in more detail and bringing this to life at the Capital Markets Day in June.

So now let me recap on what deliverables you can expect from Centrica in 2017.

As you have already heard, we expect to deliver adjusted operating cash flow in access of £2 billion again this year.

Per our financial framework, Group capital expenditure will again be limited to £1 billion with E&P capex expected to be around £500 million. Having built the base strategic capabilities, we also expect around £100 million of incremental revenue investment in our growth businesses as we continue to build capability in Distributed Energy & Power, launch Hive in North America and develop subscription commercial models for Connected Home in both the UK and North America.

We expect 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 also expect to see a further reduction in net debt over 2017, targeting to be within the £2.5 to £3.0 billion range.

So let me now summarise.

Our customer led strategic repositioning is on track.

We delivered a robust financial performance in 2016, including underlying adjusted operating cash flow growth of 14%. We built solid capabilities in our growth businesses and paid attention to the underlying efficiency of our core systems and processes. We will continue to invest for growth in both Consumer and Business divisions.

We have continued confidence in delivering at least 3-5% growth per annum in underlying adjusted operating cash flow on average from 2015 to 2020. This confidence has been significantly underpinned by the robust performance in 2016.

In the prevailing environment and obviously subject to final assessment by the Board, we currently expect to restore a progressive dividend when net debt has reduced into the range of £2.5 to £3.0 billion which we are targeting to achieve by the end of 2017.

And finally we are reorganising our customer-facing activities around the residential consumer and business customer and we look forward to showcasing those activities in more detail at our Capital Markets Day on 21 June.

As I said at the beginning, 2016 was a year of robust performance and progress in implementing our customer focused strategy. We delivered our key objectives while repositioning the portfolio, improving capability and driving significant cost synergies as we build a platform for the future.

Thank you for your time, and I would now like to ask Mark Hodges and Mark Hanafin to join Jeff and me on stage to take your questions.

Thank you.

So with that, let's open it up to questions.

Q&A session

Iain Conn

As usual I will field the questions and we will sweep around the room. Can I first of all, I would like to clarify one thing that was raised to me by at least three investors in the meeting just before, over coffee, just before we came in here, which is there is some confusion about one statement on our results announcement, on the first page, in that under outlook and 2017 targets there is a statement, full year dividend at 12p. That refers to 2016. The point of that bullet is, it is in guidance because it talks about in the prevailing environment, restoration of a progressive dividend currently expected when it gets to the range £2.5 to £3.0 billion. Obviously when we get into that range, which as we said, we currently expect to be able to do by the end of 2017, the Board will then be in a position to assess whether it is appropriate at that time to restore a progressive dividend. I just wanted to clarify that. I know a lot of people interpreted it correctly, some people didn't and I realise it is possible to misinterpret it. So I just thought I had better clarify that.

Right to your questions.

Question 1

Martin Brough, Deutsche Bank

Thanks, Martin Brough from Deutsche. A couple of questions.

One was just on the working capital, could you give us an idea of roughly what the working capital balances were in UK Home and Business at the end of December? Were you in a position where you got significant net working capital left for customer or are you actually, do you have positive working capital on those customers? I am just trying to, maybe this is more of a detailed thing, but just trying to look at the Group balance sheet. It seems like the main change in working capital has been payables going up rather than necessarily receivables coming down. I know there is scope changes and things that can shift that, but just to give an idea a little bit on the working capital?

And then the second question was, could you give us an idea about what the net book value for your Canadian E&P business is, did you do an impairment test for that and what is the current net book value? Thanks.

Iain Conn
These sound like questions for Jeff Bell and if Jeff can't answer the question on UK working capital then Mark Hodges will be in the slips.

Jeff Bell
So with respect to working capital, a couple of things happening during the year of course.

Working capital and the receivable side, the billing side, actually coming down particularly in the UK with a result of recovering outstanding debt in the UK business. I think the other factor though that you get in our results, particularly with receivables and payables is December is a high energy supply month between November and December and therefore you get a fair amount of movement between receivables and payables depending on whether it is warmer or colder.

We definitely saw in 2016 compared to 2015 a higher level of both receivables and payables; it was colder in North America and in the UK versus 2015 where December was very warm in both markets.

Canadian net book value is a little bit under a billion dollars. That is a gross number. A 100% value, obviously we have 60%.

Martin Brough
So that is before minorities, gross in what sense, sorry?

Jeff Bell
We only have 60% of it.

Martin Brough
So that is the whole thing. I can see the minority in your balance sheet, okay, thanks.

<u>Question 2</u>

Mark Freshney, Credit Suisse

It's Mark Freshney from Credit Suisse.

Just to make clear on the decision to target £2.5 to £3.0 billion net debt and why now? I understand this is very much tied to the pension deficit. The actuarial review was done a couple of years ago. You have committed to paying 100 million sterling roughly a year out to 2030. So I am just trying to understand why you have taken the decision to target a lower amount of net debt and mark up that pension liability now?

