2014 Preliminary Results Announcement
Presentation Transcript – 19 February 2015

Iain Conn – Chief Executive

Well good morning everyone and thank you very much for coming today. This is the first time I have had the opportunity to address you directly, having joined as Chief Executive on 1 January. Our Chairman, Rick Haythornthwaite, is here in the front row and I am also joined today by Jeff Bell, Interim CFO, Mark Hanafin, Head of Centrica Energy and Ian Peters, Head of British Gas.

We are going to take about 50 minutes for our presentation. Before Jeff goes through the results in detail I will talk about the impact of oil and gas prices on the Group, our response and the thinking behind the difficult decision to re-base our dividend. I am extremely aware how painful such a cut will be for our shareholders.

After Jeff has finished, I will talk about my impressions of the business and our response to the current environment and say more about the strategic review that we have announced today. Mark and Ian will then join us on the stage to take your questions.

Since starting 50 days ago, I have spent a lot of this time visiting our operations, meeting our teams, getting an early view of how we serve our customers and building a deeper understanding of the Group. I have also spent time since December, meeting key external stakeholders, including our Regulator, NGOs and opinion formers, the media and politicians from the three main parties. These interactions have underscored the fact that Centrica occupies a vital role in the energy affairs of the UK in particular and also in the US and Ireland. We are a customer facing company and our principle role is to deliver excellence in the supply and reliability of energy and services to those customers.

Although we are facing some significant challenges at present, it is clear to me that Centrica has built a solid set of positions from which we are going to be able to continue to play an important role in the developing energy markets on both sides of the Atlantic.

The needs of our customers are changing and they are demanding secure, reliable, affordable energy and a sustainable approach to its provision. Meeting those needs is a huge responsibility. I am already impressed by the quality of our people and their commitment to serving our customers competitively and with integrity, developing new offers and services and providing secure and reliable energy supplies as we aim to deliver long-term shareholder value. I would like to thank Sam Laidlaw for his leadership and development of the Company over the last 8 years.

As you will have seen from our announcement this morning, 2014 earnings were significantly down, impacted particularly by the weather and falling oil and gas prices during the year. Group adjusted earnings in 2014 were £962 million, down 30% relative to 2013. Earnings per share were 19.2 pence, relative to 26.6 pence in the prior year.

Before Jeff takes you through our 2014 results in detail, I would first like to cover the impact of oil and gas prices on the Group, our response and the thinking behind the

Board's decision to re-base the dividend. I am extremely aware of how painful such a cut will be for our shareholders including all of our retail shareholders.

Let me start with oil and gas prices. Brent oil prices have lost about half their value falling from $110 dollars a barrel in July to $80 dollars a barrel at the time of our Interim Management Statement (IMS) in November, to today's level of around $60 dollars. Gas forward wholesale prices for 2015 have also continued to fall from a forecast average level of 55 pence per therm as recently as mid-December, to 49 pence today. The current environment will have a significant effect on 2015 earnings and cash flows with the main impact being on Centrica Energy.

In addition to the effect of oil and gas prices, the gas-fired power environment in the UK resulted in a decision not to sell the UK CCGTs because final bids were materially below our hold value. Since our IMS in November, the direct impact of commodity prices and power margins, the knock on impact related to our ability to make asset disposals at the current time, and the impact of some systems implementation delays in British Gas Business, will have an estimated impact on planned 2015 earnings of about 2.5 pence per share.

Oil and gas prices continue to be volatile and the forward curve suggests that such low prices could continue for the next two years and upstream margins will remain depressed while the supply chain adjusts. Like other companies involved in E&P we are therefore taking immediate steps to cut capital investment in 2015 and further still in 2016 and to challenge all elements of operating costs.

Across the Group we are also aiming to cut costs through process efficiencies, system enhancements and simplification. I will return to give you more detail on our near term actions later in the presentation.

Let me now move to the subject of our credit rating which Jeff will cover in more detail in a moment. Our primary role as a Group is to supply energy and services to our customers and we provide security for that energy both by owning gas and electricity production, and also in the midstream by hedging procurement and optimisation activities, including securing long-term contracts for gas and electricity. To do this efficiently requires the Group to operate with a strong investment grade credit rating. The Group is currently rated A3/A-, but with negative outlook. At current prices our credit ratios inevitably look more challenged and our current ratings more at risk.

Given the combination of the factors I have described, and particularly the continuing lower levels of oil and gas prices and the associated loss of cash flows, and despite the strong action we are taking to cut investment levels and operating costs, we have therefore taken the very difficult decision to re-base the dividend by 30% beginning with the final payment for 2014 which is due to be paid in June. This means that the total dividend for 2014 will be 13.5 pence per share. The interim dividend payment for 2015 will also be re-based by a similar amount. Going forward from that point, we will continue to have a progressive dividend policy with dividend growth in line with the sustainable growth in operating cash flows of the Group.

As you would expect, we have considered a number of alternative courses of action, before taking this decision. But in the current circumstances I believe that this is a challenge which has to be grasped now, and will allow the Group to maintain a strong investment grade credit rating, balance sources and uses of cash, while continuing to offer an attractive dividend for our shareholders. I am confident the measures we are taking, including interventions on capex and costs as well as the decision to re-base

the dividend, will reset the Group's ability to operate sustainably in this changed environment.

In light of such changed circumstances, we recognise we must also test our strategy. We are therefore announcing today that we have launched a Group-wide strategic review which will be focused around the following four dimensions. Firstly our outlook and sources of growth. Secondly, portfolio mix and capital intensity. Thirdly, our operating capabilities and efficiency. And finally, a financial framework for the Group going forward. We expect to report back to you on this review by the Interim Results in July.

I will come back in about 20 minutes to provide you with more detail on the short-term actions we are taking in response to the current environment and some more detail on that strategic review.

But I would now like to hand over to Jeff to take you through the 2014 results, balance sheet and credit metrics and the financial outlook for 2015.

Jeff Bell – Interim Chief Finance Director

Thank you Iain and good morning everyone.

Let me start with weather and commodity prices, both of which had a big impact on our performance in 2014. The weather first, and you can see average UK temperatures on the left hand side of the slide, with the red areas representing warmer than normal temperatures and the blue area colder. As you will no doubt be aware 2014 was very mild in the UK, by in fact some measures it was the warmest on record. As a result residential gas consumption per household in the UK was down 17%, which also lowered the average British Gas dual fuel bill by about £100 compared to 2013.

In North America it was a very different story, with extreme low temperatures caused by the polar vortex, as you can see in the top right. This increased demand for gas and power across North America, but also resulted in significantly higher commodity costs and additional service network charges.

However the big story in the second half of the year was the sharp fall in gas and oil prices. UK power prices also followed gas prices down and spark spreads remained low. And although hedging protected 2014 earnings to a degree, as you have already heard from Iain the rapid fall in prices has created a challenging environment in 2015.

The impact of the weather, declining wholesales prices and difficult trading conditions in both the UK and in North America significantly affected the Group's performance. Revenue increased 11% primarily driven by a full year's contribution from the Hess Energy Marketing Business and resulted in a 62% increase in Direct Energy's (DE) revenue compared to the prior year. This was partially offset by lower revenue in British Gas due to lower energy consumption and in Centrica Energy from lower realised prices.

However, adjusted operating profit fell 35% with all business units showing lower year-on-year results. Although proportionately less profit was delivered from the highly taxed upstream business, which lowered the overall effective tax rate, adjusted earnings were still down 30% at £962 million, equivalent to 19.2 pence per share. Reflecting the decision to re-base the dividend as Iain mentioned, the full year dividend per share is down 21% to 13.5 pence per share.

