centrica

Strategy Update

Presentation Transcript - 27 February 2013

Sam Laidlaw – Chief Executive

Welcome back everybody. I hope you are suitably refreshed. This is the exciting session where Nick and I will set out the energy landscape, how it has changed, and what we are doing to reshape our strategy to adapt.

As you heard in the first session, we have made good progress against the strategic priorities we set out three years ago.

But much has changed since then. Three years ago there were high hopes that nuclear, clean coal and dedicated biomass would make substantial contributions to the power generation fuel mix. Despite the long-term possibilities of these technologies, it is clear that natural gas will continue to play a vital role, in backing-up intermittent wind, keeping the lights on, and heating our homes.

In the next few slides I want to outline some of the trends we are seeing in our market environment.

In the UK, where gas is used to heat 81% of Britain's homes, we will continue to see some consumption savings in the short term. However, the measures to deliver these efficiencies are becoming more costly. And offsetting these savings in domestic consumption, gas-fired power plants will still be needed to back up increasing amounts of intermittent renewable generation.

In the US, industrial gas demand is forecast to grow, and gas has now become a more important part of the generation mix. In fact, US carbon emissions have reduced by more than any other region in the world, largely as a result of coal-to-gas switching.

With greater gas dependence in the UK comes increasing import dependence, as North Sea production continues to decline. UK shale gas may eventually contribute to the supply picture, but will not replace, either in time or in scale, the need for increased imports.

The UK now imports over 50% of its gas. Import levels are expected to rise to almost 75% by 2020. It's worth bearing in mind that just under a decade ago, the UK was a net exporter of natural gas.

Much of the growth in imports will come in the form of LNG, represented by the light blue section. Capturing the value in the LNG chain will become increasingly important for us.

As you can see on the left, the UK will have to compete for supply in an increasingly global LNG market. LNG demand almost trebled between 2001 and 2011, and the number of countries that compete with the UK for imports rose from 12 to 25.

And on the right, there are huge variations in prices between regional gas markets, all driven by different factors such as the liquefaction and shipping costs, different fuel substitution possibilities, and new trends such as shale in the US and growing demand in Asia.

These large price differentials offer significant arbitrage opportunities to capture value.

In the US, the big story of course is shale gas. As you can see in the chart, it now forms around a third of US gas production. In the next few years, domestic production is forecast to surpass domestic demand.

The market now has greater certainty about the scale and enduring nature of shale gas in the US, underpinned, in part, by developments in technology.

And this significant growth in shale production also opens up the potential for LNG exports. Many projects are in the planning, approval and design stage. And one so far – at Sabine Pass in Louisiana – has received all regulatory and governmental approvals. By the end of this decade, if politics permit, the US could be exporting material supplies of gas – some of it potentially to the UK, providing a competitive source of fuel for our customers.

In UK power generation, we currently face the twin challenges of low spark spreads and regulatory uncertainty. Reserve margins are expected to tighten over the next few years, but this is unlikely to drive much upside in spreads in the immediate future, with plenty of generation capacity still online. As a result, the economics of new CCGT investments will depend on the nature and level of capacity payments, which still remain unresolved.

Looking to renewables, offshore wind is still an emerging industry and the costs have not come down by as much as many hoped. Improvements in technology and scale have been offset by planning delays and the added complexity of projects, as they move further offshore and into deeper water.

Future wind projects will be constructed under a new Contract for Difference regime, rather than the existing ROC regime, which means that investments will no longer provide a hedge for downstream volatility. If we add to the regulatory uncertainty the financing constraints for the industry, this makes for a less optimistic picture for offshore wind than we were looking at three years ago.

In downstream, the picture is one of contrasts.

In the UK, the continued economic downturn is putting pressure on all forms of consumer spending, and affordability is high on our customers' agenda. Although energy efficiency has had a positive impact on bills, nevertheless average energy bills have been increasing, by some 4% per annum, or adjusting for weather, some 3% per annum, since 2008.

Commodity costs have risen, but so have non-commodity costs through programmes such as CERT and CESP. The costs of carbon abatement are growing and much of the low hanging fruit has already been picked. Delivering our ECO commitment is likely to continue to add significantly to the cost of supplying energy, for all the major UK suppliers.

In the context of rising bills, maintaining customer trust is a key issue. Energy efficiency and new technologies to help customers understand and manage their energy bills are increasingly important.

In the US, the downstream picture could hardly be more different. Consumer sentiment is improving, bills are falling, and there is a more benign market environment.

The size of our addressable market is growing -8 million customers have moved to competitive retail tariffs since 2008. And businesses are increasingly interested in demand response and energy management services; both of which we have the capabilities to provide.

So to summarise, the landscape has changed. Gas has become more important. And many of the opportunities will be in LNG and unconventional gas, mostly in North America. Regulatory uncertainties in power generation persist. And downstream, the opportunities to leverage our capabilities and scale on both sides of the Atlantic, are greater than ever.

To meet these new challenges, we are refreshing our strategic priorities.

- Downstream, we will innovate to drive growth and service excellence.
- Upstream, we will integrate our natural gas business, linked to our core markets with the focus on the Atlantic Basin.
- And across the Group, we will increase our returns through efficiency and continued capital discipline.

And our vision is unchanged - to become the leading integrated energy company, with customers at its core.

In a minute I'll talk in detail about these strategic priorities. However at a top level, here's what they mean.