And just secondly on the cost cutting, looking at it holistically, you have taken £400 million costs out of the business which is far greater than any of your competitors could have done. There is at least, I would say at least another 250 coming this year, so why is it not really showing up too much in growth in earnings, if you are running more quickly than your competitors along a conveyor belt going backwards. I would have thought you would be able to capture more of the benefit in the short term?

Iain Conn

So Mark, lots of great questions there. Let me talk about why £2.5 to £3.0bn. I will ask Jeff to talk about the pension situation and the actuarial situation and the funding agreement. And then I will come back and just talk strategically about the cost cutting.

So why £2.5 to £3.0bn?

Really it is about the fact, it is not just about the pension, but it is the fact that circumstances are still somewhat uncertain at the moment in the world and certainly I don't think many of us expected some of the effects we have seen since the Referendum. And we clearly want to restore a progressive dividend when the balance sheet is no longer demanding cash flow to reduce leverage. Now actually we have made a lot of progress. We are below £3.5 billion. In fact with the proceeds of the second windfarm disposal we will be more like £3.25 billion or something, when you take into account some of our organic cash flow which we would expect to be on a free cash flow basis, positive, plus the expected divestment of Canada, you can see how we get into that range. And obviously it depends on lots of things like commodity prices and how we do in delivery this year. But we would expect to be in that range.

And for the portfolio we have got in the prevailing environment, we actually believe that is the right targeted sustainable net debt range and we have calibrated that on a number of different bases and looking at everything from sources and uses of cash flow to credit metrics to the pension deficit and there are rather a lot of variables this year.

And so it is very simply just saying when we do decide to restore a progressive dividend we obviously want to do it firmly in the belief that we have met the conditions precedent from our financial framework and that we are confident that we can sustain it. So that is the reason. It is translated into a net debt range, but there are clearly a lot of considerations associated with it.

Now Jeff, one of the big ones is the pension. Do you want to answer Mark's question?

Jeff Bell

Yes with respect to the pension, there are obviously two common calculations that happen.

There is the triennial valuation that we do every three years with the Pension Trustees, you are absolutely right Mark, we finished that off in the second half of 2016 and I outlined the additional payment.

Separately of course, within our accounts, and using a slightly different set of assumptions and basis, international accounting standards require us to effectively do that on a much more mark to market basis.

That pension deficit is the one that ends up in our accounts and is indeed picked up as part of the net debt calculations by the rating agencies. And that is obviously the one that has moved from £100 million of deficit at the end of 2015 to £1.1 billion at 2016.

We will have to see where interest rates and inflation go from here.

Iain Conn

On your cost efficiency question. Let me take you back to 2015 and our Strategic Review. What we said was we were going to drive cost efficiency so that we could absorb inflation, that we could invest in our own growth and still end up with nominal cost base flat or below 2015 by the time we get out to 2020.

And if you look at Jeff's slide earlier we achieved that in 2016 both on a reported basis and obviously significantly on an adjusted basis when our cost base actually came down. So we are doing what we said we were going to do.

Now why isn't it showing up more in earnings, which I think your question was Mark.

First of all we have had to absorb inflation; we have also had to absorb foreign exchange on the cost base. We are investing for growth, we are building capability in technology and we have had to endure customer losses in the first half of last year in the UK. And there are competitive pressures and we would expect some of our efficiency to be invested in repositioning ourselves so we can compete at scale in the market without being the high priced offer. And that we can invest in offers that are different to just selling energy.

When you put all of those together, actually it has showed up in our performance last year. That is why we managed to outperform expectations. Clearly what we need to do is continue to do that. By the end of 2017 we will have got to a pretty sizeable proportion of our 2020 goal and the sizeable proportion of our headcount reduction goal. We are not changing our target at the moment. But clearly we are making very good progress and we will keep that under review as we go forward.

<u>Question 3</u>

Ajay Patel, Goldman Sachs

So my question is around E&P.

So you highlighted quite a large reduction in costs since 2014, I am just wondering to some extent that is linked to commodity prices and there should be a lag related to that. How much of a rebound would you expect in those costs now that commodity prices have gone up, if at all? Any guidance you can give us on E&P production for 2017?

And then the second question is more about home services. If you strip out UK supply, it looks like home services was down, even if you take into account the pension credit, I was just wondering what is the strategy there? Is it more cost reduction to react to that? Is it that you would expect the revenue or the customer numbers to rebound next year? Or are you taking the offering in a different way that you would like to see some fruit materialise over the coming year?

Iain Conn

Thank you. I am going to ask Mark Hanafin in a moment to respond on E&P and how have we made the progress on costs. I just want to make one comment generically about E&P dynamics. And I will ask Mark Hodges to talk about Home Services in the UK.