The decline in commodity prices also resulted in significant impairments in both our upstream E&P and power generation businesses. In E&P post-tax impairments of £712 million were recorded, primarily related to fields in the UK North Sea and on our development assets in Trinidad and Tobago. In power, the combination of lower forecast power prices and a lower than expected result from the first capacity market auction in December led to a review of the carrying value of both the thermal and nuclear generation fleets, resulting in an impairment of £673 million post-tax. These impairments were partially offset by profits on disposal of the three Texas power stations and the Ontario home services business, which together generated a profit post-tax of £224 million. The total exceptional charge for the year was therefore over £1.1 billion.

In addition, with the rapid decline in wholesale gas and power prices on both sides of the Atlantic at the end of the year, the mark to market re-measurement of our energy contract positions was a loss of £1.1 billion or £771 million post-tax. These positions are held against forward sales and will therefore reverse as those future sales realise.

The net result of the exceptional items and certain re-measurements was just over £1.9 billion and swung the Group to a net statutory loss of £1.1 billion.

So moving on to a breakdown of operating results, you can see each of the different business units and their relevant contribution to the lower profitability in 2014.

In British Gas profits were down 20% to £823 million.

Residential energy profit fell to £439 million, 23% down on 2013 primarily driven by lower customer consumption. A drop of 2% in customer accounts and a fall in average customer consumption of 17% on gas and 5% on electricity from warmer weather were the main contributing factors. Post-tax margins reduced to 4.1% as the lower consumption and intensely competitive market meant profitability was at the lower end of what we hoped to achieve as a return commensurate with the risks and capital employed the business incurs in procuring and supplying energy.

Residential service operating profit was down 15% to £270 million. While the business delivered a 3% increase in boiler installations and retention of existing contract customers remained high, new contract sales proved challenging and overall product holdings were down 3%. The business also continues to see a gradual shift in product mix to flexible but lower price product offerings. However sales increased in the fourth quarter and the business returned to product growth.

British Gas Business was also impacted by the warm weather, along with competitive margin pressures and higher bad debt provisions following the transition to our new billing system. This resulted in a fall in profit to £114 million, 19% below 2013. We are still integrating the new system which has delayed the full realisation of reduced operating costs and lower bad debt.

Looking forward, we would expect to see growth in British Gas Residential Energy and Services in 2015, driven by customer account growth and more seasonally normal weather, partially offset by a delay in the full implementation of the new British Gas Business commercial model.

In Direct Energy we have reported a substantial decrease in profit, reflecting margin pressures due to competitive market conditions in both residential and business energy supply, and costs related to the polar vortex in the first quarter of last year. As

you can see on the slide, it was a tale of two halves, in the upper right hand corner. With second half profitability in line with last year and moving towards levels the business is capable of.

Even after taking into account the additional costs related to the polar vortex, DE residential profit fell, driven by the continued decline in the Ontario customer base, and a challenging sales environment in both Texas and the US North East. We see those trends continuing in the current year and largely negating the benefit of the more seasonal weather. The business is focused on continued cost improvement and new customer propositions linking our energy and sales offerings to drive growth in the longer-term.

Business Energy was also down on an underlying basis, despite a good contribution from the newly acquired Hess Business which is delivering ahead of its investment case. This reflected lower margins for business written in prior periods. However average unit margins written in the second half of 2014 are significantly higher than in the same period in 2013, 35% higher for gas and nearly 50% higher for power. When combined with the expectation of more normal weather patterns and the roll off of amortisation expense from the Hess acquisition, this should result in a significant increase in profitability for Business Energy in 2015.

In Direct Energy Services, operating profit reduced to £28 million, reflecting the sale of the Ontario home services business in the second half of the year. This masked underlying growth in other parts of the services business with customer accounts increasing 23% and protection plans trebling to over 300,000.

Overall in Direct Energy we would expect to see a strong rebound in operating profit in 2015 in line with current consensus.

In Ireland, Bord Gáis reported an operating profit of £7 million in the six months of our ownership which included one-time integration costs. The business is performing well and remains on track to deliver EBITDA of €40 million euros in 2015, in line with the announced investment.

Turning to the upstream, Centrica Energy's operating profit was £737 million, 44% lower than last year with gas operating profit down 48% to £606 million. This reflected significantly lower European realised prices, down 17% in gas to 53.9 pence per therm and 14% in oil to £54. This was only marginally offset by a slightly higher realised gas price in Canada, resulting in a price impact of over £500 million year-over-year.

Overall E&P production increased 3% to just under 80 million barrels of oil equivalent with an increase in Canadian production from a full year of the Suncor acquisition made in 2013 being partly offset by the natural decline in our European fields.

European production also suffered from higher unit lifting and other cash production costs which increased 6%, driven by supply chain inflation and the continuing change in production mix to newer, higher cost fields. This is an area of particular focus in the current commodity price environment.

However lower operating profit was largely mitigated on a post-tax basis as the benefits of hedging forward, realised investment tax allowances on UK North Sea development spend and a strong performance from the midstream gas business resulted in a post-tax operating profit only being down 7% at £302 million.

For 2015, the impact of lower gas and oil price environment and a more normalised midstream performance is expected to result in a significant reduction in both the operating profit and post-tax earnings of the business.

In Power, operating profit fell by 23% to £131 million.

Gas-fired generation volumes increased by 12% although lower achieved spark spreads meant the thermal fleet continued to lose money, albeit at a slightly reduced level. In 2015 we expect the thermal fleet to remain lossmaking at current spark spreads.

Nuclear output was down reflecting the temporary shutdown of four reactors, resulting from a discovery of the boiler spine issue at Heysham 1, as a result our pro-rata share of overall output from the nuclear fleet fell by just over 7% to 11.3 terawatt hours. The lower output and additional cost incurred related to the boiler spines were the primary contributors to the decrease in operating profit to £210 million. All impacted reactors are now back in service, although operating at reduced output until planned remediation affects are taken later in the year.

Wind profitability was also down, with the positive impact of a profit on disposal relating to the Barrow offshore windfarm sale more than offset by a £40 million charge, recognised following our decision not to proceed with the Round 3 Celtic Array offshore wind project.

And finally to Storage. The Rough asset performed well operationally, reaching its highest ever reservoir of volume in October. However seasonal gas spreads for winter 2014/15 were down materially on the season before and operating profit fell to £29 million. Seasonal gas spreads for the upcoming storage season remain at similar levels to the past year.

In a year where weather, prices and market competition meant that gross margin was materially lower, the business was focused on delivering cost-saving initiatives to mitigate the underlying cost pressure. Overall cash operating costs increased 4% in the year from £2.4 billion to £2.5 billion, driven primarily by the impact of acquisitions and our continued investment in smart meters and connected homes in British Gas. Underlying costs were broadly flat as cost initiatives offset growth and inflationary pressures.

In Direct Energy over $100 million of cost was removed with the integration of the Hess and Direct Energy businesses in line with our acquisition case. And while full realisation has been delayed British Gas Business remains on track to take £100 million out of operating costs by 2016.

However in response to the low commodity price environment upstream, and reflecting our scale downstream, we have identified further initiatives to reduce costs in the near term.

In terms of net investment, organic capital expenditure was broadly flat compared to the prior year. In E&P we spent just under £1.1 billion, slightly more than planned, but reflecting good progress in the development of the large scale Cygnus and Valemon projects, the latter achieving first gas in early January. However as you can see on the right hand side, we have taken action to reduce capital expenditure materially in 2015 where we are targeting a 25% reduction in E&P and further reductions in 2016 should commodity prices remain low. In British Gas the capital expenditure run-rate decreased in the second half of the year as the new billing and customer relationship

management system projects in British Gas Services and in BGB began to wind down. And we forecast a lower ongoing expenditure going forward.

