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2013 Preliminary Results Announcement
Presentation Transcript – 20 February 2014

Rick Haythornthwaite - Chairman
Good morning. Now in a break with tradition for Centrica, I intend to make just a few brief introductory remarks and then join you in the audience and leave this Presentation to Sam, Nick and the team.

As you know these are early days for me, but I am pleased to have joined a company that's well run with a clear, sound strategy. Yes it is facing short term headwinds, but I already feel reassured that with the depth of talent we have, these challenges are going to be tackled energetically and imaginatively.

Of course, one such challenge is the political storm in which we find ourselves and which to an extent is understandable. It is no surprise that energy prices are a hot topic and it's entirely reasonable that our politicians should be exercised about cost of living issues as we are. And it is entirely reasonable that they should choose to echo our customers concerns about value, service and trust. But these same politicians have a choice to make as they draw up their electoral strategies for 2015. Do they or do they not want a UK energy company of substance that is willing and able to invest on the international stage to secure long-term gas for the nation and at home to help remedy the imminent short-fall in reserve generating margins?

In their rush to draw party lines, these politicians appear to have overlooked that Centrica's fortunes are inextricably linked with our nation's. That we supply energy and energy services to almost half the homes in Britain and nearly one million businesses. That we support 175,000 jobs in our supply chain. Procure around £10 billion worth of goods from 6,000 UK companies. And are one of the country's largest tax payers and an important payer of dividends to our 700,000 individual shareholders and numerous pension schemes.

With an eye on the trigger of the storm, I have spent much of my early days listening to customers. Trying to understand for myself the issues of trust and the extent to which the steps we are taking to address these can work.

Meanwhile on the political front, I have been meeting with politicians, regulators and officials with a view to restarting pragmatic collaborative dialogue around the big issues that we face and putting an end to the polarised and disconnected relationships that currently prevail. There is just too much at stake. The implication of broken markets and declaration of breakup intensions may make for good politics, but the unintended consequences for our nation's energy future threaten to be significant and irreversible for some considerable time.

Most imminently we are faced with trying to ensure that the conclusions and consequences of the current market assessment are to the greatest possible extent independent and based on facts rather than politics. For sure, if it uncovers something that the previous 17 inquiries since 2001 failed to do, then we all should and will welcome the clearing of the air.

The most important and immediate focus however should be on allowing the 19 different players, encouraged by the host of independent switching sites, to slug it out in a competitive market, while giving the recently introduced retail market reform measures time to work. There's every reason to believe that the proposed quicker switching, greater transparency and lively innovation will increase still further the competitive intensity of what appears to me from my early observations, an already very dynamic sector.

For the benefit of our customers and for the nation's energy security, we are going to fight to see reason prevail over short-term politics and we are going to fight to restore the nation's respect for the role we play and trust in us earning the margins we do, starting with the people that really matter, our customers. And above all, we are going to fight to ensure that our performance maintains the progress that you have come to expect from Centrica.

And to elaborate on that key aspect, let me hand over to Sam.

Sam Laidlaw – Chief Executive

Thank you very much Rick. I'm joined here as usual by Nick Luff, who will take you through the numbers in just a moment. But also with me up her on the podium are Mark Hanafin, our Managing Director for International Upstream and Chris Weston, our Managing Director for International Downstream, who will both be available for the Q&A at the end of the presentation.

Now much has changed since the first half results, particularly of course as Rick's described, the political environment and the unprecedented focus of the energy sector in the UK. We understand the very real concerns that customers have over energy bills. And as Rick has just outlined, there is a pressing need for investment, to secure the supplies of gas and power generation capacity that the country requires.

At the same time, market conditions remain challenging for several parts of the Group. With this in mind, the first of our key themes for today is around the robust management actions that we've put in place. We have new targets downstream to deliver better service, lower costs and account growth. In a competitive market, operational efficiency and high quality service are key differentiators of our business, to be able to sustain appropriate margins over the long term and in Upstream we are targeting tight cost control, together with reduced and refocused capital expenditure, which is essential to enhance returns on investment.

Alongside these actions, the key transactions that we completed in 2013, the Sabine Pass US LNG export agreement, the Suncor package of Canadian assets and the Hess Energy Marketing acquisition create platforms for long-term growth beyond the short term uncertainties. This is going to enable us to underpin our competitive position through service and innovation; to realise the potential of our enlarged North American business; to develop our upstream portfolio and to integrate our business, along the gas value chain.

And finally, as Rick mentioned, we are talking to all political parties, firstly to make them more aware of the strategic and commercial role we play in securing gas and electricity for our customers, and, secondly, to help them understand the make-up of the energy bill, something we have pioneered together with our transparency of reporting.

So with that, let me hand over to Nick and I will provide more detail later on our strategic progress going forwards.

Nick Luff – Group Finance Director

Thanks Sam. Morning everyone. As ever, I'll start with commodity prices and weather. As you all know, gas prices were a fair bit higher in 2013. Up nearly 15% year on year in the UK, and by more than that in the US, albeit from a lower base there of course. In contrast, oil prices were down year on year.

The forward curve, shown here bottom left, suggests oil prices will continue to fall. For UK gas, the curve has flattened, and recently fallen, whereas US prices have risen on the back of the cold weather.

Moving bottom right, outright power prices were higher in 2013 than 2012, tracking gas prices, but spark spreads were close to zero for the whole year, with no signs of recovery in the forward market.

On the weather in the UK, top right there, it was a year of two halves. Very cold in the first half, but close to normal, and hence a lot warmer than 2012, in the second. For the year as a whole, average consumption for British Gas residential came in unchanged. Against that backdrop, the group produced a solid result, albeit with no bottom line growth Revenue increased, the largest component of the increase being the expansion of US B2B energy supply, including two months contribution from the newly acquired Hess business. Adjusted operating profit was down slightly, with pressure on supply margins, in the UK and the US, offsetting higher profits from the expanded upstream business.

Despite that, a lower tax rate, and a lower share count, due to the buyback, meant that earnings only fell slightly, and EPS was maintained at 26.6 pence per share. With the balance sheet in a strong position, and good dividend cover, we were able to increase the dividend ahead of inflation, pushing it up by 4% to 17 pence per share.

You can see on the screen the breakdown of the operating result, and you can see the lower profits from British Gas and Direct Energy, offset by growth from Centrica Energy. Starting with British Gas, here profits were down 6%. BGR came in at £571m, slightly below the year before, impacted by the warm December, with the cold weather earlier in the year used to delay the passing through of higher costs, both commodity and non-commodity.

BGS was up, to £318m, benefitting from cost initiatives, and that was despite responding to 200,000 more breakdowns due to the cold weather in the first half of the year. The weak economy did impact contract numbers; however we saw recovery in installation volumes, which grew 10% in the second half.

BGB saw continued margin pressure, in part due to our decision to end auto rollovers. Profits dropped to £141m as a result.

Looking to 2014, we continue to target similar margins across the business. The mild start to the year will make it challenging for BGR, but there remain many variables that will impact the full year outturn, weather and commodity prices in particular of course.