The general point I just wanted to make, clearly the point you are making is the cost of goods do come down as sector inflation or rather sector deflation occurs. In my experience over the last 30 years, typically the cost of the supply chain tends to adjust within about a 2 year period of the commodity price move. Now if you get a really dramatic move it might actually take a little bit longer in some parts and faster in others as the pressures become very significant. And really that is what we have seen. If you think of, the price fall started, actually it started about the day after I signed up to join Centrica, if I remember rightly. And that two year period, middle of 2016 and we did see a lot of the cost of goods improvement coming through.

Your question is, what would happen if prices go up? Well my assertion would be, you will see some firming, but right now the supply chain is still under huge pressure because a lot of projects have actually been deferred in time or even cancelled and people aren't rushing to bring them forward again because of price uncertainty and because of the fact that in North America there is still the ability particularly in the Permian basin, to bring on unconventional oil. And this is causing this debate about where will prices settle out. So my guess is it might be slightly slower to respond to the recent uptick simply because of uncertainty in the market.

Now Mark Hanafin, E&P costs?

Mark Hanafin

I think that was a pretty good answer Iain.

I mean look your question was, are costs going to come back as prices recover?

I think Iain gave a very comprehensive answer to the cyclical nature of that and there obviously would be upward price pressure. What I would say though is that the supply chain and the industry got pretty fat when we had a long period of high prices. So I think some of the, a chunk of the efficiencies should be more permanent than cyclical because they just needed to come out and I don't think the industry is going to be quick to go back to the bad ways.

When we look forward during this year, we are still trying to take costs out. My guess is it won't be anything like the same sorts of numbers that we have seen in the last two years and it is probably reasonable to project similar costs this year to last year. But we are continuing to try and reduce E&P lifting and other cash production cost.

Regarding 2017 production, if you exclude North America, broadly I would say around 50 million barrels would be the guidance on 2017.

Iain Conn

Thanks Mark. Anything you want to add on our own costs, not cost of goods, but just on how we reorganise to drive our own costs?

Mark Hanafin

Look, you know where we have got joint ventures we have benefited from partners, particularly in Norway. Statoil have done a terrific job on reducing their costs.

Where we have operational control we have also had significant cost reductions by working with the supply chain, by collaborating with others, by reorganising the E&P business and literally taking out our own operating costs. So that has been very successful and a combination of that plus capital discipline has meant that we have produced more free cash flow in 2016 and even 2015 so over the two year period to produce a quarter of a billion of free cash flow was pretty good given what happened with commodity prices.

Iain Conn

Thanks Mark. And Mark Hodges on Home Services in the UK?

Mark Hodges

Thanks. Look, it is a core business; you know a very important business, something where we think we have a really strategic advantage over the competition.

If you strip the Home Energy component out of the UK Home Division actually year on year, Home Services is flat. If you adjust for that pension credit you mentioned in 2015, the benefit and the underlying profits are up 10% year-on-year. And that is really where some of the cost savings are showing up both in terms of cost of goods, but also productivity and opex savings.

In terms of retention, it is the same across the whole of UK Home; it is something we are very focused on. We actually had a better second half of the year in Home Services. We lost 70,000 accounts as opposed to about 150,000 in the first half, so we are seeing some benefit there. We are doing a lot on pricing, another contributor to the performance, so much more sophisticated insurance based pricing around postcodes, around boiler types, around house sizes, numbers of radiators in houses, which is increasing the levels of sophistication around the way we differentiate prices for customers.

And saying that, I think that is not a bad result, but obviously we are very focused on those customer numbers and there is a shift towards on-demand, Iain mentioned this, the on-demand market is a market where there are probably more than 10 million jobs per year and we do very, very few. We had a very small market share. We have not focused so the business we are building called 'Local Heroes' is really our access to that market and we think that will be profitable in its own right, but actually will create a pipeline back into the kind of contract core services businesses. So that is really how I would view it at the moment.

Lots going on and frankly more we can do, more we can do around the deployment of technology in the field and I think more we can do in terms of making that business more efficient.

Iain Conn

Thank you. Now I am just going to observe that everyone who has asked a question so far has asked three. We are not going to be able to get through it if we do that so can we try and keep it to one or maximum of two components ideally in the same sort of area. Lakis you have been very patient, thank you.

Question 4

Lakis Athanasiou, Agency Partners

Lakis Athanasiou, Agency Partners. I will keep mine to two.

First is on dividend policy. It was fairly obvious I think that you weren't going to move your dividend this year given the pressures on credit metrics. That was pretty much a given I think to anybody looking at your company. But next year you seem to be implying it will ease. How then will you be setting your dividend? Are you going to be using just the operating capital? Please refresh our memories about how you will be looking at the dividend? I know it is not going to be year on year kind of thing, it is going to be through but taken into account.

My second question is on Rough. End of June you can decide what to do with it. Can you give us an idea of timeframe? If you decide you need to shut it down, you obviously want to speak to Government about that. How long would it take to actually start dismantling the thing? And I mean by that - you start producing cushion gas.

Iain Conn

Thank you Lakis. So let me try and tackle both of those if I may.