Overall net investment fell from £2.6 billion in 2013 to just over £800 million in 2014 as disposals of non-core assets replaced the significant acquisitions in 2013. This included the Hess Energy Marketing business and the Suncor upstream gas assets. Acquisition spend totalled around £150 million, related primarily to the Bord Gáis acquisition in Ireland and the Astrum Solar business in the US. This was more than offset by around £800 million of disposal proceeds from the sale of the Texas gas-fired power stations, the Ontario home services business and our interest in the Barrow offshore wind farm. Further capital was released from the sale of a 40% stake in our existing natural gas assets in Western Canada to our joint venture partners QPI.

I would like now to turn to Group cash flow. As you can see on the slide, 2014 was very different in its cash flow components than the prior year. EBITDA fell by £1 billion, or 26%, driven by the reduction in operating profit. Operating working capital was flat, but the rapid fall in commodity prices late in the year led to a large cash outflow of nearly £700 million, although this will naturally reverse as the forward positions unwind. Net interest and tax fell as profit reduced and as outlined on the previous slide, net investment fell dramatically as focus shifted to releasing capital to strengthen the balance sheet and the integration of previous year's acquisitions.

Dividends remained at a similar level to the prior year with the net result of all these items being an increase in net debt from just over £4.9 billion to £5.2 billion at the end of 2014.

Current forward curves indicate that low levels of commodity prices may persist for some time, and this would imply that cash flows in 2015 and earnings are likely to fall further relative to 2014.

The change in the components of cash flow had a material effect on our financial metrics. The reduction in EBITDA has led to a significant fall in both funds from operations and retained cash flow, which in turn has made the achievement of key rating agency financial metrics more challenged. Funds from operations to net debt has fallen from 50% to 42%, while retained cash flow to net debt has fallen from 30% to 22%.

The Group is a large user of collateral in both the UK and in North America, and a strong investment grade credit rating supports our procurement of the significant energy volumes needed to serve our downstream customers. It also supports our ability to access efficient short term sources of liquidity and to manage the sort of volatility and commodity prices that we have seen.

We therefore believe that to operate the business sustainably over the longer term, our financial metrics will need to rise over time above the 2014 levels ensuring the business is financially resilient and able to invest efficiently in both the procurement and risk management of energy supply, and to respond to sudden market movements and so enable the delivery of sustainable shareholder value over time.

At the centre of ensuring financial resilience is the need to balance the ability of the business to generate cash flow to pay taxes, invest for growth and pay investors, both debt and equity. The significant fall in EBITDA in 2014 has severely impacted the basic sources and uses of the Group's cash. Stripping out the effect of inorganic investment activity and share buy-backs, in 2013 our sources comfortably covered our

uses. As you can see on the slide on the top right. However in 2014 this position reversed, as lower commodity prices were the primary driver of lower EBITDA.

Looking forward, even with the forecast growth in our downstream businesses, as prior year hedges roll off in upstream gas and power, and forward commodity prices remain depressed, cash generation is likely to fall further.

Immediate action is being taken to offset this trend with planned reductions in capital expenditure and additional cost actions that Iain will outline in detail in a few minutes. Further asset disposals will be challenging in the current commodity price environment, and as evidenced by our decision to retain our thermal power plants won't be undertaken at the expense of long-term shareholder value. We will follow through on our intention announced last summer to implement a scrip dividend alternative to determine the appetite and take-up of shareholders, but we will keep it under review as part of our overall financial framework.

However, even with the planned reductions in capital expenditure, additional cost actions and the implementation of the scrip dividend, the cash flows of the Group in this low price environment are forecast to be insufficient to support a strong investment grade credit rating.

We have therefore taken the decision to re-base the dividend by 30% in order to strengthen the financial position and ensure resilience in the current low commodity price environment, balance our sources and uses of cash and ensure a sustainable payout ratio.

The preceding slides have covered a lot of ground and therefore let me summarise before handing back to Iain.

To begin, 2014 was a challenging year for the business with earnings down significantly on the prior year as weather, commodity prices and difficult trading conditions created material headwinds.

Looking forward to 2015 while we would, and do, expect some of the challenges from the prior year to lessen, the dramatic fall in commodity prices since our Interim Management Statement in November has negatively impacted our current earnings forecast by 2.5 pence per share and therefore overall earnings in 2015 will be lower than 2014.

Finally our decision to re-base the dividend means the business is positioned sustainably, and with resilience should the current environment persist, to deliver long-term shareholder value.

Now I would like to hand back to Iain.

Iain Conn – Chief Executive

So thank you Jeff.

I would now like to cover some first impressions of the Group relative to the changing context in which we find ourselves, the business actions we are taking in response to the current environment, and to say a bit more about the strategic review I mentioned earlier.

As I said, I have been impressed by the quality and commitment of people across the organisation. It is very clear that Centrica's people care about what they do and how they do it. They are clearly determined to serve our customers and secure energy supplies and to apply their capabilities to a changing energy landscape. In my view, those changes present Centrica with at least as many opportunities as they do threats.

So let me briefly talk about energy fundamentals and trends.

I have spent the last 29 years in the world of energy, and that world is changing. Primary energy demand is still growing by about 1.5% per annum but nearly all of that growth is now in the non-OECD. Energy intensity is falling with energy growth diverging from GDP growth, and growth in production of greenhouse gases is diverging from energy use as the mix changes. Energy efficiency is becoming more and more important. Natural gas will be needed as a lower carbon alternative to coal. Nuclear power provides significant advantages in jurisdictions which support it. Renewables are growing at a fast rate albeit it from a low base and the true cost of an accelerated shift to renewables is becoming apparent. Customers' expectations are changing. They are demanding more from their energy suppliers, more information, more transparency, more services and more options. They are also demanding to have more control over their energy use.

These trends provide as much opportunity as they do challenges. Centrica is very well placed in both Europe and North America to play a leading role in shaping the responses to these trends. Our primary focus is on serving our customers. We carry a lot of responsibility in that regard. We are the largest residential gas and electricity supplier in both the UK and Ireland, and in the US we are the largest independent energy retailer. We have 18 million residential customer accounts of energy, 9 million service accounts and over one million business energy supply points. We have a significant presence in energy services with nearly 9 million product holdings, both here in the UK, where our engineers have a very strong reputation and brand, and in the US where we offer energy services in all 50 US States. We have a diverse energy portfolio which underpins our ability to serve those customers securely and contribute to the efficiency of the energy value chains for the markets in which we operate and more broadly. We are a major producer in supply of natural gas and electricity, participating along the value chain and building up our procurement supply and optimisation capability.

The 2013 acquisition of Hess Energy Marketing made us the largest C&I natural gas supplier in the United States. We produce natural gas in three sectors of the North Sea, in Canada and Trinidad and have a growing LNG business. Our power portfolio generated 23 terawatt hours of electricity last year. Globally we supply over 1.2 trillion cubic feet of gas and 156 terawatt hours of power a year. We take this responsibility very seriously and are very focused on delivering high levels of service and energy security for our customers and for the countries in which they live.

As I mentioned earlier, we are currently facing some very difficult trading conditions, but the longer term trends and the positions and capabilities we have mean that Centrica is very well positioned to play an important role in the evolution of energy supply and services going forward.

I would now like to return to the short-term and describe what our businesses are doing in response to the challenges of the current environment. For all our operations, safety, compliance and good conduct have the first call on resources. Whatever we do to respond to this situation, risk management and assurance of our performance in these areas will not be compromised.

Let me start with our E&P business within Centrica Energy. Just like other well-known players, we are making severe interventions in both capital expenditure and in production and operating costs.

On capex because of major projects which are under development, such as Cygnus, we have less room to reduce capital in the current year, but we have taken the decision nevertheless to take capex down in 2015 to £800 million and in 2016 to £650 million. This represents additional reductions of £100 million and a £150 million on top of existing plans in each of 2015 and 2016, and results in respective levels about 25% and 40% below those of 2014, as you can see on the chart here. We will adhere to these levels assuming there is no material change to the commodity price environment.