In North America, we saw pressure on margins in the residential energy supply market, and even more so in the B2B market. Direct Energy came in below our expectations as a result, down 11% year on year. The overall result from DE residential was up, to

£163m, despite the expected decline in profits from Ontario, and a lower contribution from Texas. The US North East did well, helped by previous acquisitions, albeit with margin pressure seen there too as gas and power prices rose in the second half.

At £77m, the DE business result was disappointing. Market conditions in power supply were challenging with highly competitive pricing across the sector. We did have the Hess energy marketing business for the last two months, which is predominantly gas of course, but its profit contribution was offset by deal and integration costs.

In contrast, DE services continued to perform well, with good growth in protection plan volumes, and profits up to £36m.

The start of 2014 has been difficult for Direct Energy. The polar vortex has caused extreme weather, and turmoil in wholesale markets, particularly in power where balancing costs have been dramatically higher than normal. All energy suppliers have been affected and we'll see how the competitive environment evolves as a result. But the short term impact for us has been a hit of $70-80m, most of which falls in DE business.

Taking this hit into account, and the removal of power station profits following their sale, at current, weaker FX rates, DE is now forecast to be broadly flat year on year in sterling terms, despite adding in a full year contribution from the Hess business.

Turning to the upstream, Centrica Energy, now including the Canadian gas assets, came in at £1.3bn, up 6%.

Gas production was up almost 20%, and oil production by 7%, both driven by acquisitions. Coupled with higher realised prices for gas, and a good midstream result, that drove profits up by 23% to £1.15 billion.

The mix is important here as you know, given the very different economics between high price, high margin, but high taxed European production, and lower price, lower margin, but also low tax, for American production, covering Canada and Trinidad. We've split the stats accordingly as you can see, as well as giving you the after tax figures for the first time.

For 2014, we will see lower oil production in Europe, and DD&A rates will increase as new fields replace legacy, low cost, older fields. That will squeeze margins in Europe.

In contrast, Canadian volumes, and profits, will benefit from having a full year of the Suncor assets. That won't be sufficient to cover the lower European pre-tax profit, leaving total operating profit for upstream gas this year at around £1bn. However, the lower tax rate does mean that we can still target an after tax result in line with 2013.

In UK power, overall profit fell by 45% to £171m. Nuclear output was once again very strong and with the business also benefitting from higher wholesale prices, nuclear profit increased further.
In contrast, trading conditions remained difficult for gas-fired generation, with continued very low spark spreads, and the fleet no longer benefiting from free carbon allowances. As a result, our gas-fired fleet lost £133 million and we remain cautious on the prospects for a recovery in 2014.

Generation volumes from renewables increased as we brought Lincs on stream. However, unlike 2012, profits on selling down wind farm interests did not contribute to the overall result as they were offset by a write down of our remaining development assets following the sale of the Racebank project to Dong.

On storage, operationally storage performed very well, with record withdrawals in the cold weather during the first quarter, followed by a record injection season over the summer. However, lower summer/winter spreads gave us a much lower SBU price, causing operating profit to fall by almost 30%. Storage spreads do remain very low, and the business is only likely to be around break-even in 2014.

The Group did incur a number of exceptional charges in 2013. Low spark spreads in the Netherlands meant that we had to take a further provision for the tolling agreement on the Rijnmond CCGT.

In E&P, we had some good reserve upsides in Norway, as Sam will set out, but also had some resource downgrades, and cost overruns, on some of our projects in the UK southern North Sea. Of course, for the accounts, we don't get to recognise the increased value in Norway, but do have to take the downside impairments in the UK. We also wrote down the carrying value of any of our existing Canadian portfolio, recognising that the assets we bought from Suncor were at considerably lower unit prices. In all, that gave us a post-tax impairment charge for the upstream of over £300m.

In storage, we announced in September that we would not be proceeding with the Baird and Caythorpe projects. That led to a post-tax impairment charge of £224m.

Turning to cash flow, we generated £3.8bn of EBITDA in 2013. That was sufficient to cover interest and tax costs, a return of £1.4bn to shareholders through the dividend and the buyback and to cover £1.5bn of organic capex. We also spent £1bn on acquisitions, increasing net debt, but also increasing the cash generation capacity of the business.

At £1.5bn, the total organic capex was unchanged against 2012, but there was a shift from power to gas. Upstream capex increased, with significant spend at York, Statfjord, Cygnus and Valemon. In contrast, power capex fell, with the final spend on the Lincs wind farm being the only significant item.

There were two large acquisitions in 2013, Hess' energy marketing business going into DE business, and the Canadian gas assets acquired from Suncor, in partnership with Qatar Petroleum.

In 2014, we expect capex to reduce. This reflects our decision to scale back E&P investment against a backdrop of rising costs in the UK North Sea, without rising gas prices to offset this. While we will continue to invest in selective projects such as Cygnus and Valemon, we will be increasingly selective about new investments, and expect our E&P capex to average around £900 million per annum over the next 3 years. With no major new projects in the pipeline, power capex is expected to remain low.

On the M&A front, everything we have announced to date for this year has been on the disposal side. Hence the inflow you see there, consisting mainly of the proceeds from the sale of the Texas CCGT fleet. As you know, we are part of the preferred bidding consortium for Bord Gáis in Ireland, albeit the part of the business we are interested in would not involve M&A spend that would be material for Centrica.
In summary then, flat earnings in 2013, with higher upstream profits, helped by acquisitions, offset by margin pressure in downstream energy supply, particularly in

B2B, on both sides of the Atlantic and by the loss of free carbon allowances. Looking to 2014, with pressures across the group, at this stage we expect overall earnings per share to be below those in 2013, in line with recent analyst forecasts once adjusted for the impact of the polar vortex, and FX movements, on Direct Energy.

With that I will hand you back to Sam.

Sam Laidlaw – Chief Executive

Thank you very much Nick. So in February last year, we set out our strategic priorities, in the context of an increasingly international gas market.

And just to recap, our priorities are to innovate, driving growth and service excellence, to integrate along the gas value chain, linked to our core markets; and to increase our returns, through efficiency and capital discipline.

Now each priority remains equally valid today, reaffirmed by the developments we have seen in the current challenging market conditions. We delivered good operational performance in the year, as well as further improvements in our safety record, with the number of lost time incidents in 2013 falling by 45% and no significant process safety incidents recorded during the year. And I remain very grateful to my colleagues for their commitment and hard work, particularly during times when the company was the subject of much political and media scrutiny.

We have also made strong strategic progress during the year. Across the Group, we invested over £2.5 billion, both organically and through acquisition, strengthening our businesses for the long-term. And with over £60 billion of long term gas and power commitments in place, we play a vital role in securing energy for our customers.

In North America, we have significantly enhanced the scale of our activities, with the Hess Energy Marketing acquisition transforming the size and capability of our B2B activities. While the Suncor transaction doubled the gas reserves in Canada and materially increased our 2C resource base.

In the UK, we have simplified our residential energy offering, and have made further improvements in the transparency of our reporting. We also realised value through the disposals of selected E&P assets, some of our UK wind assets and our fleet of 3 CCGT power stations in Texas.