Just to remind on our policy on dividend. We said that when we restore progressive dividend we intend it to be linked to our confidence in the growth of adjusted operating cash flow. We also said that it will not be mechanistically linked and that is the point which I think you were inferring. So we are not going to be changing the dividend rate according to adjustments in operating cash flow within year.

We will make a judgement broadly reflecting our belief in our medium term growth of adjusted operating cash flow which currently we are saying is at least 3-5%. So that is the policy, it hasn't changed, but clearly it is up to the Board to decide when we are in a place where we can restart that progression. It has been a couple of years of pretty significant shock to the energy system and we want to be sure that, as I said earlier, that the balance sheet isn't pulling on cash anymore and that we are in a position to sustain and meet our financial framework.

On Rough. So the way to think about this.

First of all, Rough is a very old facility and normally gas fields as they age and the equipment gets older and frankly thinner, the pressure in the field goes down. That is not the case in a storage facility. Obviously you keep ramping the pressure up to maximum pressure every year.

Now Rough is due to be end of life in the 2020s. And we took the prudent decision last year to check all of the sub-sea and surface containment in the wells, to see how they have corroded and eroded and also how strong are the seals at the top of the wells.

We will finish this programme around the end of April as we prognosed. Then the question is, okay what does it mean once we have got all the results. You have seen our early disclosures that about half the wells are okay, completely okay, but half of them have some issues. So that will determine the size of the asset that we can immediately have without repair.

And then the other issue we have got to assess is the commercial reality. Jeff showed the spreads which have come down and we think that is partly because Britain is now significantly connected to other sources of gas. And it is the combination of these two, the physical and how much it will cost to remediate and the commercial that will determine the options we have got for the Rough field.

Now the final point of your question was, at the very end of life, when we decide Rough no longer can continue to be a storage facility, it will ultimately need to produce the gas that is left in it. It will effectively become a gas producing field and then it will be decommissioned. I can't give you a detailed prognosis on that yet until we know when that is. As I say we currently believe it will be in the 2020s and that is how the asset is reflected on our books.

Question 5

Jenny Ping, Citi

Hi, Jenny Ping from Citi. Two questions please.

Firstly just a clarification on the dividend point. You obviously talk about the £2.5 to £3.0 billion at the end of 2017. So should we expect first half dividend to be flat year-on-year and then you make up any difference in the second half? Or how is that mechanistically going to work?

And the second question, you specifically highlight there are a range of options or a range of possible outcomes on energy supply in terms of outlook for 2017, can you talk about what your anticipation is for that range? What are the possible outcomes that you are thinking of? And how much dialogue have you had with the Government? Thank you.

Iain Conn

Okay. I mean on the dividend policy, first of all it is not mechanistic and it is up to the Board at each period clearly to decide what they are going to do.

What we have simply said is we expect to get into that targeted range in 2017. That is what we are trying to achieve. Now I doubt we are going to do that by the middle of the year. If we did and depending on the conditions prevailing at the time, the Board will have to assess what it wants to do with the dividend. But it is too early to give you a first half, second half split.

What we have traditionally done is based the first half dividend on the full year, prior year dividend as a proportion and I expect that is probably what we would do, all other things being equal.

On the energy supply outcomes, I think it would be good Jeff if you, you mentioned that in your script, but I mean the bottom line on outlook for this year, it is pretty early and there are lots of parameters, but on the UK energy supply outcomes Jeff?

Jeff Bell

Yes and I think there was a second half of that which was around discussions with Government and where we are with that for maybe Mark or yourself.

I think clearly at this point in the year, a wide range of outcomes with respect to the business. Clearly the progress around the fact that we have frozen prices between now and August and what that means for customer accounts.

Commodity prices though and weather are the two biggest in year impacts that we have in terms of our business, in terms of external factors. It is one of the reasons why we don't give guidance at this point, there are too many factors there. But there is an enormous amount of things that Mark and the team are undertaking around the things that we can control in terms of engaging customers in terms of producing new offers.

We mentioned this morning about the BG Reward Club. And so there is a whole litany of things we are undertaking that is both investment from our perspective, but also the opportunity to engage with customers.

Mark I don't know if you want to add to that?

Mark Hodges

Yes we are in dialogue with Government and the Regulator.

We have a firm belief that there is no need for any intervention in the energy market, that the CMA remedies were exhaustive and after a very thorough review, should be given a chance to work through.

We are seeing lots of competition. There are over 50 suppliers as you know. We are seeing companies take different approaches to pricing so there isn't a kind of herd mentality which is one of the accusations that has been sort of laid at the industry's feet.

And so we believe the competition should be allowed to thrive. And from our perspective as Jeff said, we have a very, very clear plan. We are focusing on retaining valuable relationships. Iain mentioned the debate around value and volume, it is not just about customer numbers.

We are continuing to improve our service and where we saw improvements in 2016, we are not stopping there, as you would imagine. We are broadening our offers; we have more to bring to market in terms of innovation.