We are also keeping a tight control on cash production costs, engaging with our supply chain and challenging our own direct costs, targeting a 10% net reduction in 2016 versus 2014, a saving of some £100 million per annum.

In the face of the fall of oil and gas prices, through these actions it is our intention to operate the E&P business so that it is broadly free cash flow neutral over the two year period to the end of 2016.

In Power, we have decided not to sell the three largest CCGTs. The bids received were well below our value and use, perhaps partly influenced by the outcome of the recent capacity auction. Humber and Langage are cash generative at the operating level in the current environment. We will retain these assets and will be taking action to make our management of the power portfolio more efficient. Following a review, we plan to close the Killingholme and Brigg power stations as we have announced.

Let me now turn to the downstream and the rest of the Group.

Our priority in the downstream is to serve customers competitively and with integrity, with the goals of winning and retaining more customers. Despite the current environment affecting other parts of the Group, it was therefore important to play a leading role in recent price reductions in both the UK and Ireland. The recent British Gas 5% reduction in gas prices in the dual fuel variable tariff represented our view of the actual reduction in our overall costs we are likely to see in 2015. We will of course keep wholesale costs under review. Since that time we have also announced new lower priced fixed tariffs in both British Gas and through our Sainsbury's Energy offering.

After setting prices competitively, our other area of continued focus is on improving service levels. Service levels improved in British Gas in 2014, with quicker average answering times in our call centres leading to a significant improvement in our residential energy net promoter score which reached a level of +31. We still have some way to go there. In British Gas Services, the net promoter score increased to a new record high of +68. Our recent investments in systems and training in the UK and North America are targeted at underpinning further improvements. As we deal with the quality of our operations in generating revenues, we will also be paying close attention to our overall cost to serve at both the Group level and also specifically in all of the customer facing businesses.

As you can see on this chart, in the last few years overall Group operating costs have been rising broadly in line with inflation. However, this is despite successful delivery of significant cost programmes in recent years. Other areas of compliance and oversight

and revenue investments in IT and new technologies are continuing to put pressure on the cost base. Costs associated with smart metering rollout are also beginning to increase headline costs. We will be reviewing the overall Group organisation and cost structure, looking for simplification and synergies and programmes to drive standardisation across like activities, and so build a set of interventions to offset inflation in our controllable costs and stabilise the underlying cost base. This will be part of a comprehensive plan to improve our overall performance which we are already embarking upon.

In the customer facing businesses, we must pay close attention to benchmarks. The bar on the right shows British Gas indirect costs of energy supply per account relative to the other five major suppliers in the UK. Despite our market share, our costs are at best average and we are clearly not yet benefiting from the expected economies of scale. This area will get significant attention without compromising our ability to improve customer service.

In terms of investing for the future, we must continue to focus on the changing relationship with the customer and, as I mentioned earlier, their desire for more control of their energy use. We intend to build on our recent success with the rollout of Hive Remote Heating Control to over 150,000 customers.

Last week we announced the acquisition of the remaining 79% of AlertMe, the company that owns the platform upon which Hive operates. The integration of AlertMe with the pipeline of products beyond Hive which we have under development, allows Centrica to be a leading participant in the growing market for connected homes, user interfaces and new energy management systems. Combined with the rollout of smart metering, I am excited by the potential this has to change the way our customers think about their energy and to alter their relationship with their energy and service providers.

We are also continuing to develop our portfolio of innovative products and services in Direct Energy in North America. With nearly 200,000 customers taking both energy and services from us, and our partnership agreements with a range of companies to offer customers added value products and services.

So this gives you a sense of the short term actions and priorities in the customer facing businesses, in addition to the response to lower prices in Centrica energy.

Turning briefly to how the year has started for us and profitability in British Gas.

Although inevitably today there is much focus on our 2014 results and the decision to re-base our dividend, the 38,000 people who make up the Centrica team continue to deliver performance and important milestones. The year has begun with more normal patterns of demand and we are responding to that well in our customer facing businesses although we have much more to do to improve on service and complaints levels, and to slow the loss of customer accounts.

The Valemon field in the North Sea came on stream on time on 3 January. Once all ten production wells have been drilled, the field will have cost some £2.2 billion and Centrica's 13% share in the field will add some 2 million barrels of oil equivalent to our production in 2015. The Morecombe Bay fields celebrated 30 years of production. To date this field has produced 6.5 trillion cubic feet of gas and has been a mainstay of the Group since inception.

The Competition and Markets Authority (CMA) investigation continues and we are closely engaged and have been responding to their requests. We fully support the investigation. We have hosted the CMA at a number of our operations to help them understand how we conduct ourselves in the marketplace. We will be having a hearing with the CMA as part of their process towards the end of March. And we note the publication yesterday by the CMA of its updated issue statement and happy to take questions on that in a minute.

As I mentioned earlier, we delivered gas price reductions in both British Gas and Bord Gáis during January. This was against an uncertain wholesale price outlook and represented our best view of the reduction in our overall supply costs for 2015.

I want to make a few comments now on British Gas and household bills, on our residential supply margins and where I personally stand on this very important issue. I understand the widespread concern about energy prices and the reasons for the high level of public and political interest. First and foremost, we must serve our customers competitively and with integrity. We must also work hard to explain ourselves and the investment risks that our business undertakes in supplying our customers and in helping to deliver the energy needs of the UK. Our supply margins reflect the significant commodity price and weather risks that we carry on behalf of our customers. Transparency on prices and profits is essential if we are to ensure an informed discussion about the UK energy industry.

This chart shows in green the average level of the British Gas customer bill for our dual fuel variable tariff over the last six years from 2009 to 2014 and the associated post-tax profit per customer shown in red. As you can see the bill has risen from 2009 to 2013 as commodity prices rose and other elements of the bill such as transport and distribution costs and the costs of environmental programmes also grew. The average bill fell in 2014 as a result of the re-phasing of the ECO programme, which we passed through immediately, and the impact of warmer weather on gas demand.

Our average post-tax profit in 2009 was £54 per customer, equivalent to a 5% margin, but has fallen to £42 in 2014, a post-tax margin of about 4% on the average dual fuel bill and representing a profit of about 80p per week per customer. This is the lowest margin over the last six years. The profit we make is an outcome of prices set by the market and our costs to serve. And with 25 different suppliers, vying with each other in the UK residential energy market, the levels of competition are high. We hope we can continue to achieve returns in the range of 4-6% which allows us to continue to reinvest in the business. But we know we will have to pay close attention to service levels and importantly our cost to serve if we are to achieve this. I recognise it is also incumbent upon us to be transparent, to engage with all our stakeholders and to rebuild trust in both the energy industry and in Centrica.

Now let me finally turn to the strategic review I mentioned earlier.

This slide shows the dimensions of the review and I would just like to expand on them briefly.

Firstly, outlook and sources of growth. Given the change in oil and gas prices, the continuing weakness in clean spark spreads, the outcome of the recent UK capacity auction, and the changing trends and demands and customer behaviour, we will be reassessing our medium term view of the fundamental trends which drive our business. As part of this we must also look at demands for more sustainable energy provision and other societal trends. We will be aiming to establish a view and future guidance around sources of growth for the Group. By growth it is important to

underscore that I mean the growth in operating and free cash flow. The levels of sustainable cash flow and its growth will clearly relate to our ability to distribute cash to our shareholders.

Secondly, under portfolio mix and capital intensity we will be testing the businesses we wish to be in and the desired mix we wish to have going forward. This will include the balance between downstream and upstream, the capital intensity of the overall portfolio and our priorities for investment, both revenue investment and capital.