Downstream, in terms of innovation we will share technology, systems and new customer propositions across the Atlantic. We will build on our leading propositions to deliver growth in B2B and services and in the competitive markets of the US.

Upstream, we will invest for value in E&P, notably in North America, and limit capital employed in power. We will also increase our presence in LNG and grow our optimisation activities, linking our positions along the gas value chain.

And across the Group we will drive operational and cost efficiency, deploy our balance sheet capacity where we see value, and return surplus capital to shareholders.

In order to achieve these strategic priorities, we are introducing a new organisational structure. Downstream we will create one international business. This will enable us to share ideas, expertise and best practice across our markets.
We can harness our growing technological capability in online, smart meters and services for the benefit of customers on both sides of the Atlantic. And we can leverage scale benefits in systems and operations in both the UK and US.

Upstream, there's a real opportunity to bring together the top class teams and technical ability that we have, from Aberdeen and Calgary. Within one international business, we will be able to deploy our skills in seismic imaging, reservoir management, well technology and project management more effectively across opportunities. And we will invest capital where we see the highest returns. This will be a single business with a single production target.

And we will have a lean, international functional organisation, to leverage scale, systems and technology, and share best practice across the Atlantic.

This will involve changes to our senior management team. As you heard earlier this morning, after seven successful years at the helm of British Gas, Phil Bentley will be stepping down in June.

Chris Weston will assume responsibility for all UK and North American downstream operations. Chris has an exceptional track record having transformed our North American business. And as many of you will know, prior to that he ran our UK services business and before that, BGB. Chris is therefore uniquely qualified to lead the new international downstream business.

Mark Hanafin will lead our international upstream business with responsibility for E&P both sides of the Atlantic. Having successfully grown our upstream business in the UK, Norway and elsewhere, it is a natural next step that he should assume responsibility for our entire international upstream business. And as you know, prior to Centrica, Mark was at Shell based in Houston running Shell's Global Gas and Power Trading Business. His extensive midstream as well as upstream experience will be invaluable in helping us grow the upstream business.

The management team are here today, and I hope you'll take the opportunity to speak to them after the presentation.

So now I'd like to outline in more detail what these new strategic priorities mean for the Group.

Starting downstream, this new priority means delivering pre-eminent service levels in all the markets we operate, and continuing to make cost efficiency a way of life. It means changing the relationship with our customers through technology, to deliver products and services in a simpler and smarter way, and to capitalise on a growing demand for innovative B2B offerings. And it means growing in selected markets, particularly in North America.

Our new organisational structure means we can cross-fertilise the best ideas and innovation to benefit customers in the UK and North America.

Looking at our Downstream business today, we already have large scale operations on both sides of the Atlantic. We have 3.5 million residential energy customers in North America and nearly 16 million residential energy accounts in the UK. We also have large scale B2B supply activities – in fact, in North America we already sell more electricity to business customers than we do in the UK. And finally, we have an exceptionally strong services presence in the UK and North America.

And in addition to scale, we have developed distinctive downstream capabilities. We are leaders in customer service and efficiency and our strength and scale in home and business services is unparalleled. Our innovation and application of technology differentiates us from our competitors, with the potential to transfer these across the Atlantic. And all these capabilities are underpinned by strong and reputable brands that span both energy and services.

In the UK, our operations are delivering great service while being relentlessly focused on reducing costs. Our average cost per account and subsequent margin is significantly better than our competitors'. At the same time, we have continued to improve our levels of customer service. This is evidenced by an increase in Net Promoter Score, and a customer churn rate that is consistently below the industry average.

That high performance level in the UK is mirrored in the US. Unit operating costs have reduced, reflecting synergies from acquisitions, and organic improvements such as call centre consolidation. And our Net Promoter Scores are increasing in all areas, reflecting investment in our billing and service platforms, and our range of products.

Technology provides a further opportunity to differentiate and grow downstream. The world of 'smart, connected homes' is a good fit with our existing digital presence and services capabilities, and an example of how we can apply technology to offer customers greater control.

For example, we have already developed a remote heating control product, which can be managed through a mobile app. And we are looking to develop other apps that will also allow customers to control other household appliances. And if you didn't get a chance to see these on the display stand outside during the break, then I hope you'll take the opportunity during lunch.

Ultimately these products will attract new customers to our brand, reduce our cost to acquire aid retention in key market segments, and reduce costs to serve.

Over time we expect these activities to deliver a material contribution to operating profit, both in their own right and through the attraction and retention benefits that I just described.

We also see the potential to differentiate ourselves in B2B, both in the UK and North America.

In the UK we have already started to make considerable progress on Energy Performance Contracts, where we partner with major organisations and share energy cost savings, at the same time deepening the customer relationship. We have now been selected as the preferred contractor on seven EPCs, and we expect this to grow substantially over the coming years.

In the US, demand response products, where customers modify their demand in response to electricity prices, are becoming increasingly popular. There are also opportunities in distributed generation, particularly in solar. The solar market is poised to grow rapidly in the US over the next 5 years, given reduced installation costs and an increasing focus from businesses on energy efficiency.

Again, all of these B2B opportunities will not just add profit in their own right, but also help to reduce churn and improve the margins of our existing supply business.