We have launched the rewards scheme which we see as a major intervention to both reward loyalty, but to differentiate what we do for our customers from the competition.

And we will keep lowering costs, we talked about the target for 2017 and a chunk of that will obviously fall into the UK and into the UK energy supply business.

And then the last thing I would add that we are doing for customers, which we think is good in the round is obviously leading on the smart meter rollout.

So put all of that together, we don't think there is the need for intervention and we think we have a very, very clear plan of action that will help us win, retain customers and frankly will mean that we can also bring the rest of our strengths to bear. We just talked about services, I still believe that with our brand and our product breadth beyond energy, we have an advantage over the competition.

Iain Conn

Thanks Mark and Jenny, I mean the conversations with the Government have been constructive at all levels and I think the Government clearly are saying, prove it. Competition Markets Authority, just change the rules a bit, prove it. And I think we are proving it by what we have done on price, the price freeze, the loyalty programme, all of these things.

And actually some of the more vocal critics of us, some of the new entrants, suppliers who have been criticising us in the last few days, if you actually go and look, their variable tariff is actually above ours and their fixed tariff is pretty much the same as ours. So I find it a little bit bemusing, but maybe people just haven't caught up with the fact that we are offering prices that are rather better than they used to be.

Question 6

Deepa Venkateswaran, Bernstein

Thank you. Two questions from me as well. The first one on the cost efficiency. Can you say how much of that is from E&P? I know you said the £350 million savings were up from 14, so if you can let us know how much from 15, so we can work out how much of that contribution was from E&P?

And second question is, your incremental revenue investment of £100 million you talk about, how should we integrate that? Is it funded out of the £250 million of cost reductions you have or is this a headwind to your profit next year i.e. we should put £100 million lower profit?

Iain Conn

Let me take the second one in a general sense and then I will ask Jeff just to touch on the E&P point on costs year-on-year. I am not sure we are disclosing that, but let me leave that to Jeff.

On the £100 million, obviously we don't tie it to a particular, the cost efficiencies pay for that or you can think of it that way. We did say in 2015 that our cost efficiency programme would fund our growth, would create the space to fund the growth. In terms of how you should treat it in your models and so on, obviously I can't guide you on that, but the way I encourage you to think about it, is it will produce some revenue, but realistically that type of revenue investment, launching Hive in North America, building capability in Distributed Energy & Power, building capability in Energy Marketing & Trading, these things aren't necessarily going to see the revenue stream come forth in the current year. So I would say most of that additional cost will actually flow to the bottom line and therefore will impact profit in the short term.

It is quite a material investment that we are making as we kick start growth in these businesses and obviously we will see the revenue stream coming from it. But in the early stage I would expect it to have a downward impact on earnings.

Now Jeff on cost efficiencies in E&P?

Jeff Bell

Yes I think there are a couple of things in there.

In terms of the £384 million which we count as true efficiencies, we don't give a specific breakdown, but you take kind of broadly, a third might be from the asset businesses and two thirds from the customer-facing businesses. I think the other thing though is when we talk about the E&P costs and if you think back to the slide where I showed the costs we delivered over 2016, there was not only the £384 million of efficiencies, but there was about £260 million of other cost reductions as well.

So included in the £352 million for E&P it is not only their share of the efficiencies, there is also a proportion of those other cost reductions which because of volume metric reasons or because they were one-off in nature.

We don't give ourselves credit from an ongoing efficiency perspective, but did actually help reduce costs within the E&P business. The other thing obviously is what I was showing was just one year, for E&P we have talked about '14 versus '16. So there are also cost efficiencies that were delivered in 2015 as well.

<u>Question 7</u>

Iain Turner, Exane

Yes Iain Turner from Exane, two questions if I may.

You are obviously quite concerned about credit metrics. Could you talk through what the implications would be if you had a downgrade from here?

And secondly, looking at the segmental analysis that you produced at the back and thanks very much for producing that earlier that is much appreciated. You are showing I think a 15% margin in stand-alone gas, and I appreciate dual fuel is more than just gas only. But if you are a legacy gas only customer, aren't you actually getting quite a bad deal at the moment?

Iain Conn

So Jeff credit metrics and Mark Hodges on the gas only customers.

Jeff Bell

On credit metrics I think as we have talked about at other points in time, the impact of a one notch downgrade would be measured in hundreds of millions of pounds, primarily relates to additional decommissioning liabilities that we would have to post collateral against in our North Sea E&P asset, also with respect to our energy procurement and trading businesses, on the bilateral relationships that we have with counterparties that lower our credit rating, when all of those start to come in.

There is obviously a longer term and strategic impact to it as well, our long term procurement contracts that are on very favourable terms for us, are based on the fact that we are a strong credit counterparty. Clearly at the same time, we set the business up, if it was downgraded you know we can operate at that level, but we would be looking to return to the strong investment grade current ratings, BBB+, Baa1 that we have signalled previously.

