Centrica 2018 AGM
Presentation transcript 14 May 2018

Good afternoon Ladies and Gentlemen. It is now 2 o'clock and it gives me great pleasure to welcome you to the Annual General Meeting of Centrica plc. My name is Rick Haythornthwaite. This is the twenty-second AGM in the company's history and my fifth as Chairman.

Thank you for coming. Given the challenges we face, it is good to see so many of you here today giving us the opportunity to listen and respond to your questions, comments and concerns.

But first let me introduce you to my colleagues here on the podium.

On my far left is Mark Hodges who is Chief Executive of Centrica Consumer, one of the two customer facing global divisions which we created last year.

Next to Mark is Joan Gillman, who is a Non-Executive Director and former executive vice president of Time Warner Cable, the second largest cable company in the United States.

Then we come to Steve Pusey, who joined your Board in 2015 and is also the Chairman of our Safety, Health, Environment, Security and Ethics Committee.

Sitting on Steve's right is Margherita Della Valle who has been a Non-Executive Director since 2011 and is Chairman of our Audit Committee.

Next is Stephen Hester, who is our Senior Independent Director.

Directly on my left is Grant Dawson, our Group General Counsel & Company Secretary who has been in that role since 1997.

To my right, on the far end, is Mark Hanafin, Chief Executive of Centrica Business, our other global division.

Carlos Pascual is next to Mark. He joined us as a Non-Executive Director at the start of 2015 and has far-reaching experience in energy geopolitics and economic and commercial development.

Next to him is Scott Wheway, who this year took over responsibilities as the Chairman of our Remuneration Committee. Then we come to Jeff Bell, Group Chief Financial Officer who has played a key role in delivering on our financial framework.

And finally, on my immediate right is Iain Conn, Group Chief Executive, who will shortly be updating you on the performance of the business and the strategic progress of the Group.

You will of course have the opportunity to meet the directors in the reception area later on.

2017 was a difficult year for Centrica and, to my deep regret, for you - our shareholders. We are in the midst of a transition that is necessarily ambitious.

And all the while, we must stick firmly to our core purpose of providing energy and services to meet the changing needs of our customers.

This would be a tough undertaking even in a benign and supportive political environment. As it is, the pressures we have faced from this quarter in our important home market have raised the degree of competitive difficulty and created an air of uncertainty that weighed heavily on our share price in 2017.

I am disappointed that the many actions we have taken to help vulnerable customers, bring old tariff models to an end and reward loyalty have received little recognition from politicians.

Our response has been to strive to make Centrica more resilient to our external environment. This requires a fundamental repositioning of our organisation, processes and systems, integrating a hitherto fragmented structure.

This must all necessarily be executed at pace; because to stand still in our fast-moving sector is to invite obsolescence; and because our employees understandably want to get to the other side as quickly as possible.

Accordingly, the business is being rebuilt on a firm foundation. Underlying everything, and essential to long-term value creation, has been the considerable work done by Iain Conn and his senior leadership team in focusing on our core businesses of energy supply and services, and the propositions which our customers expect today and desire tomorrow.

At the same time, they have ensured that the fundamentals of change – our purpose, our new values and new ethical standards - are fresh, relevant and deep rooted, with safety, compliance and conduct at the top of our agenda.

The strategic transition of Centrica is being delivered well and all of our declared external financial targets have been met. We delivered our promised portfolio shift against the odds. We delivered on our operating cash flow targets. We delivered on our efficiency targets three years ahead of plan. We retain our strong investment grade credit ratings. And we cut our debt still further – we have halved our debt over the past three years. This strong progress means your Board is comfortable and fully supportive of the decision to maintain the dividend at the current level for the next three years, subject to meeting our targets of operating cash flow and net debt. But there have also been narrow areas of weakness, particularly in our North American power book during the second half of the year.

Just one part of our portfolio and limited in its impact but sufficient to damage confidence in our company and its prospects, causing significant harm to our share price late last year layered on top of the impacts of the political uncertainty. There was a strong reaction from investors and doubts emerged at the time about the detail and deliverability of the Centrica strategy.

I hope that our executive team went a long way to addressing these concerns at the Preliminary Results in February. They reminded our shareholders that the first phase of our strategic repositioning has been successfully completed. They reinforced the point that our consumer division remains stable and profitable, with the prospect of real growth, and that there is further scope for cost efficiency gains.They offered explanations, not excuses, for the performance issues in our Business divisions. Above all, they sought to reassure investors that, through our changing portfolio, cost efficiency and divestment options, Centrica has a strengthening resilience to uncertainty.