Thirdly, we will conduct an assessment of both our capability and the efficiency of our organisation. This will include overall cost to serve, the efficiency and effectiveness of each business and of the Group as a whole. We will refresh our view of our strengths and weaknesses and determine priorities for future functional capabilities.

Finally, we must determine the future financial framework for the Group. This will cover levels of cash flow generation and reinvestment. It will also cover balance sheet considerations, including debt levels, and the credit metrics we wish to operate with.

These four dimensions are all inter-related, and taken together I hope we will be able to provide a refreshed view of the future prospects of the Group, both for our shareholders, but also for our employees and all our other stakeholders. This review therefore represents a clear and rigorous analysis of where we are and where we will go in the future. We are currently planning to report back by the time of the Interim Results in July.

So let me summarise. 2014 has been a very difficult year for Centrica with external market factors impacting our results in all of our businesses. Our underlying performance was also down in some areas relative to our planned outcomes. As a result our earnings fell by 30%. Commodity prices may have begun to stabilise, but even if they do settle at levels indicated by the current forward curves, we would expect earnings in 2015 to be somewhat below the levels of 2014. Since our IMS in November, as Jeff said earlier, the estimated impact of the current environment and other factors on our planned earnings for 2015 has been some 2.5 pence per share. As a result we are taking strong actions to limit capital investment, reduce costs, protect cash flows, and have launched a strategic review which we will report back by the end of July.

Given the potential prospects of low commodity prices enduring for some time, and despite the reductions in investment that we have announced, we have taken the very difficult decision to re-base the dividend by 30% to protect a strong investment grade credit rating and cash flows, while maintaining an attractive level of dividend income. We recognise how painful taking this step is for our shareholders.

I am honoured to have taken over the role as Chief Executive of Centrica, and I believe the Group is well placed in the longer term to play an important role at the centre of energy needs on both sides of the Atlantic. Our immediate focus must be very much on the responsibilities we carry in serving our customers, and delivering against our near term actions in the face of some very challenging circumstances.

I would now like to invite Mark and Ian to join Jeff and me on the stage and we will be very happy to take your questions. Thank you.

While Mark and Ian are coming up here in terms of how we are going to do this, when you do ask a question we would appreciate it if you could introduce yourself and

affiliation, and you need to press the red button and if you can remember once your question has been dealt with to switch it off that would be great.

I will either answer the questions or field them to my colleagues up here. I should just say that we are joined in the audience by a number of other members of the Senior Management Team of Centrica, including Jill Shedden who is the Group HR Director and Grant Dawson, General Council and Company Secretary and a number of other senior executives in the audience. Badar Khan the Managing Director of Direct Energy cannot be with us in the UK since his wife is expecting a baby literally any time now, so we wish them both very well.

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

Questions and Answers

Q1. Martin Brough, Deutsche Bank

It's Martin Brough from Deutsche Bank. I had a couple of questions. One was around I guess the balance sheet, the cash position, the credit rating. Are there consequences in terms of the general way you have to operate if you do get a down grade? Is it possible you might look for an actual capital increase or maybe invite a strategic partner to come in and maybe one of your upstream providers might be interested in a strategic investment if you actually need to preserve the equity in the business so you don't lose some of the long-term value you have?

And then the second question was really more about what do you want customers to think of when they are thinking about British Gas? What is the ultimate brand identity you are trying to get here? Clearly people want cheap energy, but do you want people to think British Gas are cheap or do you want security or do you want it to be seen increasingly as innovative? Obviously you want all of those, but people don't tend to apply all of those labels all at once, if there was one thing that you really want people to think of when they think of British Gas what would that be? Thanks.

Answer: Iain Conn

Thank you. Well let me touch on each of those and then we will deal with the balance sheet question first and then come onto the British Gas question. Ian I am sure in a minute will comment, but I certainly think British Gas is absolutely to the heart of our company and I think our company could be central to peoples energy needs and I think we need to think about how to join those two together and I will pass it to Ian in a moment.

But on the balance sheet. Interesting question Martin. I think firstly, we don't have any current plans to seek new equity or pursue partners. I think it is very important that the actions that we have taken today in our view allow us to get underneath and with significant resilience, position the Group so we can sustainably operate in the current environment, supplying our customers and delivering value to our shareholders given the changing circumstances of the Group. And we don't therefore need to then go out and then do something else. I certainly would not rule it out, if a great opportunity came along for our shareholders, of course we would look at every option to pursue it. But right now we don't have plans to or have the need to. But I think Jeff if you could cover how we have come to this decision and the credit metrics and resilience of the company and how we see that playing out given the significant step we have taken today.

Answer: Jeff Bell
Sure. As you heard in my script, what we are really trying to do is balance three things here. We are trying to balance the sources and uses of cash, having a sustainable dividend and the credit rating metrics we think we need at a strong investment grade level to support the delivery of energy to our downstream customers. As you will have seen from the slide, at the end of 2014 those metrics were a long way short of where we think they would need to be. Clearly our credit rating specifically is a matter for the Rating Agencies and they will need to take their own view. But where we were at 2014 and with the direction of travel and a lower commodity price environment, even with the actions we are undertaking, quite significantly on capital expenditure, particularly on costs, there was not enough there to reverse the direction of travel. And therefore we have solved for that and balanced amongst those three things, the rating metrics, sustainable dividends and a payout ratio to make all that work.

I think your question around the consequences, as Iain has said, with the direction of travel we were looking at, we did not feel that underpinned a sustainable investment grade credit rating in particular. That would have implications for us both in terms of additional collateral that we would have to pose from a decommissioning perspective, as well as our ability to procure and hedge with the business model we have downstream both in the UK and in North America. So really underpinning and providing the financial resilience for a strong investment grade credit rating is particularly important.

Answer: Iain Conn
Thanks Jeff. And Ian how do you want to be perceived, not you! But how do you want the British Gas brand to be perceived?

Answer: Ian Peters
Top of my list would be the trusted energy and related services supplier. And we are already demonstrably there in British Gas Services as Iain alluded to. The engineers are some of the most trusted people in the UK. I would accept absolutely there is a way to go on the energy side. And then reputation for our excellent service. We have made good strides recently, but there is a way to go.

What I would pick out is a theme around giving our customers informed choice and control over their energy usage and ultimately that is the way to control the bill. And what that speaks to is our strategy of differentiating ourselves from the market through innovation in that territory in the AlertMe acquisition of connected homes and smart metering, are all part of that theme. So at the end of the day I would want to be regarded as an energy partner that gave great value, not necessarily the cheapest supplier in the market.

Q2. Deepa Venkateswaran, Sanford Bernstein
I have two questions. Firstly you have talked about the strategic review, also you have talked about a Group wide performance initiative, so would you be also giving details of your group wide performance initiative in July? In the past what we have seen is a bit of cost cutting here and a bit of cost cutting there but we have never seen you commit to a total cost programme. So would that come before July?

And second question on your generation fleet. Obviously you have announced the closure of two of your fleet. What about the rest, so apart from Humber and Langage, you still have a few more CCGTs which are either mothballed or under STOR. So do you plan to exit from those positions?

And then on the nuclear, you also impair the nuclear assets. I just wondered whether you have taken any view on any lifetime extensions for them given the recent operational issues in nuclear.

Answer: Iain Conn
Thank you very much Deepa. On the performance review, really as you would expect, if we have taken such severe action in our E&P business, and unfortunately had to take action on the dividend, you would expect us to take our performance very, very seriously this year. And it is not just about costs, we have got to also look at revenue generation, but we have got to be clear that Centrica can be as efficient as possible. Now it is divided into two parts. Driving performance now for this year and the longer term sustainable performance that we can deliver out of the portfolio. The first is something we are already all over for this year because we have to be. And that is the initial phase of a performance review. It will join to the strategic review in the area that I outlined around efficiency and our capabilities. We have now entered multiple markets, but we run them in silos to some degree. We need to be able to run them across those markets to get the efficiencies that come from the skills we have got in various functions in the customer facing businesses. We are also a bit complicated in my view about how we organise the Group. And again we need to go after that. So there will be quite a lot we have got to do in the near term. And then it will form part of the strategic review when we look at the longer term trends.