However, with market conditions remaining challenging, we are taking positive action across the Group. We have specific actions in place for each part of the business: improving customer service and developing innovative propositions for growth, on both sides of the Atlantic; cost efficiency programmes in British Gas, Direct Energy, E&P and Gas Storage; and more selective investment upstream. And I'll return to this in more detail shortly.

As the UK's North Sea gas production continues to decline sharply, securing new sources of international gas is vital for Britain. In 2013 we signed two further long-term gas supply contracts, totalling £14 billion, including the agreement with Cheniere to purchase LNG from the Sabine Pass liquefaction plant, and an extension to our LNG supply contract with Qatargas. Both agreements underline the crucial role that Centrica is playing in accessing global LNG markets and to secure supplies for the UK, despite fierce demand from Asia and Latin America.

And our acquisition of an interest in the Bowland shale exploration licence gives us a stake in a potentially important domestic source of gas for the future.

We invested £1.5 billion in organic capex across the Group, the majority of which being in upstream gas, as Nick outlined, and here we achieved first gas from three projects in the past 12 months. And in power generation, our Lincs offshore wind development is now fully operational, capable of providing enough power for some 200,000 UK homes.

In North America, our $1 billion investment in gas assets from Suncor, in partnership with QPI, doubles our upstream scale in Canada. The assets fit well with our existing production and processing hubs in the region, and the acquisition further strengthens our relationship with our Qatari partners. Initial production from the assets has been strong, ahead of our original expectations. And we now have over 1 million un-developed acres, meaning significant potential for reserves and production upside, leaving us well placed to benefit from any improvement in North American gas prices.

Downstream in North America, the Hess Energy Marketing acquisition transforms our position in the B2B gas market, making us the largest gas supplier in the US North East and the second largest supplier in power. With advantaged positions along the gas value chain, the long-term customer relationships, this transaction really provides a differentiated business model which is already delivering financial performance in excess of our investment case.

This good strategic progress has come against a background of unprecedented political and media focus on the UK energy sector. The prospects for political intervention, with proposals for a price freeze and a 'resetting' of the market, has created great uncertainty. On top of this, there have been calls for the breakup of vertically integrated suppliers, further damaging confidence, at the very time when substantial investment is required for the country's long term energy security.

The UK now imports over half of its gas requirements. And with worldwide competition for energy resources, the UK must pay the going market rate. Financially strong companies are needed to secure long term supplies for the country.

The same is true of power generation, where although the Government's Energy Act has now been passed, many important details remain to be resolved and financially strong supply companies are needed to underpin investment in new low carbon power generation capacity.

There has been much debate about the efficacy of the retail gas market, and a competition assessment is underway in which we are participating fully. We should however not lose sight of the fact that the UK energy supply market continues to offer among the lowest unit prices in Europe, while energy efficiency measures are successfully reducing consumption. As a result, when adjusted for weather, average energy bills have in fact increased by less than inflation, over the last 5 years. Indeed average energy bills for our retail customers this year are expected to be around 8% lower this winter than they were for the corresponding winter last year.

Nevertheless, public trust in energy suppliers has fallen to record low levels. While there is improved understanding of the true costs of supplying energy to the home, the proposal of a price freeze would offer a false promise to customers, when the large majority of costs are external to the business.
We have engaged with policymakers to present proposals for more affordable ways to decarbonise and reduce energy consumption, helping more people at lower cost

without compromising the long term decarbonisation targets that we all support. And we were the first supplier to reduce prices following the Government's changes to the ECO programme, passing on the savings in full, to all our customers.

We also recognise that improving transparency is key to rebuilding trust in the sector. We have simplified our product offering to 4 core tariffs; we were the first major energy supplier to introduce a 'tariff check' for our customers, and show clearly the margins we make in our upstream and downstream businesses, and indeed from different forms of power generation, and now for the first time in our accounts, we are publishing our audited Ofgem Segmental statement. And we encourage other suppliers to follow suit.

Alongside trust, our continued focus on operational efficiency and service quality underpins our ability to earn a margin in energy supply, making these the core areas of focus. And through delivery of these objectives, we continue to see through-cycle, post tax margins of 4 to 5% as appropriate given the risks and substantial commitments inherent in the business.

In challenging market conditions we are taking actions to position the Group for the future. We have successfully completed our £500 million cost reduction programme, launched two years ago. This has delivered operational and cost efficiencies, for the benefit both of customers and investors, helping to offset the economic headwinds faced across the Group.

Downstream, under the leadership of Chris Weston, we have completed strategic reviews in both British Gas and Direct Energy, and new management structures are in place. We have also set new targets, to deliver better service, lower costs and where appropriate, drive customer account growth.

Upstream, under the leadership of Mark Hanafin, as well as focusing on continued operational efficiency, we will direct our capital towards the projects offering the most attractive returns and the lowest political risk, primarily in gas and oil, with limited near term investment in power.

In British Gas, we are targeting industry leading service levels for all our customers. This will be achieved through improvements to key processes, such as home move, switching to Direct Debit and serving tenanted properties, where we can significantly improve the customer experience, reduce costs and improve retention. These improvements will in part be enabled by our investment in a single residential CRM system for energy and services. And to date, over 80% of our residential customer base has now been migrated onto the new system. In BGB, the roll out of our new billing system is expected to deliver improved service at lower cost, and should be fully operational towards the end of this year. We have commenced a cost reduction programme in BGB, to remove £100 million of costs from the business by the end of 2015 from a combination of cost to serve and bad debt savings.

As well as delivering operational efficiencies we are also driving for growth. Although we experienced customer losses last year as a result of a brief period of high price differentials, we are much more competitive today and are targeting a return to account growth.

We have an award winning digital platform and a leadership position in smart metering and see the smart connected home as a core focus area, transforming the customer experience and enabling the development of attractive, differentiated products. We expect to have installed 1.3 million smart meters for residential customers by the end of this year, substantially more than any other supplier, helping customers to have real time information about their energy usage. We have already seen a positive response from customers with smart meters, with lower consumption, none of the hassle of meter reads, no more estimated bills, and this in turn leads to improved customer retention. And we have sold over 50,000 smart thermostats to date, with weekly sales doubling since the successful launch of our 'Hive' proposition, in September last year.

We also continue to drive growth in both residential and B2B energy services, through targeted segmentation of the customer base, expanded product choice and leveraging of our insurance based platform.

In Direct Energy, market conditions remain challenging, with margin pressures expected to persist in both residential energy and in electricity supply in B2B. Improving cost competitiveness is therefore a core priority, and we expect to deliver $100 million in cost savings from the underlying businesses over the coming year.

We have re-organised the business, under the leadership of Badar Khan, he is here today, and have introduced the role of Chief Operations Officer, to help deliver operational efficiencies on the enhanced scale of the business, alongside our core objectives of customer service and innovation.

In DE Residential, we are already benefiting from the creation of an integrated operations centre in Tulsa, and a consolidated energy and services call centre in Phoenix. We are also investing in a new residential energy billing platform for the Alberta market, with the potential to extend this to other parts of the business in the future.