As ever, we recognise that the good governance of the Company is essential to the delivery of any strategy. So, in that spirit, let me offer you a window into the business of your Board in 2017; the issues which will dominate our agendas in the coming year; and our plans to build further on the new governance approaches to risk mapping, stakeholder engagement and board development.

The first and key question we revisit at each meeting, and in the round each October, is whether we are pursuing the right strategy. It can be tempting to alter course in the face of strong headwinds.

Our strong and shared contention is that strategy is not about short-term adjustments; it is about staying true to our purpose and aligning ourselves with the fundamental forces – consumer power and choice, decentralisation and digitisation in particular – that are changing the energy world. So, we believe the answer to be clear. Nothing has happened to invalidate the strategy which we set out in 2015. It is a strategy that makes sense for the company, our shareholders, society and the planet – and in this latter regard, at a time when Climate-Related Financial Disclosure is very topical, Centrica does not simply report an impact, its entire strategy is committed to impact…even if we have yet to agree a set of metrics with the investors as to how best to capture this progressive position.

In 2018, our focus is very much on strategy delivery and performance management. We are concentrating on those things which we can control and prioritising the performance of our existing businesses over expansion. We are confident that the shape of the business that we defined in 2015 and now have is the right one to deliver growth over time and achieve our strategic goals.

Meanwhile, we have continued to revise and refresh our approach to risk management to ensure that we have a stronger framework in place as we pursue our strategic objectives. In 2017, we focused on embedding this redesigned process.

Your Board discussed all aspects of our perceived risk exposure, with particular emphasis on process safety, political pressures, strategic delivery, cyber-security, capability development and leadership succession. Inextricably linked to leadership succession is our approach to the attraction and retention of key people, a component of which relates to their remuneration.

This year we are putting a new Remuneration Policy to the vote at this meeting and we have sought, through extensive dialogue, to understand and reflect the evolving consensus of the body of our investor base. We recognise in our recommended Policy an increasing investor discomfort with reward for short-term achievements, however exceptional they might be, if and when such achievements have yet to result in bottom line impact.

So, we are proposing that annual bonuses should be more closely tied to financial outcomes and less to the executive team efforts.

Longer-term reward remains very much aligned to the fortunes of shareholders. But to strengthen this link further, we are proposing to add a Total Shareholder Return measure to the Long-Term Incentive Plan.

Throughout 2017, Iain Conn and the executive team worked tirelessly to deliver the first phase of the strategic transformation and, in the eyes of your Board, exceeded our expectations in their ability to close difficult divestments, navigate complex changes in the organisation in a very sensitive manner and bring home promised efficiency gains three years ahead of schedule.

But that good strategic work was overshadowed by the disappointed expectations about short-term performance and the impact of UK government pressure, with the net result of a significant fall in the value of your company.

Our current Remuneration Policy would have resulted in significant annual bonuses, though considerably less than last year, even after adjustment for the effects of weather and commodity prices. But your Board decided that discretion should be exercised under the current policy to reflect recent events, even though a significant portion of the impact was beyond the control of the executive team.

Accordingly, no annual bonuses or pay rises were awarded to the executive directors for 2017 and, provided the new Remuneration Policy is adopted, stock awards under the forthcoming Long-Term Incentive Plan will be reduced. This reinforces the broad and collective accountability of the executive leadership.

In other matters, your Board spent much time over the past year ensuring that the business has the right teams in place with the right leadership style to achieve our strategic objectives. The future of our company depends on having the best talent and on the motivation of that talent. Once again, our people have surpassed my expectations and I would like to thank all of them for their hard work.

But we, as the leaders of this business, must do more to support our own people. Employee engagement levels fell again in 2017 as the transition process continued.

Our Gender Pay Gap report showed that women at Centrica are paid on average 12% less than men, although we have a strong track record of equal pay for equal work. This gap can be explained in part by the legacy of traditionally male-dominated field engineering roles in our business.

So, I have asked our Non-Executive Director, Joan Gillman, to undertake a review of key employee matters and how we might assure ourselves that the voice of our people is being heard loud and clear in the Boardroom.