So North America is an attractive potential growth market for us. Downstream profitability has increased year on year, with an improved return on capital reflecting successful acquisitions and improved cost efficiencies.
And we have developed a market leading position. In residential energy supply, we are now the Number 1 retailer in US competitive markets. In business supply we have over 400,000 accounts and we are seeing fast growth, particularly in the small business segment.

Our market leading position in North America partly reflects our success in making acquisitions.

We have developed an effective model of acquiring blocks of customers, integrating them onto our platforms, identifying and retaining best practice, and removing costs to drive synergies.

And as you can see on the left, the three energy supply acquisitions we made in 2011 are all making good returns.

But it's not just acquisitions that are helping to expand our customer base. In 2012, most of our customer growth was delivered organically. We added 200,000 customers in the US North East last year.

So, how much further can we grow in North America? Well, so far we have only scratched the surface. Retailers as a whole account for just over 20% of market share. While Direct Energy is the market leader in competitive markets, with a 15% market share of those customers who have chosen to switch, there is scope for further growth, both organically and through acquisitions. We also continue to advocate the merits of expanding the overall competitive retail sector through further deregulation.

We also expect to see further growth in services, as we leverage our considerable purchasing power and deploy our expertise from the UK. We plan to build out the protection plan business, which also has the added opportunity of bundling and franchise extension.

In B2B, margins have been good, and we will continue to target growth in the small business segment in North America.

So, adding this all together what does it mean for operating profit in both the UK and North America downstream?

In British Gas residential, we will continue to drive operational efficiency and deliver high levels of customer service, to sustain our profitability. BGR will remain an important, but less dominant, part of our overall Group earnings.

In British Gas Services, we have a good track record of profit growth. And we are targeting this to continue with high single digit growth, following the rapid progress we delivered last year. We aim to target new segments, such as landlords, and additional product sales enabled by the smart world.

In British Gas Business, over the medium term we expect to return to profit growth, enabled by cost reduction, better retention and growth in business services, a new revenue stream.

And in North America downstream, we are targeting to double the profitability over the next 3 to 5 years. We will do this through a combination of organic growth, bolt-on and indeed potentially larger acquisitions, if they are available for value.

So, in summary, with Chris Weston at the helm, we will continue to lead with great service, while relentlessly focusing on costs, and utilising our unique scale, systems and services capabilities.

We will look to capitalise on the move towards ‘connected homes and businesses’, sharing knowledge across the Atlantic to offer simpler and smarter energy products and services for our customers.

And we will continue to drive growth in our selected markets, most significantly in Texas and the US North East, but also in B2B and services on both sides of the Atlantic.

Turning to upstream, the second pillar of our strategy is to integrate our natural gas business, linked to our core markets - across the Atlantic Basin. This will involve growing and diversifying our E&P portfolio, developing our midstream business to integrate along the gas value chain and maintaining a low carbon but capital light power hedge. And of course, we will continue to deploy capital only where we see the greatest value.

This will be brought together as the international upstream business under the leadership of Mark Hanafin.

Over the past few years our upstream business has grown in both production and reserves. And we have increased our 2C resources tenfold since 2009, leaving us well placed to add further reserves organically.

We now have a sustainable mix of producing assets, developments and exploration opportunities, and a more geographically diverse spread, with Norway a particular success story. We have also expanded our technical capability considerably and now operate 30 fields in the North Sea and close to 5,000 wells in North America.

This growth in production, combined with the British Energy and Venture Production transactions, has increased the level of vertical integration and brought us more in line with our competitors.

We are broadly comfortable with our current level of energy hedge. Indeed the comparative energy hedges of our competitors may reduce, as many of the UK’s coal plants close. However on a post-tax basis there is still leeway to increase our energy hedge further – should we find attractive opportunities.

We have been able to reach this position partly due to the distinctive capabilities we have developed upstream.

We have a proven track record in asset stewardship, maximising the value of mature production hubs by enhanced recovery techniques and reserve additions. We have also delivered a series of attractive mid-sized capital projects, continuously learning and improving as we do so, and we have a strong pipeline ahead.

We have a track-record in securing acreage and a strong exploration success rate in both the UK and Norwegian sectors of the North Sea.

And we have been able to create strategic partnerships for example with Statoil and QPI.

In summary, we have developed distinctive capabilities in E&P. To illustrate our new technology and how we have been spending our capital, I would like to briefly outline three examples.

Five years ago we had no presence in Norway. Now we have a resource base of nearly 400 million barrels. Norway is the fastest growing part of our portfolio, providing around a quarter of our total production and generating significant EBITDA and cash flow. The business is now able to cover its capital requirements through its own cashflow.

This has been achieved through value-enhancing acquisitions. The recent Statoil and Statfjørd deals are outperforming their double-digit IRR acquisition cases.

We have a significant development pipeline, with a portfolio of 8 potential developments. And we have also had good success in exploration.

In UK waters, our stewardship of Morecambe is an example of our expertise in managing and extending the life of a strategic, though mature, asset.

Adjacent to Morecambe, Rhyl is the first gas development in the area for 10 years, and it is due to produce first gas within the next few weeks. Further success at Whitehaven earlier this year will increase Morecambe area reserves further.

So Morecambe continues to be an important asset, producing for at least another 10 years.

In western Canada, we have built a strong onshore E&P business, doubling reserves since 2007. Over time, our activities have shifted from shallow gas and coal bed methane to deeper and more valuable liquids-rich gas and oil.