Building a range of innovative product offerings is core to our future growth potential in DE. Our 'Power to Go' and 'Free Power Saturdays' products have both proved popular with our residential energy customers. And in Services, the initial rollout of protection plans is delivering promising results, with over 80,000 products sold to date. Over time, we see significant potential for bundling of energy and services propositions and we are already starting to sell services propositions through our Bounce online platform.

In DE Business, the integration of the Hess Energy Marketing business is progressing very well, having transformed our capabilities in gas. Our priority is to retain key personnel and systems, continue to deliver good service and high levels of customer retention.

Looking forward, we see growth opportunities for Hess energy marketing to add supply positions from Marcellus shale producers, and also helping customers switch from oil to gas.

As Nick mentioned, the very cold weather of the polar vortex did impact the legacy part of the DEB Power Business through unusually high additional network and balancing charges in the first two months of the year. However, given the stress this has placed on the industry, we could expect to see some repricing of risk during in the year.

Upstream, we have made good progress in developing our portfolio. Lower future wholesale gas and oil prices do present headwinds, particularly in the North Sea given rising costs and reducing field sizes. However, we are successfully delivering value through reserve additions, particularly in Norway, underlining the quality of our previous acquisitions. The business is also well placed to benefit from any upside in North American gas prices. Our 2C resources in Canada more than trebled in 2013, with the impact of the Suncor acquisition being supplemented by organic additions, providing us with the potential to accelerate our drilling programme in Canada. We expect to double the wells drilled in the first quarter of 2014 compared with the fourth quarter of 2013.

Given some of the challenges in the Southern North Sea we faced last year, we strengthened our project management capability and with detailed project stage-gates reviews, we have reduced our rig commitments. We will also be increasingly selective in our investment spend, particularly against a backdrop of rising costs in the UK North Sea. Overall, we expect to reduce our investment to some £900 million per annum on average over the next three years, around 20% lower than previously expected, and are targeting savings to hold our unit cash production costs flat, over the next 3 years.

We expect to direct the £900m of annual capital expenditure towards projects offering the most attractive returns, with an increasing proportion in North America, alongside existing projects in the North Sea, such as Cygnus and Valemon. This change in mix will over time reduce our cycle times, lower our capital intensity and tax rates.

And recognising the increasingly international nature of gas markets, we will also continue to develop our LNG capabilities.

And as you can see on the chart, we expect the impact of these, with this reduction in capital expenditure on near-term production to be limited, being in the range 80–85 million barrels of oil equivalent per year, or around 230,000 barrels per day production. This will vary slightly as we continue to evaluate both acquisition and divestment opportunities to enhance the value of the portfolio.

So, in summary, despite a difficult trading and political environment, we have made good progress across the Group. Our strategic priorities remain robust, and have actually been re-affirmed by recent developments. The Hess, Suncor and Cheniere transactions each provide new platforms for growth. And we have specific plans in place, to drive increased operational efficiencies and capital discipline across the Group.

We are engaging with all political stakeholders in the UK to help inform the debate, at a time when a stable investment climate is urgently required. Only solutions grounded on economic realities rather than political rhetoric are likely to deliver the investment needed to secure the country's future energy needs.

We have a strong balance sheet, providing flexibility for targeted investments, where we see value. And by executing against our strategy, we are building a solid platform for long term growth, both upstream and downstream, on both sides of the Atlantic.

With that, I'll open it up to questions.

Questions and Answers

Q1. Mark Freshney, Credit Suisse

Thanks. Mark Freshney from Credit Suisse. Just two questions. Firstly on the impact of the polar vortex in North America, the $70-80m lost profit. Previously you have spoken about not having upstream generation assets and being prepared to run a risk of one in three winter. Does the impact of the polar vortex change that thinking?

And just secondly, on the upstream gas and oil production business, given that you are reducing the capex spend, over time will you expect that to negatively impact your production levels, the 80-85 mmboe and where would you expect the steady state to be in the long-term at £900m spend per year?

Answer: Sam Laidlaw

Thank you Mark, both very good questions. The impact of the polar vortex, the additional cost of the $70-80m and I will let Chris fill in on this as well, have largely been balancing costs. Network costs effectively from the regulator as a bunch of peaking plant has had to be called up for production which was very seldom used. So this is not a one in three event if you like, this is a one in ten, one in twenty, some people say one in a hundred event. And to tie up capital for those peakers that will very seldom be used, actually in our view would not be an efficient use of capital. So it doesn't change our strategy. But Chris you might talk a little bit more about some of the ancillary charges which have been at very unusual levels from the networks, and I think there is still a debate ultimately as to where some of these network charges are shared?

Answer: Chris Weston

It was a very unusual event. Eight in the ten highest demand days in the history of PJM were recorded in January 2014. So it was a very unusual event. The charges that we incurred were from as Sam said, ancillaries, bringing in reserve generation, and there are four different categories of ancillaries that are brought in and they increasingly get more expensive. And ancillaries last year in one of the categories we incurred a cost in the whole year of about just under $3m. This year we had that in one day on 6th January. So it has been a different scale caused by this very unusual weather. Now does it change our view towards assets? No. And what we saw from the Hess model, they have positions across the value chain and they weathered it very effectively. They did very well on gas, they had a tolling agreement with the Bayone power station to supply New York and that turned out to be very profitable. So we think that we can mimic owning assets through a contractual position and that we are comfortable with and we will look to more tolling agreements in the North East and indeed in Texas.

Now there may be instances in particular geographies and if we continue to grow, that we would seek some peaker assets. But we would be very, very selective about that.

Answer: Sam Laidlaw

I think your second question Mark was around the reduction in our capital spend. Will it result in longer term reductions in production? I think the change in mix here is very important in that as we invest more in North America which is lower capital intensity, we should be able to sustain production. But I will let Mark speak to that.

Answer: Mark Hanafin
I mean the model as you know, we are spending a relatively modest amount of exploration, £100m a year and that as you have go through the maturation cycle is going to give you maybe 45-50m barrels of organic resources. So we have always had the reserves supplemented by M&A activity. So I think the key thing is we are at a point in the cycle where costs are rising, commodity prices are flat. And that is squeezing margins. So the right thing to do is cut back on capex. I think the good thing is we can see three years forward at the 80-85m barrel level and over that time we will take stock of where we go next. We will be testing out the new acreage in Canada and seeing how our increased spend there is going. So I think it is the right thing to do in the point in the cycle and there is plenty of time for us to think about where we want to be in terms of the mix of cash flow or production returns as we go forward.

Q2. Martin Brough, Deutsche Bank
Thanks. Martin Brough from Deutsche Bank. A couple of questions. If commodity prices stay at current levels in the forward curve, do you expect BGRs commodity costs to be higher or lower this year than last year?

And then the second question is do you still think the international function of the organisation downstream is appropriate? I mean the drivers facing direct energy and British Gas are very different and National Grid found when they were under increased regulatory scrutiny, it was helpful to have separate local businesses to allow you to engage with local regulators and politicians rather than having shared costs across the Atlantic?