We bade farewell to Lesley Knox who stepped down after six years of much appreciated service as a Non-Executive Director, for which she has our sincere gratitude. As we seek a successor to Lesley, we very much have diversity in the Boardroom on our minds. We will remain at 25% and still have 30% plus as a commitment. These commitments extend down through the organisation, backed up by a wide range of programmes designed to combat traditional barriers to diversity.
Our intention is that the successor will bring the voice of the customer into the Boardroom, backed up by experience of digital insights into customer segmentation and journeys, ensuring that we avoid circularity and insularity of thinking.

To that end, we in particular need to focus more on our weakest performance if we are truly to improve customer experience levels and open up the powerful possibility of our customers becoming our advocates. Let me reassure you that no one on this stage is impervious to the problems that we cause a small minority of our customers amongst the enormous good that our teams do every day. We all hear about the issues and we all feel frustrated for both the anguish we cause and not being able to bring the numbers down faster. The fact that we have reduced the overall numbers of complaints in UK Home by more than half over the past 3 years gives us only limited satisfaction.

So, once recruited, I will be asking our new Non-Executive Director to consider how best to keep our Boardroom dialogues deeply connected to our customers, their needs, their issues and our responses.

In summary, what we are trying to achieve at Centrica is not easy. In fact, it is one of the most ambitious changes attempted by any company in one of the most competitive and challenging sectors of the economy.

But we are not doing this out of ambition. We are doing this because it is absolutely necessary for the future of this business that we adapt to the changes in the energy landscape and that we find new ways to meet the changing needs of our customers.

We believed this in 2015 when we set out our new strategic direction. We believe it now. Our future is in the hands of our customers and, by extension, our own hands.

We may occasionally stumble on the road and be jostled by powerful external forces. But our vision is clear, our determination is unshakeable, our governance is robust and we are confident that we will return Centrica to real and sustainable growth.

For my part, I have been pleased to chair the Company during the portfolio and Board restructuring. Whilst tempting to stay through the next phase and enjoy the fruits of success of our strategic repositioning. Last Tuesday I announced my intention to step down as Chairman within the next 12 months so before the next AGM in 2019. By that time I will have served on your Board for nearly 6 years. This will enable an orderly handover to a successor in due course. Your Board will now commence a process to appoint my successor, this will be overseen by the Nominations Committee, led by Stephen Hester, the Senior Independent Director. I will continue as Chairman until a successor has been appointed and is in place.

I will now ask Iain to update you on the business performance and strategic progress of the Group during the year.

Thank you, Rick.

Good afternoon everyone and thank you for coming today.

I would like to begin by thanking Rick for his Chairmanship of our company and the support and challenge that he has brought to the strategy and performance of the Group. I am very grateful for our teamwork in building capability, his calm sense of perspective and the ability to sense-check our progress, both of which come from his wide experience built in a number of sectors. While the Board begins the search for a successor, I very much look forward to continuing our work together over the coming months.

In my remarks, I will summarise our 2017 performance and the questions we addressed at our Preliminary Results presentation. I will then briefly recap our strategy and the progress we have made over the past three years as we completed Phase 1 of Centrica's repositioning, and our priorities for Phase 2 to 2020. I will then provide a brief update on our 2018 performance so far, following the release of our Trading Update this morning. Finally, before concluding, I will update you on a key uncertainty facing the Group currently, the proposed default tariff cap in the UK energy market and how we intend to deal with it.
Centrica had a challenging year in 2017. Our performance in the second half was weak, particularly in business energy supply in both the UK and North America. This, combined with uncertainty around the announcement of a price cap on the Standard Variable Tariff and other default tariffs in the UK energy market, resulted in a significant fall in our share price, particularly over the fourth quarter. As Rick noted, some of the drivers were clearly beyond our control, but I regret the outcome deeply and the impact it had on you, our shareholders.

However, we did hit our published targets for operating cash flow, cost efficiency, capital discipline and net debt. We also made good strategic progress during 2017, completing the first phase of our strategic repositioning, and we have continued to develop strong capability and have excellent people, assets and market positions.

Our focus over the next three years is on performance delivery and financial discipline. And our financial performance so far in 2018 has been good and we are on track to achieve our full year targets.

So let me recap our 2017 financial performance in more detail.

Adjusted operating profit at £1.25 billion was down 17%. Earnings were down 22%, at £698 million, equivalent to 12.6 pence per share. Adjusted operating cash flow came to over £2 billion. Earnings before interest, tax, depreciation and amortisation of £2.14 billion was down 9%.