Obviously ultimately that judgement is the rating agency's to make and what we are focused on is ensuring that we achieve the financial metrics consistent with that as we indicated on track to do that by the end of 2017.

Iain Conn

Thanks Jeff and we are not overly focused on credit metrics, it is just one component of our financial framework and we want to live within that financial framework. If we deviate from any element we will try and get back as soon as we can, but we would like to get to meeting all criteria in that before, for example, we start to restore progressive dividend.

Mark Hodges, gas only margins?

Mark Hodges

Yes it is a dual fuel market primarily as you know which is how we look at it, but one of the reasons we are launching the Reward scheme is so that we can recognise the different value relationships we have with different customers.

We work very hard to make single fuel customers, whether it is gas or electricity, aware of the benefits of being a dual fuel customer, by which they get some discounts in the way we engage with customers when they call in. So we are very heavily promoting to our gas customers the fact that they can take electricity.

But we are very watchful. You can see the difference in the margins per fuel, it is something that we are keeping a very close eye on and we will have to keep a close eye on as we go through the rest of this year.

<u>Question 8</u>

Ed Reid, Lazarus

Two questions.

The first one is on gas storage. I think Rough is about 75% of UK gas storage capacity. As you said it is becoming older and more unreliable. Do you think the UK needs more gas storage?

And the second question is on smart meters. You clearly lead the field on smart meters. I guess two subsidiary questions on that is firstly on inter-operability of the smart meters. Are you confident that they will be inter-operable? And then secondly on domestic settlement, how important is that in terms of getting full benefits from the smart meter allowance?

Iain Conn

I will leave the power by the hour if you like or real time tariffs to Mark Hodges as I will the inter-operability of smart metering.

Just on storage, whether or not the UK is short is a judgement that I think the Government will need to make. Rough represents about 70% of the UK's gas storage and the UK has a very low ratio of storage to the size of the gas market relative to continental Europe. But now of course we are plumbed into continental Europe and so we effectively are plumbed into a bigger tank.

And so one of the biggest dilemmas for the Government having spoken to them is - is that enough? And it is perfectly okay, I think, provided those pipes are flowing and the scenario and often the comment I get back from the Government is- well of course no one is going to pay for the back up until you need it. And that has got them into this situation with the capacity market in power generation and don't know where they are going to go on gas storage.

Rough does represent about 10% though of a daily peak requirement and so it is a very important swing asset in really tight pinch points. At the end of the day Rough is going to end its life, there is no question it will at some point. It has to redevelop the whole thing at some point and it is difficult to see how the economics are going to make that sensible.

The Government has looked at other fields in the past.

We, before my time, proposed one of them and the Government nearly went for it and then decided not to. So it is a dialogue that we are in and it is a strategic question really for the country, I don't know the answer at the moment.

So on the other two, Mark?

Mark Hodges

Yeah smart meters, as you said, we are leading the way; it is something we have made a conscious choice to do.

We think that it brings significant benefits to the end consumer. We know they are happier as smart meter customers, typically about 10% happier in terms of net promoter score; it helps us to reduce cost because as you know we are removing estimations and it really helps with the whole billing process.

It also gives us data and the ability to design new products. So the home energy FreeTime product we launched earlier in the year where you get a free Saturday or Sunday is something we can do with smart meters.

So it is all part of the innovation. I would actually say the kind of half hour settlement regime is kind of wrapped up in all of that. Just potentially more data, more flexibility.

But the core question I think was about inter-operability. I mean SMETS2 is coming later this year, we are fully engaged in the whole process with DCC as you would expect.

We expect to be in the pilot stage around May time this year with scaling taking place later in the year.

Am I slightly concerned? A little bit because it has been delayed a number of times, but it is in test as I say in a matter of months.

And in terms of SMETS1, the market has to find a solution and there will be a significant number of SMETS1 meters out there so we have to find a solution. We believe that will happen, we know it is being worked on.

We already know that there are some very, very small use cases about there about making SMETS1 meters inter-operable, so I am pretty confident we will find a solution as we go towards the 2020 deadline.

<u>Question 9</u>

Fraser McLaren, Merrill Lynch

Morning. Also two questions.

Firstly on Connected Home, you mentioned the target to reach one million overall hubs this year, how many do you think it would need in order to be profitable?

And then on UK Home, can you say a little bit more about how the balance between British Gas and Sainsbury's accounts has moved, especially in the second half? And is it fair to assume that the latter are less profitable?

Iain Conn

I think both of those are for Mark Hodges?

Mark Hodges

It has not moved in terms of materiality, Sainsbury's and British Gas and in terms of profitability, in terms of margins overall, I mean it depends really on where we are on pricing.

You noticed that we have increased the pricing significantly on Sainsbury's over the past 6 months. This is back to the debate we were having earlier that we are interested in balancing value and volume. We haven't been in any collective switches for the last 5 or 6 months, Sainsbury's was a useful tool for us being in the market as commodity prices were a bit lower. But the mix, broadly, I don't think is unchanged.