On the generation fleet, just a comment that the strategic review will also clearly look as I have said at our portfolio and what we want to be in and the mix. Therefore I am not signalling today that we are going to make any other material changes other than the planned closures of the two power stations we just talked about but Mark the more detailed questions on CCGT nuclear.

Answer: Mark Hanafin
Yes, we have Humber, Langage, the two big power stations. We will retain two smaller ones, Barry, Peterborough. We are recommending closure of Killingholme and Brigg and will be consulting with our employees about that. We will within that though, retain the options on those sites, because those are potential development sites for the future. We have a very good development site at Kings Lynn for a new power station there and of course we retain the replant option at the existing Kings Lynn plant which didn't win a capacity auction contract in December, but we will look to see whether we can bid again on that plant. So that is the position on the CCGT fleet.

Nuclear life extensions. Since we acquired our 20% share of British Energy there has been life extensions announced on specific plants, but the overall message is we expect across the AGR fleet, the advance gas cooled reactor fleet, about an average of 8 years life extensions. And that is still the position. It is not affected by the boiler spine problems that we have experienced last year.

And then on the PWR at Sizewell, we expect a 20 year extension to 2055. So on current plans, you don't see any retirements in the nuclear fleet before 2023 and then you have got the AGRs sort of currently planned between 2023 – 2030 and then Sizewell out to 2055.

Q3. Fred Barasi, Goldman Sachs
Three questions from me. Firstly in terms of the commodity price sensitivity. Is there any benefit from historical hedges still reflected in your 2015 earnings guidance, and if so can you quantify what the impact in 2016 would be of marking to market for current commodity prices?

Secondly, in terms of E&P can you give a guidance for the production profile which will be consistent with the capex that you are indicating in the update?

And then finally can you help us to understand the EPS impact of the write-downs you have included? Thank you.

Answer: Iain Conn
What I suggest is why doesn't Jeff address the commodity price sensitivities and the hedges we have currently got on and you may as well also touch on the EPS impact and if you can Jeff just give a bit of an idea that 2.5 pence that we have quoted, because how does that all build up. And I will just make one comment about E&P production profile and pass that to Mark.

Answer: Jeff Bell
I think in terms of commodity price sensitivities, we obviously hedge forward in the upstream business not dissimilarly to how we do in the downstream business. So as we enter into 2015 the greater than half of our commodity is hedged coming into the year. And we of course do that on a post-tax basis. You can imagine if you then played that forward for 2016, that we would be much less hedged then 50% heading into 2016. Therefore if you take your view on commodity prices you get a sense based on our production and generation about what the impact of that might be.

To Iain's point in terms of the 2.5 pence we have referenced with respect to changes since the Interim Management Statement, the vast majority of that is price related. We have seen oil prices move from $80 down to sort of $50 and then with a rebound of late. Gas prices have also fallen from, here in the UK from mid-50p to 40p and then up a little bit. And the impact of all that is a little over a penny a share. There has obviously been an impact on power prices which also to a smaller extent impacted the numbers. And then in terms of asset disposals you really do that in the lower price environment and has a small effect as well. We talked earlier about a bit of a delay in the realisation of the commercial model in BGB as the system has taken a little longer to implement. So those are the main components.

I think in terms of the specific comment about the impairments and their impact, in gas the impairments and potential impact primarily relate to the UK and Netherlands. The assets in Trinidad were development assets so currently weren't producing. And there is a benefit of that but that is partly offset by the fact that decommissioning costs and our view on decommissioning costs went up and we took an additional charge for that. So there is a small upside, but not to the extent there would be without the decommissioning piece.

On power generation, there is obviously a benefit, but at the same time of course particularly for the thermal assets they were assets held for sale for most of 2014 and therefore of course bringing them back into the portfolio with benefit on impairment is somewhat offset by continuing losses and continuing depreciation of those two larger stations.

Answer: Iain Conn
Thanks Jeff. And on the E&P production profile, just to say that obviously we have been producing at nearly 80 million barrels of oil equivalent this last year. We are still assessing the choices we make within the capital profile, but we have discussed holding the production for the next few years in the 70 to 75 million barrel of oil equivalent, but Mark are there any comments on the granularity of production profile or the factors you are considering?

Answer: Mark Hanafin
Well I think you are right Iain to point out that clearly we need to see how prices evolve. We need to see how the supply chain is reacting in terms of what happens with infill drilling and that type of activity. I mean in broad terms I would think this year we will be down 5-6%, that sort of level. And for 2016, because we have some new production coming online with the inflight projects that we have been spending heavily on in the last couple of years, you know we hope to hold that in the 70-75 range. So that is the sort of, the natural depletion will be greater than that, but we have these projects coming onstream which is helpful.

Answer: Iain Conn
Sarwjit Sambi who is Head of E&P is also in the audience so after we have finished you can maybe seek him out.

Q4. Dominic Nash, Macquarie Securities
A couple of questions. Firstly on the CMA report that came out yesterday, obviously talked about the standard variable rate being potentially too high. Could you give some colour on what proportion of your customers are on standard variable rate and what would be the impact if you were going to have to adjust those down?

Secondly on tax requirements on UK continental shelf production. Do you have a feel for what the tax rate needs to change to, to encourage investment or maintain assets in the Northern Irish seas.

And another quick one, can you remind me again what was the guidance for EPS for 2015 at the IMS, please?

Answer: Iain Conn
If I deal with the last two first. On guidance, we didn't give guidance in the IMS for 2015. What we did say originally was that we expected improvement in the customer facing businesses to be largely offset by commodity prices impacting the upstream. Now clearly our update today is relative to what we were planning, and obviously there is a range of assessments from investors and analysts on what that meant for 2015. We have seen an additional 2.5 pence per share impact on earnings. And you will have to draw your own conclusions as to what you view of that is.

In terms of the tax requirements for the UKCS, I have been asked this question a lot. I start from the place that the additional 12.5% additional SCT should be removed to encourage development and continuing developments and exploration and appraisal. I have heard other calls for all supplementary corporation tax to be removed from the North Sea, ie therefore it just goes to corporation tax. It is very, very dire at the moment in terms of what this will do to the supply chains. And I hope the Government will take this very seriously and will be addressing it in the March budget, but we will have to wait and see on that.

On the CMA, just one comment. I just want to remind everyone that what we had yesterday was an updated statement of issues, it wasn't findings. But clearly they have pointed more towards the difference between standard variable rates and fixed rates and they have made some, they have identified some issues they want to explore on different customer sub segments. So Ian what proportion are on the standard variable rate and any other colour you would like to give around the CMA last night?

Answer: Ian Peters
So the answer to the first one, the answer to the question is 75% in round numbers of residential energy customers on standard variable rate. Interestingly enough, the CMA

did not say that rate was too high, what they were focusing on was the differential currently in the market between that and some fixed term contracts. The key to unlocking that is what has happened with the commodity markets. We are buying commodity forward for our standard variable rate at anything up to three years. And we lock in fixed rate products off the current curve. So as the commodity markets fall quickly which is what has happened in the last several months, there is a widening of that differential over time. In theory if commodity markets stay flat, the two would converge. And what we are seeing in recent weeks is the commodity market has ticked up a bit and that gap has started to close. So that is what has opened it up and in a rising market, there has usually been a premium to the standard variable rather than the other way around.