As a result, we have developed significant E&P capabilities, including in horizontal drilling and multiple stage fraccing operations. These have the potential to be applied elsewhere across the portfolio.

These case studies are a testament to the distinctive capabilities we have developed upstream. Capabilities which can be deployed across geographies, as we manage and measure our upstream operations on an international basis.

The chart on the left shows how our global production profile looks until the end of the decade. This is of course subject to continued investment in maintenance and development, which we estimate to be around £1 billion per annum, across both the North Sea and North America. In addition, we expect to invest over £100m in exploration. You will see the near term growth from developments already underway and we would expect double digit returns on all our investments.

With the expanded portfolio we also expect production levels to be lower risk, more geographically diverse and less dependent on exploration in the near term.

We will therefore continue to deploy capital upstream, applying rigorous capital discipline and conservative commodity price assumptions.

This could include the UK North Sea, but it is a mature basin with declining resources. Our focus here will be on getting the most from our current hubs, and considering bolt-on acquisitions where they are a good fit with our existing portfolio. We will also consider divestments of non-core assets – with the ultimate aim of having fewer, but larger, quality assets in the region.

The same strategy applies in Norway. However the remaining resources in Norwegian waters are much larger in scale than in the UK, and as a result production unit costs are lower and reserve lives are longer. Norway is likely to remain a key focus of our exploration activity in the coming years, and we will also consider further acquisitions in the region, linked to our hubs around Statfjørd, Kvitebjørn and Heimdal.

In Trinidad and Tobago, we have existing production from the NCMA4 field. And we are also currently in Front End Engineering and Design on the Block 22 project. The key will be to maximise the value of our existing positions, whilst capturing the exploration upside.

But the main focus area of growth for our international E&P business will be North America. We will look for opportunities to acquire both conventional and unconventional assets. Expanding our upstream natural gas presence will provide a physical hedge for our expanding US downstream position, it will reduce our collateral requirements and it will provide some optionality for the possibility of gas exports later in the decade. In an increasingly global gas market, it will also diversify both our upstream and downstream exposures to NBP.

In North America, as in all investments, it is about not only the quality of the opportunity but also the timing; how quickly gas prices will recover from a 30 year low in real terms is uncertain. But with gas demand growing due to coal to gas switching in power generation, an improving economy and the possibility of exports the balance of commodity price risk appears to be skewed to the upside. Equally the market prices for assets are starting to better reflect commodity price fundamentals, with less speculative activity and some early investors seeking to deleverage.

So we will continue to look for opportunities to expand our presence in North America upstream – however again only where we see value.

Looking at upstream and downstream together, we have strong positions in gas demand, shown here in light blue, and gas production, in dark blue. These you will all be familiar with.

However, we also have important midstream positions, shown here in green. These include our gas storage facility at Rough. In LNG, we have both the Qatargas contract and re-gas capacity at the Isle of Grain. In Europe we have supply contracts, for example with Statoil, and smaller midstream positions on the continent. And in North America, many of our downstream retail positions are supported with pipeline and gas storage capacity.

As you can see then, as a major gas producer, purchaser and midstream operator, we have positions and capabilities along the gas value chain.

Taken together, they create opportunities for optimisation and additional returns through our midstream business.

We have a core capability in managing price risk, shape, intermittency and seasonal swing. In addition we have a strong track record in managing and optimising gas, power and midstream assets.

As gas markets become increasingly interconnected, and our positions grow, we see a clear opportunity to grow our optimisation activities to capture further value. However with the exception of gas storage, we don't see this as an area which will require significant capital deployment.

In gas procurement and contracting, we have been successful in building relationships, entering into commercial agreements and forming partnerships with some of the world's largest players – including Statoil and our LNG contract with Qatargas. As LNG becomes more important to our core markets, we will look to increase our presence, through additional contracting.

Focusing on the UK; compared to the rest of Europe the UK has relatively low levels of gas storage. Our Rough asset provides over 70% of UK capacity.

With the likelihood of greater price volatility as a result of increasing wind on the grid, and as the UK imports more of its gas, additional storage is likely to be required.

We have two potentially attractive projects, at Caythorpe (a short-cycle project) and Baird (a seasonal project). And we have already undertaken much of the front end engineering work. But the near term outlook for volatility and seasonal price differentials is currently too low and uncertain to proceed. We are therefore discussing the necessary economic framework with the UK Government to enable new storage to be developed in the UK.

Turning to UK power, the outlook for the market looks challenged for the next couple of years. Ample capacity is leading to the likelihood of continued low spark spreads. We will therefore continue to manage our existing fleet as efficiently as possible, positioning ourselves for any recovery in the market, which may start to tighten once coal stations close in 2015. As the market recovers, we would expect our output to increase.

With our gas-fired power fleet, there may be opportunities to invest relatively modest sums of capital to cost-effectively improve performance. For example, we have recently upgraded part of our South Humber power station, and have now approved an upgrade for the remaining units. Similarly, we will also consider closing our less efficient plant to maintain fleet performance.

In existing nuclear, performance since the British Energy transaction has been strong, and there is now an expectation of 7 year extensions for the AGR fleet rather than the 5 years previously assumed.

And in existing wind, we expect to complete the Lincs offshore wind farm in the coming months, and financing is now complete.

In summary, our existing power generation fleet is distinctive with the lowest carbon footprint/MWH of all the major generators.