Centrica Consumer demonstrated resilient performance, with adjusted operating profit down only 1% despite the impacts of warm weather, the UK Government pre-payment cap, competitive intensity, and investing for growth in areas such as Connected Home.

Centrica Business saw adjusted operating profit down 67%, reflecting very poor performance in our business energy supply units due to warmer weather, competitive intensity, the impact of market structure and capacity changes in North America, and a one-off non-cash post-tax accounting charge of £46m relating to a reassessment of unbilled power revenues, also in North America. We have taken a number of steps to address this weak performance, including systems enhancements and improvements to processes and controls, as well as strengthening key areas of capability.

We delivered our £750 million a year cost efficiency programme three years early, and announced we were increasing the target by £500 million to £1.25 billion by 2020. We also ended 2017 with a strong balance sheet, with net debt of £2.6 billion in the lower half of our end 2017 target range.

And last but not least, we announced a full year dividend of 12 pence per share, unchanged on a year earlier.

Our 2017 performance raised a number of important questions about our strategy and the future direction of the Group. We set these out and addressed them at our Preliminary Results in February and I will touch upon many of them over the course of my presentation today.

At their heart, these questions focus on the sustainability of the Group and our ability to deliver cash flow growth over the medium-term, especially given intense competition and some of the political and regulatory pressures we face in the UK.

I believe we addressed these questions head-on in February, and while there is always risk and uncertainty as one faces the future, I am confident Centrica's direction, strategy and priorities for delivery are the right response to the environment we face.

I remain confident in our ability to deliver resilient near-term performance and long-term shareholder value through returns and growth.

Let me return to Centrica's purpose and strategy. Our purpose is "to provide energy and services to satisfy the changing needs of our customers". Delivering energy and services to consumers and business customers is the core of the company and we have been doing this since 1812.

However, this is not 1812. The needs of our customers are changing due to fundamental trends in energy and services, and so the propositions we offer must change too.

Centrica is well placed to capitalise on those trends as we pursue our strategy to deliver for the changing needs of our customers, deliver long-term shareholder value through returns and growth, be a trusted corporate citizen and an employer of choice and become a truly 21st Century energy and services company.

There are three fundamental trends which are shaping what our customers want from us.

First, the energy system is becoming decentralised as new renewable and other distributed technologies are deployed. The development of these technologies has arisen directly from the drive to combat climate change, and many of them are becoming viable without subsidy.

Second, because many of these technologies are being deployed closer to the point of energy use and customers have more choice and control over how they obtain and optimise their energy and services, power and influence is shifting to the customer.

Third, digitisation and technological developments are spawning increasing numbers of new propositions and solutions, and accelerating these changes.

In response, we are shifting Centrica's emphasis and resources back towards the customer, and towards propositions which will give them more choice of how they buy energy, enable them to be increasingly efficient in their energy use, and to have the peace of mind which comes from being more in control of important aspects of their businesses and homes.

Accordingly, we have been shifting Centrica's portfolio and organisation. Centrica has become simpler. We now have three divisions: the two customer divisions of Centrica Consumer and Centrica Business; and Exploration & Production.

I will be spending most of my time today updating you on progress in the customer divisions, but first a word on what we are doing in Exploration & Production, or E&P. Having sold our E&P positions in Canada and Trinidad & Tobago, the E&P division now consists of two business units – Spirit Energy and Centrica Storage.

Spirit Energy, in which we own a 69% share, was formed in 2017 by combining our European E&P assets with those of Stadtwerke Muenchen held by its subsidiary Bayerngas Norge. Its formation has created a stronger and more sustainable E&P business focused on North West Europe, and our goal now is to develop Spirit Energy further, through additional consolidation or partnership.

Centrica Storage's Rough field, previously the UK's largest gas storage asset, is now also a producing E&P asset and we are able to leverage synergies between Rough and Spirit Energy.

Turning now to our two customer-facing divisions, these represent over 90 percent of the gross revenue and gross margin of the Group and are organised in nine business units.

Our customers' changing needs are much the same around the world and our customer divisions are focused on the same strategic pillars in all countries.

We have organised these into clear strategic frameworks for both Centrica Consumer and Centrica Business, and I would like to remind you of these and provide you with a brief update.

This is the strategic framework for Consumer. The anchor of our business has always been energy supply, and in "in-home installation and servicing", whether on-demand or through protection plans and warranties. This remains the core of our business today.