From our point of view, we are a slight outlier against the rest of the market. Once we reduce our standard variable price on 27 Feb, the differential between that and our fixed price contract will be about £54 which is just about the lowest in the market. So I think what the CMA are pointing to is others who have very, very big differentials.

And then the last point on the CMA, there is clearly some focus on switching levels. We don't equate switching with engagement, I think they are quite different things is the first point to make. As Iain alluded to, this is a very competitive market and in a given year we will lose and gain about two million accounts, so it is not a static base. And around 70% of our dual fuel customers we have won both fuels off the competition in recent years, so it is a much more vibrant active market than perhaps some of the media commentary would indicate.

Q5. Iain Turner, Exane
It's Iain Turner from Exane. Can I ask you about the step down in capex over the next couple of years? And can you give us some flavour on how that splits between doing the same work for less and how much is actually stuff dropping off your slate of projects?

And similarly for your upstream write-downs you have announced today, can you give us some colour again about those? Is that projects where you have spent money that you are not now going to proceed with or is it a view that things you have already bought or invested in, the cash flows on those, very long-term cash flows that you have taken a view that based on quite short term movements in the market, you have changed your value on those?

Answer: Iain Conn
Well Mark seeing as the capex step down, certainly initially is all about your businesses, would you address that and then Jeff talk about impairments.

Answer: Mark Hanafin
As Iain said 2015 is a little bit boxed in by inflight projects and quite a few of those projects are third party operated, we are hoping to cut as much as possible. So I think the interesting picture is around 2016 where we have much more freedom to act. So the way that I look at that £650 million aspiration target is that about 20% of it is what I consider a base maintenance capex, what we need to spend to safely run the business. About 25% of the £650 million is inflight projects. Remember Valemon, Cygnus will still be in heavy drilling programme at that time, so that is the second tranche. The third tranche, 25% broadly I would say is high quality development projects in Norway. So I am thinking about Butch, Maria, Kvitebjorn and Statfjord infill projects. And I think those projects look robust at current prices. The key is you know making sure we get full supply chain benefits if those are going to go ahead.

And the final tranche, 25%, I would say is a mixture of a pared down exploration budget, some investment targeting in Canada, some infill drilling in the North Sea to add to our hubs. So I think the way you could look at that is clearly that last tranche should not be going ahead unless the economic case is there. And therefore there is some flexibility around that.

Answer: Iain Conn
And if you look at slide 20 in your book, in the rest of the Group, now that the capital investment programmes in IT in particular British Gas are coming to an end, you are actually seeing the total investment in the rest of the Group falling from a rate of about £400 million to something in the region of £250 million. So that is also quite material. So we are taking capital down from £1.5 billion per annum over the last couple of years to just over a billion pounds, obviously quite a material shift.

Answer: Jeff Bell
The second question. So in terms of the actual impairments in the upstream E&P assets in the UK, those are much more weighted towards the existing assets, producing assets and associated infill activity we would have done under a higher price environment as opposed to the lower price environment we are in now. A much smaller proportion of that is as you related to, to development assets and is very much price driven.

Q6. Fraser McLaren, Merrill Lynch
It's Fraser McLaren from Merrills. A few questions please. How much of these new efficiencies you referred to are in the earnings guidance for this year?

On supply numbers, why the re-statements and what would net losses have been excluding the white label deals that you have in place?

Thirdly, do you think that ROCE is a helpful measure for UK supply profitability? And can you speak about the overall scale of the collateral wrapped up in the business please?

And then lastly, there has been some confusion on the re-basing of the dividend. Would you confirm please that the 2015 payment will be 12p?

Answer: Iain Conn
On the last point, I did say that the interim payment in 2015 would be re-based by the same amount. So I just want to clarify that. And somebody asked me earlier, does that mean therefore that the 2015 dividends in total would be about 12 pence? And you can deduce that from that.

On ROCE, I think ROCE over a run of years as a trend can be a helpful metric. But obviously it is massively dependent on when you got into things and how depreciated they are. And it depends therefore on your rate of reinvestment relative to depreciation. So it can be a bit misleading.

Jeff there was a component of that about collateral, do you want to touch on that?

Answer: Jeff Bell
Yes in terms of the overall collateral in the business, the past year is a good example of that. You know where we saw quite a significant move in commodity prices and we saw roughly £700 million of margin cash related to that, required to be posted. Now that unwinds and comes back to us as the positions unwind. We have at times, in a

rapidly rising market, you have to go back a few years for that, you know seen similar or even slightly larger amounts. So the actual kind of liquidity requirement can swing from a billion one end to the better part of a billion on the other. There are also as I mentioned earlier, requirements around posting collateral for decommissioning costs etc. depending on what our credit rating level is at. But currently those would be between 500 and a billion pounds.

Answer: Iain Conn
On efficiencies we have not disclosed how much is in the numbers this year, but I can qualitatively say that obviously for the upstream to end up being able to deliver £100 million in 2016 versus 2014 in 2016, there needs to be some, we need to be on the runway materially and we are not going to be hanging around with that. There are some efficiencies also that Ian has been driving into British Gas associated with both underpinning the price reduction that we made, but also looking at further savings. And we will be looking at the Group level at efficiencies we can make, but we are not disclosing any number at the moment. I know it is a bit frustrating.

I didn't hear your question on the supply?

Further question: Fraser Mclaren
Restatements? It appears you have restated the number of accounts down by a little over 100,000?

Answer: Ian Peters
The restatement in residential energy is actually a phasing issue and at the risk of getting a bit geeky, we have a business that puts new connections into new builds and we have changed the way we count them. When we were putting the meter on the wall which is how we used to do it, we now do it when the meter is actually having energy passing through it. So those are real meters, they are there, but they will eventually come onto supply later than we had in the plan. So it is a phasing issue rather than a loss issue, if that explains that one.

You also had a question about white labels. I can't give you the precise number off the top of my head, but as a guidance, Sainsbury's Energy, which is what you are alluding to, has around about 200,000 accounts which we built up steadily since 2011. The net growth of Sainsbury's last year was round about 50-60,000 accounts, so that order of magnitude if you wanted to get a rough guidance.

Q7. Mark Freshney, Credit Suisse
Hello, it's Mark Freshney from Credit Suisse. Two questions. Firstly on British Gas business and the IT upgrade which seems to have gone very poorly. Can you talk through the issues you are having there and any costs you have got with not being able to back bill or increase bad debts for instance? And also on working capital?

And secondly, as part of the strategic review, I understand you have said you are looking into the Group financial framework, clearly the big part of that for equity is the dividend you have already looked into that. So can you give an indication that that the dividend is not going to be reviewed again as part of the financial framework review?

Answer: Iain Conn
Ian why don't you answer the BGB item.

Answer: Ian Peters

As explained earlier on, all three businesses completed fairly major systems migrations last year so the one that had transition issues is British Gas business. And they happened right at the end of the year and this was taking out an old system that was about two decades old with quite weak data quality. What happened towards the end of the year is we did experience some billing problems so gross debt went up right at the end of the year. And the bad debt charge in BGB deteriorated by around £20 million. So that is that point. There is a full stabilisation programme which is mobilised as you would expect. We are pretty confident that the core business will be operating as we would want it to around about the end of Q1. And then we need to work through the overhang of those issues.

The working capital point, we would expect that to adjust in the year through 2015 as we collect the outstanding monies. We remain very confident that the £100 million of overall cost savings from this programme will be delivered by 2016, so it is a phasing issue we are dealing with here. But in terms of guidance, we would expect earnings to BGB in 2015 to be broadly flat with where they were in 2014.