In new power generation, we will continue to maintain selective investment options. But, we will only invest if we see sufficient value and have regulatory clarity. Although the EMR is making progress, both questions of principle and detail remain to be resolved to establish an investible framework

In CCGTs, we have options for new build, for example at King's Lynn. However decisions will be deferred at least until late 2014 or early 2015 as we await both the introduction and results of an auctioned capacity mechanism.

In offshore wind, the investment climate is challenging. Our approach in this area will be a developer partnering in the construction phase and cycling capital in the most efficient manner, while managing the overall project risks. We have a strong pipeline, with a decision on Race Bank due as soon as we can get a satisfactory economic framework and regulatory certainty. And in the longer term, this could be followed in our Round 3 East Irish Sea project, the Celtic Array.

So, in summary - in E&P we have strong capabilities and attractive investment options to maintain production at around 75 million barrels of oil equivalent per annum. In addition, we will also look to invest where we see value - particularly in North America - as we move towards an international production target of 100mmboe per year.

We will also look to grow our midstream positions to support our upstream and downstream businesses, with the focus on storage and particularly LNG, in an increasingly global gas market.

And in power, we will continue to develop offshore wind projects, but only on a 'capital light' basis, while maintaining our existing and new build CCGT options at least cost – leaving us well placed for any recovery in the power market.

So, I will now hand over to Nick, who will talk to you about our third strategic priority and how this all comes together from a financial perspective.

Nick Luff – Group Finance Director

Thank you Sam, and good morning again everyone.

Our third strategic priority is focused on efficiency and capital discipline. And obviously we will look at everything Sam has talked about through that lens.

This chart shows the basic cashflow dynamics of Centrica. Our run rate EBITDA is now close to £4 billion per annum. We use just over half of that to pay interest, tax, dividends and other items such as pension deficit payments. That leaves us with around £1.8 billion of free cash flow – a very strong starting position each year.

Outside of the upstream business, our pure maintenance capex is quite low, around £200m in a typical year. But to maintain our upstream production at around the current 75 million barrels, including North America, we would expect to spend around £1.1bn a year, albeit with flexibility over timing, and some years higher than others given the timing of different projects.

That leaves four to five hundred million for investment in growth or return to shareholders. Our investment options include additional investment upstream, offshore wind, newbuild CCGT and gas storage, or using the cash generated to fund bolt-on acquisitions, either side of the Atlantic. We have the flexibility to compare those choices with each other, and with returning funds to shareholders, and to invest where we see best value.

In addition to strong cash generation, we have a strong balance sheet position. Debt to EBITDA metrics look exceptionally good – not much over one times – but that is somewhat flattering given the high tax rate. But on the after tax cashflow metrics that the credit rating agencies look at, we are comfortably above the levels they look for. And despite the share buyback, the RCF/debt metric is set to improve in 2013 as last year's acquisitions contribute a full year of cashflow.

Simple maths would suggest that if we build in that EBITDA growth we will have £2bn+ of balance sheet headroom by the end of this year. That gives us scope for additional investment, including more significant M&A opportunities. Of course, each opportunity would have to be assessed based on its cashflow characteristics and risk profile, with funding alternatives, including partnering, considered alongside that.

As well as choosing the right investments to make, delivering projects successfully is key. There will always be challenges, but our track record is good, and improving.

Our offshore wind projects have delivered well. We have had some challenges in gas and oil, Seven Seas took longer than we would have liked, due to delays by the host platform operator, and the second well at Ensign was not a success. However York and Rhyl are both on track to deliver first gas in the coming weeks and Kew is on track for first gas later this year. We then have Valemon coming on stream in late 2014 and, our largest single project to date, Cygnus, around the end of 2015.

And as Sam set out, when you look across our portfolio, we have an attractive mix of exploration, development and production assets, with good geographic diversity across different tax regimes. That enables us to high grade our investment choices, adding to the existing projects where there is a good, timely return for the capital we put in.

To bring all this to life, I thought it would be useful to look at some case studies. First two organic investment decisions – Cygnus and New Nuclear.

As you know, Cygnus is a very substantial project - £1.4bn in total, with our share being 49%. We did attribute some value to Cygnus in the acquisition balance sheet for Venture, and then of course we have the tax hit which does inevitably put a drag on accounting returns. Even so, taking into account the shallow water field allowance that Cygnus qualifies for, we still see full cycle returns of around 10%, and on a point forward basis returns of over 20% at the time we took FID in the middle of last year. GDF are the operator of Cygnus, but we are closely involved and the project has started well.

In contrast, nuclear newbuild is a project we've decided not to participate in, as you are all well aware. Judged against other projects, and against returning funds to shareholders, the return profile of nuclear newbuild did not look attractive. We would have had to wait many years to see any return on our investment, and the project had become significantly larger than we expected as the costs increased. Clearly we did not know exactly the outcome of the CFD negotiations, but given the potential risks remaining, we knew enough not to continue to put in pre-development capital. And this illustrates that investment decisions are not just about IRR, but also about return profile and risk.

I should emphasise that we remain very happy with our investment in the existing nuclear fleet. As we said earlier, output has been good, and the life extensions are exceeding our expectations.

Turning next to acquisitions, and the case studies here are on the transaction we completed last year with Statoil in Norway, and the First Choice Power acquisition in Texas.

As Sam outlined, the Statoil transaction marked a step change in the scale of our Norwegian business, with a specially tailored portfolio of producing and development assets; while the supply contract and exploration MoU which we entered into alongside the acquisition underpin a longer term relationship.