In terms of Connected Home and profitability, I would not link it directly to the number of hubs and kind of just draw a direct link as we hit this number of hubs we will hit profitability.

As we move to a subscription model, obviously which we are now running in the UK, there is an offer right now for UK Home Services customers at £9 per month, we bear the upfront cost of goods effectively as the consumer takes on the product. We think that the gross margin over the lifetime of that relationship will be higher, but effectively the more we sell, the more we will be bearing that upfront cost. This is one of the issues I really want to go through in detail at the Capital Markets Day so that you can all understand what that process will look like.

So I would not tie the two things together, but a million is a pretty significant ambition, that will come through launching in North America, that will come through the launch in Ireland as well which we should not forget as well as really advantaging British Gas customers here in the UK.

So we are excited about where we are in the development of Connected Home in terms of the ecosystem, the propositions, we have more to bring to market this year. Leak is something you know we have acquired and is out there. So I think it is a big year for Connected Home and we are excited about what we are doing.

Iain Conn

Fraser on that, just one thing I would add, I can assure you that the gross margins are very healthy.

The real question is, how deep is the 'J' curve and how sharp will it be on the other side upwards? And so far so good.

Just to give you a sense, our estimates are in terms of distributed assets in Connected Home, at one end you have got people like Amazon who could claim, although it is largely through their marketplace, to have four million installations. We are in about the top ten in the world and there is probably hundreds - well there are hundreds and hundreds - much smaller than us.

One of the things that we have got is the customer base that we can deploy this through initially, but we are also selling direct to customers over the internet, who don't take energy from us and we are seeing high satisfaction and good gross margins.

I was in the Apple store in Regent Street the other day and I was very pleased, in their bit upstairs, where they have got all of their partner devices, there was Hive selling - I am pleased to say - at £249. So anyway, moving on.

Question 10

Ashley Thomas, Societe General

Ashley Thomas from Soc.Gen. Two questions. One on longer-term credit metrics and the other on CMA.

The Regulator looks at IAS19, but on the actuarial, given it was set in March 2015, presumably were it to be done today it would have deteriorated? Are you comfortable that when you look at the post 2018 repair contributions that they won't need to be increased ahead of the next triennial?

And on IFRS16, on capitalisation of operating leases, I know it doesn't come through till 2020, but will it just encompass vanilla operating leases or will it also encompass your LNG and gas transport commitments which cumulatively are about £5 billion, that is, credit metrics?

On the CMA you know should the Secretary of State direct Ofgem to introduce a new licence modification to broaden price regulation and, should you then appeal to the CMA, does that defer the introduction of that price regulation or would it be introduced and then reviewed retrospectively?

Iain Conn

Jeff, why don't you take the credit metrics points and I will touch on the CMA.

Jeff Bell

Ashley the assumptions around and the basis on which we do the triennial valuations are slightly different than the way they are done for accounting purposes on a like-for-like basis.

It would be a higher deficit than when we agreed our deficit based on March 2015. We remain in dialogue with Pension Trustees around all of that as we start to, three years comes around fairly quickly when it takes sort of 18 months to do the first one. So you wouldn't be surprised we are already thinking about different scenarios for two years down the road.

I think a lot could potentially change over that period, we have seen quite a reduction in discount rates and effectively based on some gilt yields in the UK just in the last 8 or 9 months for a couple of years. So we will have to see how that plays out. And obviously would be in a discussion with the Pension Trustees at that point about whether or not, depending on where the deficit ends up at that point, about what we do and the different options at our disposal.

On operating leases, IFRS16 doesn't come in yet. We don't think the specific sorts of transactions you have discussed would be caught.

Iain Conn

Okay and on the CMA I think it is a bit of a hypothetical question.

We would have to first of all determine what the Government was going to introduce that was going to impact us that we had to appeal or whether we should actually change our business model in response. I think it is a bit hypothetical because the Government, from my experience, are certainly not certain to be intervening and even if they did decide to, they are not really sure what to do because what they don't want to do is become the price setting mechanism perpetually and the real issue is, if they start regulating, when do they stop? Do they stop?

It is difficult to answer and we would have to weigh up whether we would want to respond commercially or whether we want to respond legally and I think my guess is that if we did make a formal appeal it might stay an implementation. But I think it would depend on how and how many people made an appeal.

And Gus what did you have on your mind?

<u>Question 11</u>

Gus Hochschild, DECC

It is the other side to Lakis' question and an extension of Ed's question. Talking about Rough, and if you were to keep it and the operation to the mid 2020s, even at a 50% level what sort of order of magnitude of capex are we talking about?

Iain Conn

Honestly Gus, don't know yet.

We have to first of all assess the condition of the asset. The condition of the asset will determine how much remediation it requires and therefore how much capital. The condition of the asset will determine which scenario we want to pursue. Is it the same storage asset? Is it a smaller storage asset? Is it not a storage asset? We just don't know. So I am afraid, can't answer that but we are going to attempt to get to the place by June when we have evaluated everything and we have got some clear paths forward.