Answer: Sam Laidlaw
I think in terms of BGR commodity costs, we have bought a certain amount of the commodity for this year, but equally some of it is open and it will depend where the market goes. Chris do you want to comment on that?

Answer: Nick Luff
I should add that commodity costs will be lower because volumes will be lower based on the current expectation. But in terms of price Sam's comment is absolutely right.

Answer: Sam Laidlaw
I think your second question which is around the appropriateness of the structure that we have in place, I mean we have only just put the structure in place. It is delivering real benefits. Some of what we talked about, what Mark has just been talking about in terms of the upstream in terms of it being sure that we have the best capital allocation through a single filter, leveraging the subsurface, the project management skills, the engineering skills on both sides of the Atlantic I think is bearing fruit, improving the efficiency of our Canadian operations and bringing some cost reduction techniques to our North Sea operations.

If you look at the downstream, again we have got great opportunities to share whether it is billing systems, whether it is services, technology, some of the things you have seen with Hive and the remote heating control appliances, but also a lot of the work around smart meter technology, and also commodity risk management and some of the systems and processes we have in place I think can really be shared across both businesses.

Now what we are not doing is sort of moving to a sort of total global function where if you like we have a single marketing function for the group worldwide and we have a single sales function or we have a single back office for the group worldwide. We still do respect and as I mentioned Badar Khan is here who runs the North American business. The downstream business there is still run as a separate business and has visibility right at the executive committee on a regular basis. So I think that is very important.

Q3. Edmund Reid, JP Morgan

The first one is on dividends. I was just interested in your decision to maintain real dividend growth in 2014 given that EPS is falling and are there any constraints on that? Is there a pay-out ratio where you would be unwilling to go beyond?

The second question is around decision to keep CCGTs running? I think I have asked this before, but given the substantial loss that you have made in the CCGTs since 2013, given your expectations that spark spreads won't improve any time soon, why are you continuing to run them?

And the third question for Nick, because he is leaving, so maybe his last, but is around the cashflow implications of the decision to refund customers that are in credit?

Answer: Sam Laidlaw

So let me ask Nick to take the first one around dividend, I will ask Mark to speak to the second one around CCGTs and Nick can take the last one on cashflow?

Answer: Nick Luff

So our policy remains to increase the dividend in real terms. Clearly our payout ratio is only 64%. We have good cash generation, balance sheet in good position, so we can weather short term variations in earnings and still maintain that commitment. Eventually you have to have earnings growth to cover dividend growth, but given the financial position the Group is in, we can go for quite a long time and still continue to increase the dividend, even if we don't have earnings growth in 2014.

Sam Laidlaw

And your second question around continuing to operate power stations on a cashflow basis is not as bleak as it is on an earnings basis?

Answer: Mark Hanafin

No why keep hitting your head on a brick wall. I think was the question Ed. You know I think as Sam says, on a cash basis, it is not as bad. It is still pretty bad, it is kind of break-even and obviously heavily loss making on a P&L basis. I think to answer the question properly you have to kind of step back and say what do we think is going to happen in the future. And if you look at forward spark spreads, we currently have zero to negative. That continues for a year or two. And even in 2017 when many people are talking about lights going out, we see spark spreads of barely a couple of pounds per megawatt hour.

I think our fundamental view is slightly stronger than that, but there are good reasons why the spark spreads still remain persistently low. And that is that if you look at 2017, peak reserve margins are falling perhaps below 5%, approaching zero. But baseload reserve margins are close to 50%. So you have got a different shape in the market. The lights aren't going to go out consistently. But they are going to start to flicker if renewables are not working properly in winter. And that is the challenge so the market is not giving signals that drive investment decisions in the CCGTs. So something has to change in that and that we believe is a capacity market. If a capacity market comes in, it needs to apply to existing assets and we will be bidding into that. So I think that is the long answer, but the short answer is on a cash flow basis, broadly break even with some potential when the right market mechanism is in place.

Answer: Nick Luff
Just to give absolute clarity on the CCGTs, the open fleet is roughly break-even on a cash basis. We do have the Spalding lease which does take us into losses, fixed overhead costs which just pushes a bit further down the cash basis. But overall the owned fleet, the six owned ones are break-even cash.

Your other question Ed on the cash flow implications of refund and customers. We already do this. This is not a significant change for us. Anyone who is £100 in credit at the end of their plan year, we already refund it. And not many people are. So it will have a bigger impact for others than it will have for us. In reducing that £100 to a lower threshold, we will ask them if they want the money back. Surprisingly not that many do actually, they prefer to build it into their plan for the following year. So I very much doubt you will see it, any significant impact on the overall group financials from it.

Answer: Sam Laidlaw
And I will just add another point around that is that we have an online proposition that enables people to adjust their own direct debits. Some 2.8m people have actually been on and looked at their online direct debit estimates and direct debit payments. Over 60% of them have been very happy with the level, some have actually increased their direct debit, about 20% have increased their direct debit, because they are worried that they are going to end up getting behind, and another 20% have actually reduced their direct debit because they think they are okay going ahead. So actually there isn't going to be a great cash flow impact from this.

Edmund Reid
Okay, thank you.

Q4. Dominic Nash, Macquarie Securities
A couple of questions please. Firstly on your one billion write down. I understand that you put that through your numbers in this year. What would your underlying EPS have been without the write-down on the depreciation charge?

Secondly, follow-up from Ed's question. If spark spreads don't recover, what capacity payment do you think you will have to bid in for to a) keep yours open, and b) potentially build new ones?

And then finally just to throw one in, on water, obviously they are introducing water competition at retail, in the non-households, are you looking at entering that market? And if water exit is approved in the water bill, would acquiring water customers be something you would be interested in?

Answer: Sam Laidlaw
Let Nick take the impact of the write-downs and then Mark perhaps you could talk about what price would be necessary to incentivise new generation in a capacity market and I will talk about the water.

Answer: Nick Luff
So the write-down, obviously we took towards the end of 2013 so it had no effect in 2013. But even looking forwards, a chunk of it was on new storage projects which we weren't depreciating anyway and the upstream ones, the reason we have taken the write-down is because the reserves aren't there and the economics of getting the gas

out from those fields. So the depreciation per unit of production coming out of those fields will be probably what we would have thought of before, it won't actually impact it. That is why we had to do the write-down because it was getting too high.

Answer: Mark Hanafin
On capacity payments there are going to be in the current design there are going to be three tranches of that, existing assets get a one year capacity payment. Refurbished assets three years and new assets ten years. And I think obviously it is a competitive process, I am not going to explain to you what our strategy on our pricing might be, but in round numbers you probably need £65 per kw to be bidding in new capacity either CCGT or open cycle. We have a range of possibilities for that if the market works properly. And our existing assets will obviously look to hopefully cover some of the losses between when an auction happens and 2018 when this comes in. Otherwise bring it back to Ed's point, why not close them.