The assets that are already producing, such as Kvitebjorn, reduce the risk profile, and provide the cash, and the tax capacity, to cover the Valemon development. Some quirks of tax accounting hold back the initial accounting returns, but the acquisition is immediately accretive, returns pick up when Valemon comes on stream, and overall we are targeting a double digit IRR.

The second acquisition I want to look at is First Choice Power. Although a bolt on in group terms, First Choice was a significant strategic move for our residential energy supply business in Texas, increasing customer numbers there by a third. The financials are also strong, with a double digit IRR, and those returns coming early, once the first year integration costs are out of the way. We value customer blocks like this on a "blow down" basis, assuming all the customers churn off over a period of time. In practice, we look to do better than this and, as you saw earlier, our two other recent acquisitions of US customer blocks are both also outperforming their acquisition cases. So there is scope for upside on First Choice as well, with the integration having gone smoothly and initial churn being better than we modelled.

Getting the most of our existing assets and businesses will also be essential in delivering our strategy. There is always more to do, but our operating standards are high, whether in operating offshore platforms or in distributed workforces operating in customers' homes. Safety will remain a core priority – both process safety and personal safety, for our customers and our staff.

At the same time, we must be efficient, controlling cost and reducing it where we can do so without putting safety, service or compliance at risk. A year ago we launched a two-year programme to take out £500m of costs. As expected, half of the savings were achieved in 2012, and we are on track for the annualised run rate to hit £500m by the end of this year.

Cost reduction ensures that we remain competitive – for example, you saw from Sam how our cost base in BGR is lower than our competitors. It also enables us to grow in times of limited top line growth, as we're seeing with BGS at the moment, and to offset margin pressure, as we're seeing with BGB. It is also essential in acquisitions, such as in the US downstream deals, where integration benefits are key to the financial metrics. And in upstream we do have to offset the higher cost structure that will result from the shift in production mix away from legacy assets such as Morecambe.

So this cost reduction programme will not be the end of the story as we seek to embed a culture of continuous improvement, ensuring we benefit to the maximum extent possible from our scale, the shift to customers dealing with us more online, and technology developments both upstream and downstream.

And finally, we remain committed to ensuring that shareholders see the benefit of superior returns in the business. The dividend is a key element of that. We have a strong track record of dividend growth over many years, and remain committed to delivering above inflation growth going forwards. The financial characteristics of the business give us confidence that we can do that, with our payout ratio and cash generation giving flexibility.

In addition, as we have said, we will continue to benchmark investment opportunities against returns to shareholders. That led us to the £500m share buyback we announced earlier this month. We will maintain a strong balance sheet, with the credit ratings being important to our business, but where there are choices to be made on the use of funds, we will maintain the capital discipline we have demonstrated in the past.

So, I will now hand over to Sam to wrap up.

Sam Laidlaw – Chief Executive

Thank you Nick.

So let me conclude. Our vision remains; to be the leading integrated energy company, with customers at our core. But to achieve it, we have new priorities and a new structure.

As an organisation, we will be able to share technology, best ideas, expertise and innovation across the Atlantic.

Upstream, we will continue to improve our positions, through high-grading our North Sea portfolio, expanding our presence in North America and maintaining efficient power stations both in the UK and the US.

Downstream, we will share expertise, technology and new propositions across the Atlantic. We will grow in services and B2B. North American retail will become a more material part of the Group.

And midstream, we will capture additional value by linking our positions, optimising our assets, and having an emerging presence in LNG.

What this means in practice, over the next 3 to 5 years, is that in UK downstream, we expect stable margins in BGR but with growth in both BGS and in BGB. Our commitment to decarbonisation through encouraging energy efficiency remains. And to drive a new source of growth, we will build on our market leading capabilities in online, new technologies, and connected homes.

In North America downstream, we will continue with our successful approach of organic customer growth in deregulated markets and continue to look for bolt-on acquisitions. And we will also consider larger scale opportunities, should we see value, with an aspiration to double the size of our North American downstream business in the next 3-5 years.

Upstream, we will continue to grow, with new developments and exploration, sustaining international production at around 75 million barrels of oil equivalent per annum. We will continue to build and optimise more of our portfolio on an international basis. We will focus our investment on North America. Production will move towards 100 million barrels per annum globally, should we see opportunities to invest for value. We will maintain our distinctive low carbon power generation hedge but look to share the equity risk of any new major UK power investment.

We will increase our presence in LNG and grow our optimisation business, integrating along the gas value chain. And we will retain our options to invest in power, if we see value.

And at a Group level, we will continue to drive cost efficiency, whilst staying sharply focused on our safety and operational performance. We will only deploy capital where we see value and continue to provide strong returns to shareholders – both through the dividend and through share buybacks.

To conclude then, in the face of a changing market environment, our new strategic priorities build on our existing capabilities, and position us for continued growth.

Thank you for listening. I think this represents an exciting new chapter that reflects the new market realities and plays to our considerable strengths and capabilities. And with that I will open up the session to questions.