We do need to engage the Government as quite an important stakeholder in this as we do currently have a licence obligation on a rolling calendar basis to offer this asset to the market. That is really all I can say.

Iain Conn

Three more questions, I am going to see if we can do this quite briefly.

<u>Question 12</u>

Sam Arie, UBS

I will make my question very short, but I would just like to come back to the numbers you put out in the segmental statements for UK Retail.

You mentioned the 15% EBIT margin on gas, but also -4% on Elec, and I think if I do the calculations right, there seems to be that your overall supply margin has ticked up to about 6% and on the residential side somewhere over 7%. So I guess I would be interested in whether you think 7% average or 6-7% factoring in your £50 million on the pre-pay cap is sustainable going forward?

And then secondly on this gap between gas and elec, whether this is really important and critical that you continue or whether we can expect some rebalancing and reduction of that very high gas EBIT margin.

Mark Hodges

Sorry but I have to refer you back to the previous answer which is rather dull, because I am not going to comment on our intentions.

We are very, very aware of the difference between the gas and electricity margins. We are very, very focused on dual fuel and making sure that those products are available to all of our customers.

We have launched a Rewards scheme as I have said so that we can reward things like tenure and recognise the value of the relationships with customers that we have. And I also said we are very, very watchful. You know it is a gap has increased, largely because the electricity costs have been increasing as has already been discussed. You know it is something we will keep under review.

We have frozen our prices now through to 1st August so that commitment remains in place. This is something we will have to look at as we think about what happens next.

Iain Conn

We are into the quick fire round now. 1, 2 and 3, and that is it. But they need to be quite short please.

<u>Question 13</u>

Dominic Nash, Macquarie

Hi there, yes this hopefully will be fairly short. It is one question with 23 sub-sections!

The Government is coming up with a Green Paper I think in April on Consumer that may or may not touch onto energy.

What is your feeling on the scope of this Green Paper and how it can impact you?

Iain Conn

Don't know. What they have said is that they are going to come out with a Green Paper on the functioning of consumer markets and how or how not they are serving the consumer.

As a betting person, I have to believe it is going to have an energy component, the degree to which it does will depend on how we have all behaved in the market and how it is changing between last summer and now.

I suspect it will have a consultation element associated with it and a consultation period. I don't know how it is going to affect us; it really does depend on what they come out with. So I am afraid that is a really difficult one to answer, sorry I can't say more.

Question 14

Olly Salvesen, Jefferies

One quick question on North American customer account losses. So do you think the trend we have seen in both energy supply services and on demand jobs will continue into 2017?

Iain Conn

We don't actually think it is necessarily the case that we are going to see the same trends. We are seeing some difficult trends in some bits of the US market for example; we stopped door to door selling in many of our markets. It is a very controversial channel and it is very difficult to control. That has had an impact on the positive side.

We are seeing strong growth on annuities products and warranties and that mirrors our skills in the UK. So I don't think it is automatically the case we are just going to see a continuation is how I would answer that.

Question 15

Chris Laybutt, JP Morgan

Just one question on your provisions, very quickly. They have increased around £3 billion in your balance sheet. What proportion of that is decommissioning costs?

And the second part of that question really is, Shell has indicated that they are looking to keep the concrete legs in place and not remove them. Do your decommissioning costs or provisions include the cost of removing those legs or not?

Iain Conn

Let me answer the second part and I will ask Jeff to say what is in our provision.

In the Gulf of Mexico, which has done an awful lot of the shallow decommissioning of offshore installations in the world, there has been a move to what is called rigs to reefs. And actually it is not some sort of scam where you just leave a bunch of stuff lying around, it is very closely monitored. But actually it really does help the marine wild life and coral and ultimately the eco system. So it is perfectly valid thing to do.

I don't know though whether the British Government are going to decide to permit or not. I believe I am right in saying that our own provisions are based on industry average assessments which I believe largely remove all structures and so they do not include leaving large structures on the seabed I believe, but we are looking at all different ways in which to meet our decommissioning liabilities, not just in terms of minimising the costs, but doing the right thing. And we are in the very early stages of this and there is going to be a big learning curve. Jeff.

Jeff Bell

Most of that provision of decommissioning liabilities is in our full financial statement, it breaks it out in more detail.

Iain Conn

Ladies and gentlemen, I would just like to thank you all for your interest.

Centrica is moving to a different place. I hope that we have demonstrated the significant progress. I think the results for last year are robust. I hope we have clarified the positions on the dividend and our expectations for this year and at our Capital Markets Day on 21 June, we will be unpacking the strategies for Consumer and Business significantly more, and giving you a chance to see exactly what we are doing in each of those.

And we also have a Trading Update around the time of our AGM on 8 May, so there are a couple of opportunities for us to give you an update in the next few months.

Thank you very much for attending, much appreciated.

End