Through installing boilers, heating and cooling systems, their meters, thermostats and controllers, we have always been in the "home energy management" business. As boilers become more intelligent, and home energy management becomes more digital, with data analytics providing new insights and opportunities for the customer, we have had to develop the ability to install and maintain new home energy management systems.

This led to the development of HIVE, starting with the digital thermostat and the intelligent boiler, Boiler IQ. HIVE is the next phase of evolution of home energy management and a direct extension of our in-home servicing capabilities. HIVE Home Energy Management requires a digital hub to be installed in the home, and our customers are asking for other home management applications which can easily be served from the same hub. These are in areas of home security, remote diagnostics, and home automation.

Consumers want the propositions within our four "services" pillars and are willing to pay for them. We are also finding that many consumers value receiving these services from the same provider as their energy supply, either separately or as part of a bundled offer, and they improve the overall relationship as evidenced through improved Net Promoter Scores.

As a result, growth in services, including HIVE, is a natural extension of who we are and what we are good at. Our customers want it, like it, and it reinforces the historic core offerings of the company.

Let me update you on how we have been doing recently with some of our new propositions in Consumer.

This slide shows the recent progress of our Connected Home business unit under the HIVE brand. We added 373,000 customers in 2017, increasing the cumulative total by 71%, and sold 871,000 products. This morning we announced that we expect to hit the one million customer milestone by the end of this week and I'm pleased to say we hit it before midday today.

We're now selling HIVE in five countries – the UK, US, Canada, Ireland and Italy and we continue to target a doubling of revenue, 500,000 new customers and over 1 million product sales in 2018.

Also in Centrica Consumer, our digital platform-enabled Local Heroes offering started from nothing in January last year and by the end of 2017 we had completed 25,000 jobs and had signed up 7,000 technicians. As you can see from the graph, we have now completed 40,000 jobs and this on-demand offer continues to grow, and it complements our own contract in-home servicing relationships through British Gas.

One very important area of focus is to reward the loyalty of our customers. The British Gas Rewards programme had reached 700,000 sign-ups by the end of 2017, and this has now increased to more than 900,000 people so far in 2018. Our customers are benefiting from offers including free energy days, entertainment deals and discounts on boiler servicing. Rewards allows us to enrich the relationship and propositions for our loyal customers and reduces the churn rate of our energy customers.

Therefore, let me touch on customer numbers in Centrica Consumer. No doubt you will have been concerned by the reduction of 1.35 million customer accounts over 2017, as shown on this chart.

We don’t like losing any customers. However, of the total reduction, 85%, or 1.17 million, were either the result of choices we have made to end or not to renew some low customer value channels, including negative margin “collective switch deals”.

The gross margin impact of this 1.17 million account reduction was very low and after all costs, they were actually loss-making at an operating profit level.

There was a net loss of 180,000 higher value customer accounts – shown by the green bars - with growth in Connected Home helping to partially offset the loss of energy customers in both the UK and North America.

Our goal is to stablise the Consumer net customer account position and then begin to grow it.

We announced this morning that in the first four months of 2018 Consumer account holdings fell by 62 thousand overall, a much lower rate of reduction than in 2017 which averaged 112 thousand accounts a month.

Energy supply accounts fell by 110 thousand in the UK and 28 thousand in North America, while account holdings in Ireland, UK services and North America services were broadly stable.

We added 91 thousand Connected Home customers to the end of April and as I said earlier we are announcing today we expect to hit the 1 million customer milestone this week.

Let me now turn to the Business division, and provide a brief update, beginning with the strategic framework.

Similarly, in Business, we find that our customers want more than simply the supply of energy. They want insight into their own energy use so they can save money through preventative maintenance and improve their operations.

Customers with distributed energy assets want to make the most out of them and are willing to pay for these optimisation services.

And business customers want access to new more efficient and lower-carbon energy solutions within their operations such as converting to combined heat and power units and installing solar arrays.

So, Business customers are also on the move and we are responding to their needs. The propositions we have developed within our Energy Marketing & Trading and Distributed Energy & Power business units once again reinforce our core relationship. And the returns from providing value-added services tend to be higher than from pure commodity energy supply.

In Distributed Energy & Power, we have transformed the way we go to market, bringing our products together under one customer-facing brand, Centrica Business Solutions.

Customer sites increased by 22% over 2017 and we saw an acceleration in order book revenue over the year, up 26%.