Question and Answer session

Q1. Mark Freshney, Credit Suisse
Just two questions; firstly on BGS and BGB, you had a similar strategy for growth that you presented three years ago. The growth didn't come through because of a weak economy. If UK disposable incomes remain weak, are you still sure that you can grow these businesses? I guess what I'm saying is what's different this time around? And just secondly; on many of the organic development options, such as I think the two CCGTs, the gas storage assets and the wind, I mean, how confident are you of being in a position to take these through to FID? Because it always seems, for example with the gas storage assets, you had a robust case, then there was an issue with the TPA, then spreads came down and then you needed support. It just seems that many of these options are just perpetually on the back burner.

Answer: Sam Laidlaw - Chief Executive
Firstly I think in terms of BGS and BGB; can we deliver the growth? I think actually if you look at the very strong growth in 2012, you know, clearly we have delivered the growth, despite a very difficult economic backcloth. And I recognise that a lot of that was due to cost reduction rather than top line growth. I think what is different, looking forward, as we talk about the smart connected homes and as we talk about some of the new technologies we are beginning to deploy; remote heating control being an example, but also the smart enabled world, plus the fact that we are, as I indicated in the earlier session, I think now nearing completion of a very important project, the catalyst project, to enable us to more effectively cross-sell, which did take longer than we'd anticipated. I think that is what is going to drive the growth in BGS. In BGB I think actually we're going through a major systems upgrade, as I indicated. New pricing propositions. A lot of the growth in BGB will come also from the services capability that we haven't had before. So we bought some businesses last year; Connaught being one of them, to give us the services capability, and we're now offering services to our commercial customers, which we weren't previously doing. So that is a new source of growth as well.

I think your second question was around projects that don't really happen because the regulatory environment doesn't change fast enough. And you instanced, I think, both gas storage and CCGTs. I mean, obviously we're not in control of the regulatory environment. Capacity payments are required for us to make the investment in new CCGTs. They are in the Energy Bill, in principle, but then there has to be detailed secondary legislation. Then they have to run an auction. And then for us to invest we would have to be successful in that auction. So there is by no means a certainty that that's going to happen, and it's not going to happen quickly. And I think that's one of the reasons that we're in this strategic refresh of putting more emphasis on gas and less emphasis on power.
Gas storage, I think, is a different situation, where we probably have distinctive and the best storage proposals out there. The Baird Field I think has the best economics of any storage projects that is waiting to be developed. But still not sufficiently good economics with what's happened to the compression of spreads that you heard about earlier. So it is going to require some form of storage floor, and again we've been in discussions with the government for a couple of years, as you rightly say, on this, and so far I think there isn't recognition from the government that that really needs to change. But we'll see.

Answer: Nick Luff – Group Financial Director
You were saying, Mark, that you picked up the things that haven't happened, of course. Cygnus needed the shallow field allowance. We are proceeding with that. It's a huge project. Lincs needed two ROCs. We were patient. We got that. So that's why it's important to have options and choices.

Answer: Sam Laidlaw
And Race Bank, you know, we are in discussions with the government, and if we can get the right terms with the strategic partner that we have to invest in Race Bank then it could happen. At the level of capital we talked about earlier on.

Q2. Richard Alderman, Macquarie Securities
Can I ask on this US acquisition strategy; firstly would you consider buying a company in excess of the 2 billion headroom that Nick talked about earlier on? And if you are making acquisitions in the US, what sort of hurdle rates are you setting for that type of transaction?
And the second question; would you consider investing in biomass in the UK as a green field project or in any other JV partnership?

Answer: Sam Laidlaw
Let me speak to the first one and I will also Mark Hanafin to just fill in on the story of biomass too. But I think in terms of the US, as Nick indicated actually, the headroom is to some extent a function of obviously what cash flows we buy. I think that certainly there's nothing planned to go beyond that but we will all be very opportunity dependant. I think we're not signalling here a massive step-change, but we are saying that if you look at the acquisitions that we've done so far, they have all been a few 100 million dollars or less. In many cases buying blocks of customers has been actually been more like 50 to 75 million dollars. So what we're saying is we could do more than that, but I think there's no current intention to bust through that headroom, and we do think that the A credit that we have is important to the Group, and we will want to protect that.

In terms of the hurdle rate, you know, the hurdle rate on all our acquisitions is actually a pretty high one. And the way you can think about this strategy, if you like, in terms of our financial profile, is that we will be doing less investment in organic power opportunities that might take a lot of pre productive capital and reduce our ROC in the short term, and actually doing more investment in gas production and in buying blocks of customers, which tend to be, and will be, accretive to earnings from day one. So that will actually improve our overall financial position going forwards.
I think in terms of biomass, obviously we did invest some money in dedicated biomass for our existing retiring CCGT power stations, and Mark, you might just want to talk about why we decided not to continue with dedicated biomass.

Answer: Mark Hanafin – Managing Director, International Upstream
So just to put it in context, we have had clear strategy on what we're investing in in power, but obviously from time to time we do a scan of all the different technologies, to see what's changing, see if there are other investment opportunities. And that's where the biomass opportunity came from. We looked at it, we thought there were potentially good returns. We developed three projects, for a reasonably small amount of money, but three good projects that were viable, dedicated biomass projects, and then probably was it four/five months ago the government came out with new bandings, and essentially ruled out dedicated biomass. So that wasn't the signals they were giving previously. It was what happened. It immediately effectively killed off those projects. So, as I say, it's part of our business development it's not a big setback, it's something we look at, we work on and we see if we can make it work.