Answer: Iain Conn
And on the financial frame, while we obviously have considered the dividend and the Board has made a decision on re-basing it today, a very important part of the financial frame looking forward is going to be the relationship of growth in operating cash flow to reinvestment ratios and the capital mix of the company to the distribution policy which I have also said will be in line with the operating cash flows of the Group on a sustainable basis, but we have not given any more guidance than that. If there is greater clarity on forward dividend policy and exactly how that will operate, once we have decided on reinvestment ratios and the sort of growth that we see in operating cash flows, we would be able to give a little bit more clarity at that time.

Further question: Mark Freshney
And can you rule out further rebasing of the dividend?

Answer: Iain Conn
One can never rule anything completely out, but we obviously have tried to do this so that the Group will be robust in this environment going forward and so that we can sustainably serve our customers and shareholders and make sure that the Group is repositioned for what is a very challenging environment going forward. Therefore it is my sincere hope and desire that we will not be looking to make further reductions in the dividend. It would require another very significant step change in the circumstances facing the company.

We have a question I think from Ed in the middle there.

Q8. Edmund Reid, Lazerus
Edmund Reid, actually three questions. The first one is on Sainsbury Energy. I just wondered generally what the strategy is with Sainsbury Energy? You rightly pointed out the fixed price British Gas tariff is not significantly different from standard variable, that Sainsbury Energy one is very competitive. Is that something you will continue to do going forward?

The second question is just a definition one. When you say strong investment grade credit rating, what does that exactly mean? Would it encompass BBB+ for instance?

The final question is on smart meters. I was just wondering on the pace of rollout. You are obviously far ahead of your competitors when it comes to smart meters, would you continue to expedite your rollout of smart meters?

Answer: Iain Conn
Why doesn't Ian take Sainsbury Energy and Smart meters and Jeff comment on strong investment grade credit rating and what it means?

Answer: Ian Peters
On Sainsbury's and clearly this is a partnership so Sainsbury's have a perspective on what they want in the market for their clients as they see it. And they wanted something different to British Gas and what we have put into market for their clients and their brand is effectively a no frill, direct debit led internet sold product. So it has a very different cost structure. At this point in time, smart meters are not part of that proposition so there are material cost deltas between Sainsbury's offer and the British Gas offer. And as you probably know Ed, the whole white label picture is under review by Ofgem and we are expecting an announcement from them over the next couple of weeks, so very hard to give you a cast iron view of the forward strategy of that until I have seen where Ofgem come out. We think there is a strong argument for white labels as a distinctive part of the choice set in the industry, but let's see where Ofgem come out.

On the smart meter rollout, we are committed to this. We are leading the industry. And we are already seeing the benefits come through in two ways. One is in terms of the consumer behaviour, where clearly estimated bills become a thing of the past, calls go down, complaints go down and those customers are both saving energy and becoming more loyal towards the business. So we want to continue, we think it is increasingly a part of how we differentiate ourselves in the market. We are a few months away from being able to scale a rollout of smart prepayment which will be a breakthrough proposition in our industry and we have got a significant lead against the competition. Given that, there is clearly a cost delta which arises from it. So we are making judgement calls the whole time about not going too fast against any uncertainty that remains politically or from a regulatory point of view. But we think we have got about the right glide path to carry on with them.

Answer: Jeff Bell
Ed on the question about a strong investment grade credit rating, we certainly would consider BBB+ or the equivalent and above to be strong investment grade credit rating.

Iain Conn
Any remaining questions?

Q9. Andrew Moulder, Credit Suisse
Yes it's Andrew Moulder at Credit Suisse. I just wanted to follow up on the credit rating. If your rating goes down to BBB, how much do you think that will increase your costs in terms of your hedging and collateral requirements?

Answer: Jeff Bell
Well I think you know, first of all the level and how that is set with the credit rating agency is clearly their call and that is sometimes as much art as it is science. As you start to move down to those sorts of levels and you know where we were at the end of 2014, and potentially moving into in 2015 and 2016 if the commodity price environment continued, we weren't taking the action we were taking today, those would in our view be an area where it would not be a strong investment credit grade rating and it does increase the levels of decommissioning, security, the amount of margin we are able to

post for our trading business, and the boundary conditions in which we can do that in. So it would have a more significant impact than it would at A- or BBB+.

Answer: Iain Conn
Just to comment on that, as Jeff showed in one of the slides, you know possibly our most constrained metric is Moody's RCF over net debt. And at the end of 2014 we were at 22. Now Moody's talk about mid 30s for an A- rating. So you can guess from that that 22 isn't a territory we want to stay in for too long and clearly the severity of the action we have taken demonstrates our commitment to getting back to a strong investment grade rating pretty quickly. And that just gives you the sense of, we don't want to end up in the situation where there is any uncertainty about Centrica's capability to operate with a strong investment grade rating, because the sustainability of our business, it is important that we don't constrain our business activity by having an inferior credit rating. Could we operate? In theory yes, but it would probably constrain us and might change the business model and we don't think it is in the interests of our shareholders.

One last question.

Q10. JamieTunnicliffe, Redburn
Jamie Tunnicliffe from Redburn. Just following up on that, given that you have cut the dividend and you are basically saying you don't see it as a very sensible business environment to be selling assets, that RCF metric is incredibly sensitive to the RCF number itself. You have done the two things which I suppose are the most obvious, obviously tough decisions as you have made it clear. But how then in that sort of calculation where it is such a sensitive number and you have done the two things that are more obvious, can you be confident that you have reframed the business in the right sort of shape?

Answer: Iain Conn
Well my way of thinking about that is firstly, we have repositioned primarily because of the fall in oil and gas prices and margins. Traditionally in the E&P business it takes one and a half to two years for the supply chain cost base to catch up with price. That means that the margins that have disappeared will start to reappear. Now that is very important in thinking about the RCF.

The second thing is as Jeff indicated, we had some end year margin cash calls of working capital which we would expect to wind back over the near term. So those are two things that are going to happen. They will just happen over a period of time, months and into 2016.

And then the third thing is the strategic review where we have got to take a look properly at the portfolio in this context and say, do we have the mix right? Is the relative balance right? And therefore is there anything we want to do to change the portfolio? And I don't rule that out. So far from being out of ammunition to defend that, I think it is very important though that we are in a position with no uncertainty to be able to operate in this environment and give ourselves a little bit of time. I have been in this job for 7 weeks to just think through what is the right course of action and mix for the Group going forward. I am far from pessimistic about this Group going forward. I think we are extremely well positioned, but we just need a little bit of time to reflect. There are many other companies, including my former one that are doing a bit of reflecting at the moment. It has been a significant shift and we wanted to make sure for all of you and all of the people you represent, that we can actually reposition the company in a way that you have confidence in and therefore you know what you are investing in and what the picture looks like and that is why we have done what we have done. You will

have to wait until the summer to get a bit more of an insight into what we might do going forward.

Ladies and gentlemen I would like to thank you all very much indeed for coming. I hope that has given you some sense of where we are and where we are going. I do want to say one last time that putting this all into perspective, the circumstances that Centrica finds itself in are very, very different to where we were at the beginning of 2014 and it would just have been inappropriate for us and actually not responsible for us to have not taken action now in order to re-base the dividend and of course to take actions on capital and costs so that your company can actually be managed on a sustainable basis in the near term as the markets settle down. And I very much look forward with the team to updating you in the middle of the year or at the Interims on our strategy and how we are seeing things going forward. And obviously we will have had another six months under our belts and hopefully the dramatic volatility in the commodity market and the context that we are in will have stabilised and we will know more at that time about the CMA and what its initial findings are as opposed to just issues. And we will of course know who is sitting in No.10 Downing Street. And all of those things will probably help us have a lively conversation at the Interims.

So thank you all very much for coming. And we will be delighted to mingle with you for the next twenty minutes or so over a cup of coffee if you wish to. Thank you very much indeed.

End of Presentation