We enhanced our capability with the acquisition of REstore, Europe's leading demand response aggregator.

We have continued to make progress in 2018 and in our Trading Update this morning we announced that order book revenue was 24% higher at the end of April than at the same time last year. We are targeting revenue growth of at least 50% for the full year.

The big message therefore, whether in Centrica Consumer or Centrica Business, is that the new propositions and services we are providing reinforce and extend the core relationship with our customers.

Centrica has developed the capabilities to offer these propositions in a high-quality way. We are seeing improvements in customer experience and growth in demand is feeding through to revenues at attractive margins.

They will also play an essential role in helping to tackle climate change.

The carbon footprint from the energy used by our customers is much larger than our own direct emissions.

Our strategy and the propositions we are developing are driving energy efficiency and enabling more effective optimisation of the whole energy system. HIVE enables improved energy control and efficiency, and the smart meter rollout reduces consumption by over 3 percent per household on average.

We are giving customers the ability to use less energy and choose lower-carbon solutions. We are investing in new technology areas which we believe will continue to accelerate this change.

Regarding the carbon footprint of our own operations, we set ourselves a goal to reduce our internal emissions over 8 years to 2015 by 20% and achieved 27%. We have now set ourselves a new target of another 20% for the following 10 years.

In October Centrica was recognised once again by CDP as a global leader for environmental action, achieving an A- for action and disclosure on climate change, although frustratingly we narrowly missed maintaining a place in the Climate A List.

So the customer-facing strategies and the new propositions in energy and services is the future our customers want, and therefore the future of Centrica.

We are half-way through a six-year repositioning of our company which we began in 2015 and have already made big strides in reshaping the Group as we direct more of our resources towards the customer.

The first phase of repositioning is complete. We have reduced the scale of our Exploration & Production and Central Power Generation businesses. We have made divestments totalling £930m and shifted capital reinvestment towards the customer businesses.

We have so far invested an additional £700 million in our customer-facing businesses to improve service, access new capabilities, and develop new propositions.

We delivered our cost efficiency target 3 years early and our balance sheet has been significantly strengthened.

So what is our focus for the next phase, to 2020?

Some portfolio issues remain to be addressed, and in February we announced our intention to divest of our shareholding in UK nuclear power by 2020.

However, otherwise having significantly repositioned the Group portfolio our main focus is on performance delivery and maintaining financial discipline.

Financial discipline is crucial, and we have laid out targets for Operating Cash Flow delivery of £2.1-2.3bn per annum on average, and to keep Net Debt in the £2.25bn – £3.25bn range. We will maintain capital discipline with investment of no more than 1.2bn per annum.

And provided we deliver on our Operating Cash Flow and Net Debt targets, we expect to maintain the current level of dividend.

In terms of performance delivery, there are four key priorities.

First, and crucially, we must demonstrate that we can grow gross margin through our customer relationships. Although we can rely upon a significant contribution from cost efficiency in the near term, we must start generating a higher proportion of cash flow growth from gross margin.

Second, in the near term we must drive cost efficiency as hard as we can. During 2018 – 2020 we aim to get as close as possible to being the "most efficient price setter" in the markets where we operate, consistent with our targeted competitive position and brand. This is the basis for the next phase of our cost efficiency programme of an additional £500 million a year, announced in February.

Third, we must improve the effectiveness with which we operate and go to market. We have established a scaleable platform, but we must become more agile, collaborative and joined up.

And fourth, we must also work to secure the capabilities we will need for 2020 and beyond so we can respond to the rapid change we are seeing and develop new products and services that meet our customers' changing needs.

And we must do all this while continuing to deliver improvements in safety, compliance and conduct and in operational excellence across the company, starting with customer service.This will take a huge amount of focus, determination and delivery. But I am excited by the progress we are already making and the momentum we are beginning to see.

Turning now to our 2018 targets. Here's what we said in February we would look to achieve this year.

We are targeting adjusted operating cash flow of between £2.1 billion and £2.3 billion, consistent with our medium term target. Capital expenditure is targeted to be below £1.1 billion, including Spirit Energy spending of about £500 million. We expect to maintain the full year dividend at 12 pence per share.

We will target delivery of £200 million of efficiencies as we progress towards a total of £1.25 billion a year by 2020. As part of this, the like-for-like headcount is expected to reduce by 1,000.

We expect that net debt will remain within a narrower range of £2.5 billion to £3 billion.