Answer: Sam Laidlaw
On your final question around, should we be looking at diversifying into water supply if the market opens up to retail competition, we have said very clearly this is an energy and energy services business. Historically Centrica has had attempts at diversifying into other businesses and they haven't been particularly successful either because of data protection issues or because of systems issues or actually because the customer is looking for something different. So that is not an area we will be pursuing.

Q5. John Musk, RBC
John Musk from RBC. Two questions from me as well. Firstly on the customer account target and returning to growth there. Obviously with a slow start let's say to the year, how confident are you in getting that and what is the mix between services and energy customers within that?

And secondly, on the carbon tax in the UK, what is your, is there any insight you can give us on what you think may happen there and importantly what would you like to happen there?

Answer: Sam Laidlaw
Let me ask Chris to touch on the first one around customer account growth both energy and services and Mark to speak to the carbon floor which is I think a political judgement as much as an economic one.

Answer: Chris Weston
So as we have said, we continue to see customer losses at the front half or the beginning of this year about 100,000 customers. But we have seen that massively slowdown. That was a hangover from the price rise in October, and it was helped by our price reduction on 1st January. So we have also seen sales increase of energy. And we are just about getting to break-even now. We are looking at our propositions and seeing how we can make them more competitive. The current moves in the curve help that. And I am confident that we will get back to growth in the energy customer base. Whether we will make up that 100,000 that we lost at the beginning of this year, it is too early to say.

In terms of services customer numbers, the customer base in services has been declining for the last three years or so. There is an awful lot of focus in getting growth back into the services customer base. I am confident we will get to growth this year. One of the key things we have to do is to get the energy call centres back to where they need to be and they are pretty much there now. So they are handling calls efficiently with short ASAs. That provides bandwidth for the call centres to be able to start to lead generate for services. And I see that as a key channel for the services business. Services business is also extremely effective online. We find about 25% of our sales for homecare come through online. Indeed that is our biggest channel. So I think there is a lot more that we can do there, because we have a very good presence online. So in both of them, both energy and services, I am looking to get back to growth this year.

Answer: Mark Hanafin
So in terms of carbon, what is happening, what do we think about it? When Treasury brought this in, obviously the scheme was meant to provide a floor trajectory out to 2020 leading up to £30 per tonne of carbon and it was based on a difference between that floor and what the EU allowance was on the ETS price. And I think Treasury, what they do is they forecast it two years in advance. They thought the EU price was going to be higher which meant that this tax year, 2013/14, the tax element of it is only around £5. It is doubling next year; again they have underestimated the EU allowance price. So the £9.50 and now we have the prices for 2015/16 which are doubling again to £18.00 that is the tax element of it. Now when you look at, for every £5 per tonne of tax on carbon that is £2 a megawatt hour on the power price. So at £18 you are looking at £7 on the power price and I think that is where the issue is coming in. Number one, the Treasury is probably surprised that the EU prices haven't come up and the tax is larger. And secondly, large industry users are concerned about that £7 disadvantage versus Europe.

So from our point of view, you know we understand the affordability issue and have some concerns about that as well. But at the same time it was the only mechanism that was actually beginning to send the market signals to say carbon has a proper price for emissions. The ETS is hopeless for that and the Commission have not managed to figure that out. But HNT did put that in place, it gave a clear signal and it does drive switching. It hammers the clean dark spread for example. So it is a very difficult one. I think that the options are either a freeze at the 2015/16 level or a lower trajectory from 2015/16 onwards. I think that is where it is going to end up and we understand that, but we still think it is an important part of the energy mix and the correct signal.

Sam Laidlaw
I think it has done a lot to encourage the coal to gas switching and in that sense if you look at it in terms of overall cost of carbon abatement, it is still relatively efficient compared to a lot of other mechanisms. And you shouldn't also forget that if you reduce the carbon price, then actually the cost of feed in tariffs and rocks is inevitably going to go up.

Q6. Ian Turner, Exane
Ian Turner from Exane. Can I just ask you what you could do to mitigate the risk of Labour's proposed energy price freeze either before the election or after the election? As no one has asked that question yet?

Answer: Sam Laidlaw
A very good question. Obviously in a competitive market there are things we can talk about and things we can't. But the obvious things are working both in terms of how the customer propositions we already have, over 20% of our customers are on fixed price that is clearly one lever that we could potentially pull. There is another level in terms of can we procure some of our gas on something that is closer to a fixed price basis. Those are some of the big drivers and obviously as we get closer, we are still 16

months away from an election. As we get closer to the day when we assess what the probabilities of this are, which is obviously a political judgement, not only on which party, but whether there is going to be a coalition government, because I think there are a wide range of views. And if there is a majority Labour government or a minority Labour government seeking to govern, what are the chances of this being enacted? And those are the judgements we will have to make. So we are very focused on a strategy for it.

Q7. Andrew Mead, Goldman Sachs
Andrew Mead at Goldman Sachs. Just two questions on politics. One, could you say what the main issues would be for Centrica if Scotland voted for independence aside from what currency they may be in and things?

And my second question was, have your partners such as the Qatari's expressed any views on the political issues in the UK and have they expressed that to either of the two parties?

Answer: Sam Laidlaw
So the first question I think is around the implications for us of Scotland voting for independence. Well we have said publically and stated that at the end of the day this is a matter for the Scottish people. But it will be complicated in the energy sector because obviously there is the natural division of spoils but also division of liabilities in the North Sea because a lot of fields are now getting to the end of their field life and dismantlement issues which are being picked up under the new dismantlement agreements with the Government. A large share of that is being picked up by the Government, so obviously there is a liability there that comes for the fields that are deemed to be in Scottish waters as well as the production revenues. Then on renewables, clearly we are in a situation where a lot of the UK renewables onshore wind in particular is located in Scotland and England would be paying the feed-in tariffs to Scotland. So how durable those are. We don't have significant investments for onshore wind and renewables. So that is not an issue for us, but it will be an issue for the energy industry. And the third piece of course is that we have got together with EDF, two nuclear power stations in Scotland which again ultimately will have to be decommissioned and who has the liability for those. So these I think are going to be complicated issues that have to be worked through.

Your second question Andrew was around the Qatari's and the political situation in the UK. I mean a number of international investors and some of our international gas suppliers without getting into specifics, are concerned about what is going on in the UK, because actually the UK had up until recently as you know, been a bit of a beacon of stability and political consensus and a good place to invest. And we saw that obviously with the share prices of some of other European countries. And when I talk to both European counterparts, but also some of our gas suppliers, they are increasingly concerned about this. And I think that is a great pity because as we all know, reputations are easily lost and take a long time to rebuild, particularly in the investor community.

Q8. Harry Wybyrd, Barclays
Hi, it's Harry Wybyrd from Barclays. Two questions. Firstly. You mentioned 4-5% post tax margins are appropriate through-cycle, can you confirm that is what you are assuming for your 2014 guidance?

And then following on from that is that consistent with your strategy to increase your account numbers particularly in BGR? Obviously there are costs involved in acquiring customers.

And then secondly, on Hive, you mentioned you had sold 50,000 smart thermostats, I wasn't quite sure, were those all Hives or was there a subset of those Hives?