All of these targets assume normal weather patterns, current forward commodity price curves and the absence of major operational outages.

So, how has the year begun?

This morning, we released our Trading Update which summarised our performance and progress so far this year and the outlook for the Company, and we remain on track to achieve our 2018 targets.

Overall financial performance has been good so far this year. We have seen higher demand due to colder than normal weather and some extreme commodity price volatility which we managed well.

We continue to face highly competitive conditions in many of our markets and we continue to see customer account reductions in the consumer division, although as I outlined earlier, the rate has reduced significantly relative to the average of 2017.

As a result of operational issues at both Morecambe Bay and certain non-operated Norwegian fields, we have lowered our full year expectations for E&P production from Spirit Energy to the bottom half of the 50-55 mmboe range. Power generation from our interest in the UK nuclear fleet will be reduced as a result of the recently announced Hunterston B extended outage.

We continue to make good progress on cost efficiency and remain on track to deliver our targets.

And as you've already heard, we continue to develop and offer new and innovative products and propositions for our customers.

Before I conclude, let me cover the UK energy supply market and the proposed price cap on standard variable and default tariffs. Exactly how this price cap will be formulated and enacted is a key uncertainty for Centrica, and it will become much clearer over the next few months.

The UK Government published a draft bill on the proposed temporary default tariff cap in October 2017 and it has now undergone scrutiny in the House of Commons. We expect the legislation to be passed at some point this Summer and, while the precise timeline is as-yet unclear, we are assuming a price cap will be in place at the end of the year.

As you know, we are against this intervention, because we believe it will have unintended consequences, including a negative impact on competition, consumer choice and average prices for consumers.

We have laid out our proposals for improving the UK energy supply market without the need for a price cap in the "14-point plan" which we published in November.

We have implemented the seven unilateral actions we committed to, including removing the Standard Variable Tariff for new customers and introducing a new default tariff, the Temporary Tariff, whose level is below the average of default tariffs.

We continue to encourage existing Standard Variable Customers to move onto our other new tariffs. These seven actions will improve the market and lower Centrica's exposure to the proposed cap.

We are also continuing to encourage the Government and our regulator, Ofgem, on wider market reform, including levelling the playing field for market participants and removing energy policy costs from people's bills – something which is highly regressive.

Recognising that the formula for any price cap is not yet known, we believe we're well placed to manage the risks around the price cap for three key reasons.

Firstly, we are expecting to have reduced the number of customers on the standard variable tariff to 3 million by the end of 2018, as we actively encourage our customers to move onto one of our new fixed-term deals. This will reduce our exposure to any cap.

Secondly, our new default Temporary Tariff remains competitively priced and our Standard Variable Tariff remains in line with that of other large suppliers and about £100 below the highest in the market, even following our recently announced price increase.

Thirdly, our cost efficiency programme which we expect to yield an additional £20 per customer saving by 2020 will help us to maintain our competitive position.

Clearly, much will depend on the formulation and level of the cap. It is possible that it will reduce gross margin in 2019 more quickly than our near-term cost efficiency programme can keep up with. But given the steps we are already taking we believe that we can deliver a sustainable and attractive energy supply business in the UK.

We continue to engage constructively with both the UK Government and with Ofgem to ensure that if there is to be a price cap, that it is well-designed and workable.

So now let me summarise.

2017 was an extremely challenging year, both in terms of our own performance delivery and the levels of political and regulatory uncertainty in the UK.

Phase one of the repositioning of the company has been completed, with many important milestones met. The next phase, to 2020, is all about performance delivery and financial discipline.

Our track record of cost efficiency and financial discipline to date gives us confidence to be able to indicate a stable dividend outlook subject to achieving our targeted levels of adjusted operating cash flow and net debt.

We are absolutely committed to restore shareholder value and I remain firmly of the view that Centrica's strategy can and will deliver attractive shareholder returns. We have excellent assets, technologies and market positions from which to deliver this. We are one of the companies shaping change, at least as much as we are being shaped by it.

Above all we have great people.

It is easy to regard a big business as a faceless organisation. But Centrica is much more than this. It is a combination of the aspirations, experience, excellence and hard work of all its people.

Our refreshed values of Care, Courage, Collaboration, Agility and Delivery are beginning to show through in everything we do.

So, before I hand you back to Rick, I would like to share with you this short video which sums up what 31,000 people do every day at Centrica as we commit to satisfy the changing needs of our customers.

Thank you.