And then following on from that, have you seen any changes in energy consumption in customers who have Hives?

Answer: Sam Laidlaw
I mean the 4-5% margin is something that you know there is no entitlement here; we absolutely have to work hard in a competitive market to continue to take costs out. We will and have historically had the scale we have and cost reduction programmes and productivity and the online offering had higher margins if you like than the industry average. But we are going to have to work hard to do that. In terms of specific guidance for 2014 as always, much will depend on the weather and wholesale price as we always say, but we think fundamentally that 4.5-5% post tax is a good number. And the propositions we are coming out with will help us grow our customer base, but we will have to keep taking costs out of the business to be competitive.

Further answer: Chris Weston
In terms of the Hive product, we are actually to date actually a little bit more than the number there, it is getting on towards 60,000 so we are seeing it being very popular. And there is a small proportion, I would have to check the number, but probably about 19,000-20,000 that were the original remote heating control that we evolved into Hive in that number.

What are we seeing? It is very early days in how it is affecting people's energy usage. I don't know whether it is surprising or not, about 45% of the interaction that we see between the customer Hive and the heating happens when they are in their own home, in their sitting room, probably turning up the heating while they are watching telly. So we are getting some interesting insight, it is proving to be very popular. People are using it pretty much every day. So high incidents of use. The initial indication on energy usage is saying that about 30% of the customers are using roughly 10% less energy or less heating. But that is very, very early and so I wouldn't take too much from that data but those are the initial indications that we are seeing. It is proving to be a very popular product.

Q9. Lakis Athanasiou, Agency Partners
I have two questions and one follow-up from a previous question. The first two, you talked about 770 million barrels of oil, 2C reserves, could you give us a rough idea of where the geography of that is? And also some colour on the location of where you think you will be spending the broad split of that £900m per annum; I guess North America, UK, and Norway?

Second question is, on your strategy on gas E&P in North America, is it coincidence that where you are now is roughly matching what your LNG export capabilities are and any further acquisitions would be matched by that and therefore it is almost completely dissociated from your downstream activities in North America. Would that be a good way of looking at things?

And my follow-on, I was a bit confused with Nick's response on the asset write-down. As far as I can make out the asset write-downs on the fields, Seven Seas, Ensign and

York seem to be almost the entire development costs of those fields. So there isn't much there to depreciate. So I can't see how unless I am missing something, you are actually preserving unit depreciation rates.

Answer: Sam Laidlaw
Let me ask Mark to take the first one which was around our 2C resource base, where is it and roughly what is the split if you like of our capital expenditure. I think really your question Lakis is between the North Sea and North America.

Answer: Mark Hanafin
So in terms of 2C which I think was your question about 250 is Europe and the balance is Americas. In terms of capex spend in terms of that 950, you have 100 of maintenance and around 100 of exploration, so 750 in round numbers of development. Two thirds of that 750 is non-op. The big ones, Cygnus, Statfjord, Valemon, 250 of it is operated under our control and I would say again these are rough numbers, half and half in terms of North Sea and Canada.

Further: Sam Laidlaw
So of the 900 about 150 is capex.

Answer: Sam Laidlaw
I think in terms of the strategy for acquisitions, it is coincidence that the volumes that we have coming out of Canada if you like are roughly equal to the volumes that we will need to export from the Cheniere facility when it comes on-stream. We have also got a big and growing gas business as retailers both in the domestic space and now increasingly with Hess Energy Marketing in the B2B space. So in order to provide the structural hedge that, reduce out collateral, if we can find the right opportunities whether it is through continuing to develop our Canadian position, either developing some of the 2C you have just heard about or whether it is looking at infill acquisitions. Or also looking at US shale opportunities, if we could find the right opportunity for value and we've been looking as you know for a number of years and found that either the resources are dry gas and very low returns such as a lot of them are sellers with low gas prices or they are liquid rich, but very short reserve life, where you get on a treadmill and have very high capital intensity and have to keep putting the money back in. We haven't found yet an opportunity that if you like fits what we would like to do. But we will still continue to look for upstream gas opportunities in North America because we need to go beyond just providing enough gas for our export. We also need to supply our North America customer base as well.

Further answer: Nick Luff
And your question about unit depreciation. You are right we have written off a very large part of the original development costs. We have had cost overruns of course so we have had to put more costs into it. We also had to downgrade the production expectations and that is why you end up with a unit depreciation rate that is not dissimilar.

Further question:
Is all that write-off in PPE or is it elsewhere as well?

Answer: Nick Luff
Yes.

Q10. Peter Atherton, Liberum

Peter Atherton from Liberum. Given the challenges of finding good things to put your capital to work in and giving your share price, what discussions has the Board had about increasing the share buyback beyond just using disposal income?

Answer: Sam Laidlaw

Well I think you know we obviously have just completed one share buyback. We have announced as a result of the asset sales, the £420m share of stock repurchase which we haven't yet started. So I think we shouldn't get ahead of ourselves here, but clearly we absolutely understand the point that you know with our share price where it is, when we match it up against acquisition opportunities, the acquisition opportunities have a higher hurdle to cross in terms of looking at the alternatives.

Q11. Edmund Reid, JP Morgan

Edmund Reid from JP Morgan again. Two questions. The first one is in terms of customer losses. What proportion of your customer losses were to smaller suppliers? And do you think it is a level playing field?

And I guess now this is my third question. But in terms of gas margins in the segmental statement at the end of this, it seems that gas margins again are significantly higher than electricity margins in UK residential supply. And there has also been a lot of political focus on that. Why do you think that is? Do you think it is meaningful?

Sam Laidlaw

Let me ask Chris to answer both of those.

Answer: Chris Weston

So, small suppliers are taking a larger proportion of our losses. So at the moment we are seeing about 40% of our losses go to smaller suppliers, as they have the advantage from not having to bear the ECO, or the environmental costs in full, which is worth about £50 or so but increasingly as they move above 250,000 customers and some of them above 500,000 customers, that will disappear and so some of the ones that reach that threshold you will see their prices are very similar to ours now.

In terms of the margin, we look at the market as a dual fuel market, 84% of gas customers in the UK take dual fuel from a single supplier and so we would look at the dual fuel margin at 4.5% after tax as being reasonable. I mean it is a competitive market, 19 competitors out there. They all price differently. They all have different pricing strategies and that is the benefit of a competitive market. We will look at that as we go forward and work out what is going to work best for us to attract and retain customers. But we are happy with where it is at the moment.

Sam Laidlaw

And the only point I would add to that last point is that the data that Ed Davey selected was actually based on an extremely cold winter when we obviously had very high gas margins. If you look at today's data that we published, after tax we are down to 6.5% and you know the electricity margin is actually less than 1%. So at the end of the day if this does converge then electricity margins would have to move up.

Q12. Ashley Thomas, Societé Générale

It's Ashley Thomas from Société Générale. The £1.3bn of pre-productive capital in the E&P business, I assume going forward with the lower capex and sort of Cygnus coming on-stream, over the next three years, I would have thought that trend should be down, there will be less pre-productive capital in the business. Could you just give us a feel of the scale of how much could potentially come on?

And also could you express your confidence in whether those sort of committed projects will hit the targeted hurdle returns?

Answer: Sam Laidlaw
I will let Mark answer the detail but I think your general proposition, you see into the 2013 numbers compared to the 2012 numbers improving our ROCE picture. Obviously we have the commodity price not going in our favour, but nevertheless the pre-productive capital we are working our way through. It is principally Cygnus and Valemon as the two big projects if you like, plus the Statfjord upgrade which has very high returns anyway. But I will let Mark speak to this.

Answer: Mark Hanafin
I think that on the general point, it is correct that as we reduce capex and some of the longer dated projects, particularly ones that have come as part of an acquisition where you have got capital essentially from the acquisition allocated to that and then the spend. That comes off. So that reduces it. I don't have the sort of numbers at my fingertips on that one, but the general point is true.

I think on projects that we are doing, and we are being very selective about, you know we look at some of those impairments in the Southern North Sea and yeah there is the usual mix of excuses that people like to use about those platforms and third parties not doing what they should and a failed well that statistically can happen and difficult drilling conditions and all of those things. But basically we also needed do quite a few things better than we did and that comes down when you peel the onion back to the root cause, the really root cause, it is being driven by rig schedules, it is being driven by a dash to get to first gas and all those things you know are fine, but not if it means you move forward before you have done all the sub-surface work the facilities engineering, the well planning and so on. So we have put in place an assurance process around stage gates very rigorously that things don't move forward until they are ready. That is for our projects and I take no heart from the fact that the industry is awful at this and if you benchmark it, pretty much every capital project looks like that. I don't think it needs to be like that and it can't be like that when you have got flat commodity prices, because they don't bail you out any more.

So I am very focused on making sure that our projects go right. We then have to be a good non operator as well. A lot of our capital is going into non-operating and we are taking that very seriously. We are not a financial investor in these things. So for example, Cygnus, it is a huge project, it is shallow water, it produces all kinds of challenges for lifting and so on. But we have people embedded in that project and I think GDF are a good operator and you know we will work very closely with them to try and make sure that comes in, in good shape and delivers the returns.

Further answer: Nick Luff
If I could just add to that. I mean you are right to point out that Cygnus, you won't actually see pre-productive capital come down until Cygnus comes on-stream. So over the next year or two it will probably just creep up a bit and then will come down sharply when Cygnus comes on and to a lesser extent Valemon.

Q13. Jamie Tunnicliffe
Can I just check that the mid 20s RCF metric is still valid, given what looks a more challenging environment for the business?

Answer: Nick Luff
You are talking about credit ratios? I mean you have seen some of the commentary that the rating agencies have put out. It is fair to say that they have seen some changes in the sector and expressed concerns about it. The S&P have been reasonably specific about it in changing some of the thresholds they are looking for. We are still above the thresholds that they took about a different metric. Moody's are less precise. They still talk about the mid-20s, but clearly that in itself is a range, they are probably a little more cautious than they were 6-12 months ago.

Q14. Fraser McLaren, Merrill Lynch
Good morning, may I just ask about your view of US retail margins and the extent to which that has changed your appetite for further M&A?

And then also I was wondering about the extent to which you have now exhausted efficiencies in the BG home services business and if you now really need that revenue growth in order to see higher profits?

Sam Laidlaw
Let me ask Chris to answer both of those, the first one being around US retail margins, has that changed our view of retail for acquisition purposes?

Answer: Chris Weston
The margin squeeze has largely been in the B2B market, so I think that what we have seen in the polar vortex has been a large impact and it will make people think about the risks they price into their margins. So we have seen margin squeeze over the last 12-18 months. And it got to its worse at the end of last year. We have been through a crisis much like we did in 2007-2008 where we did see competitors re-price risk. The initial indications that we are seeing in terms of pricing in the way the auctions are running at the moment, suggest that people are being more sensible now about margins. Does that change our view on M&A? We will look at each one in its own right and work out whether it is a sustainable business model, how it fits with our existing business. Geographically where it is, I think at the moment in the North East, we are less inclined to go forward with M&A, in Texas it is still attractive. So it will depend slightly geographically.

Going on to the second one in terms of costs in BGS, there has been an intense focus on cost in that business. I would not say it is exhausted. I think we can continue to do more on efficiency. But I think more importantly now, we have to look at how we create resilience in that service model that we offer to our customers. So we are looking at being able to operate a one in ten winter level and that is what we are building the business to be able to do. It might mean some changes to the way we deploy engineers to better meet customer needs at certain times of day. But we will do it with an eye on efficiency. And we do have things like the new systems coming in which are shared with residential energy which will help in terms that the key focus beyond the service levels is then getting back to growth. And using the insurance product capability that we have and our ability to price and price more effectively for individual customers and risk is where we will see that come.

Sam Laidlaw
Any further questions? Time for one more.

Q15. Peter Atherton, Liberum
Peter again from Liberum, A nice easy one to finish with. Your struggles to generate growth is bound to at some point create a break-up story or break-up speculation. So I can give you the opportunities to give us your top three reasons why Centrica is adding value to this mix of businesses and why that is better than perhaps being broken up into three or four separate entities?

Answer: Sam Laidlaw
Sure. I mean there are different dimensions. I mean people talk about different things when they talk about break-up. But if you look at the Group as a whole, why it is worth more than the sum of the parts? I think firstly the benefit of integration, as we have seen in terms of reducing our cost of capital, because it actually enables us to deal with volatility in the markets and shelter some of our customers from that volatility. So I think those benefits are very clear. It also gives us you know the credit support we need to be able to enter into long-term gas supply agreements. It is no surprise to you that when Centrica was first created at demerger, it had to be created with Morecambe Bay because everybody recognised that as a pure retail only enterprise, that the scale that we are, we wouldn't have been financially viable if we had sudden commodity price shocks. So there is a real benefit of integration to our shareholders through cost of capital, but also to our customer.

And I think the second piece behind your question is if you like the benefit of North America to the rest of the group. And actually what we are seeing is not only do we believe that as the largest energy, liberalised energy market in the world, it has huge growth potential, but we can also leverage some of the skills, some of the services, things we have been talking about, Hive and smart metering technology, into North America. There is a huge opportunity for energy efficiency there. And the size and scale that we are just to paint ourselves into a corner in the UK, I think would be inappropriate and constrain our growth. But also the UK is becoming increasingly import dependent on its gas and therefore a lot of the gas that we are going to be supplying in the UK to our customers is going to have to come from international sources, the US being a very important part of that.

So when we look at the whole, the totality of this, there is no question in our mind that not only is the whole worth more than the sum of the parts, but actually if we break it up, we wouldn't be able to enter into the sort of agreements we talked about with the Qatari's, with the Norwegians, to also enter into the LNG agreement in the US and to take on some of these very big commitments and continue to invest at the level we do to keep power stations running, but also to keep the gas flowing. So that is the simple story.

And I think that is probably a very good note to end on. So thank you all very much for your continued interest and all your time and some very good questions.

End of Presentation