I think in terms of your other part of the question about would we invest in a joint venture in some other kind of biomass with coal, for example. I don't rule it out I think these are all things that we look at from time to time. But on the other hand, by definition it wouldn't be us that were operating that. It wouldn't be our capabilities that were being deployed. And it would be more of a financial-type investment. So I think we would need to try and understand why that would make sense.

Q3. Verity Mitchell, HSBC
Just a question about the politics in the UK. Your new strategy seems to show a lessening commitment to the UK electricity market. And thus far you've had a balance between a commitment to invest, particularly in power with new nuclear, which has now changed. Do you think that increases the political risk on your downstream businesses now that you appear to be focussing more on the US?

Answer: Sam Laidlaw
I think there is some shift from power to gas. But that is as a consequence of the political and economic realities that we are facing, and that's why I spent a little bit of time on the landscape at the beginning of the presentation, because electricity market reform, to actually turn into an investable proposition, is still two years' away. And there is no doubt that the regulatory framework I think is still uncertain. So I think we would have to acknowledge that, and we also have to acknowledge that, you know, anything that is dependent on subsidies for low carbon is not without political risks. So we are shifting some of the investment from power to gas, more than if you like shifting from the UK to outside the UK. And we will be doing a lot in gas if we look at, you know, not only our Cygnus project that's underway, the York project that's underway, but some other projects we're doing in Norway that actually bring gas to the UK.

Q4. Peter Bisztyga, Barclays
I was hoping for a little bit more colour on your North American growth opportunities. Could you give some indication of how much of that doubling in the EBIT that you're forecasting will come from M&A and how much is going to come from organic growth?
And then just a broader question on sort of North American M&A; when you talk about larger scale acquisitions, are you talking purely customer bases, or are you thinking about any kind of physical assets in there? And similarly when you talk about growth opportunities in L&G and midstream gas, would you consider acquiring pipelines, L&G tankers, export terminal capacity? So any colour on that would be gratefully received. Thank you.

Answer: Sam Laidlaw
Yes. So firstly I think in terms of the doubling the downstream profitability, the way we think about this is we will have, I think, good, strong, organic growth, which will probably get us a third to maybe 40% of the way there. The rest of it will come from acquisitions, which could be a series of small acquisitions or it could be something larger.
I think in terms of whether those acquisitions include assets, you know, and this is putting aside the upstream business, I think this is very much about continuing to buy blocks of customers.
In the L&G and sort of midstream world, as I mentioned in the presentation, we expect this to be largely a capital light operation, contracting for L&G, contracting for whether it is liquefaction capacity or whether it is for ships rather than putting them on the balance sheet. So, you know, it is intended to be a capital light model. We already have, of course, a capital light model for regassification facilities at the Isle of Grain, and it's a logical extension of that.

Q5. Lakis Athanasiou, Independent analyst
First a general question about the US E&P: I'm just trying to understand your rationale behind that. Is it about integrating into the UK in which case buying reserves with production greater than any LNG processing capacity you could get at some stage, you know, your production would have to be below that. Or is it about both that and also a punt on recovering North American prices.
A second question…

Answer: Sam Laidlaw
We'll take that one first and then we'll come back. I think as I attempted to explain in the presentation it's multiple factors. So it is providing gas for our US gas customers which are a growing number. And of course it reduces the collateral we have to post for those US customers. It is a view that actually over time the value of those reserves will go up. And it is, over probably greater time, the optionality that that will provide if exports start to happen at scale. So it is the three components.

Further question: Lakis Athanasiou
Okay. The next question is the chart on page 36. I had a little bit of difficulty understanding it. You're showing a top profile remaining at 75. Now you don't seem to be showing all development of all your TP reserves, big ones like Maria and Olympus, but the yellow which is the gas, I can't see that coming from anything that you've got currently. I can only see that coming from acquisition of producing reserves; in other words, you're not going to hit those targets or get any of that production beyond the orange and the green and the blue unless you acquire producing reserves. Would that be a correct interpretation?

Answer: Sam Laidlaw
No that's not a correct interpretation. That is things like Maria and the Butch development in Norway together with Trinidad and Tobago and Block 22, that is in the yellow and that's what effectively sets…

Further question: Lakis Athanasiou
That's not going to come in before 2016.

Answer: Sam Laidlaw
Some of the Norwegian will.

Answer: Mark Hanafin
So, Lakis, the big step up post 2017/2018 is Block 22 coming in. Prior to that, that yellow area is basically a very large portfolio that we have of development projects and taking a risking of that and applying it to give you an assumed profile because we don't know which project we will take FID on. So it's a combination of what we've got in the existing Centrica Energy portfolio and a combination of what we will drill up and start producing in North America. So it isn't acquisitions that are in there.

Further question: Lakis Athanasiou
I'll take that up later.

Answer: Sam Laidlaw
We're happy to do that.

Q6. Martin Brough, Deutsche Bank
Can I just ask about the change from the regional to the functional reporting relationships because National Grid seemed to go down that route six/seven years ago and struggled to communicate to local people that the businesses were being run locally with local resources and contributing local value, and they seem to have gone back to a regional reporting line. And you've already communicated your frustration with maybe the UK media understanding the contribution of the company to the UK and isn't that going to get harder to communicate under the new structure? It just seems to me like the head of British Gas should be spending maybe all their time thinking about the customers the workforce, politicians, the new regulators, European Commission and that seems like a fulltime job not a half time job?

Answer: Sam Laidlaw
You raise a good point, Martin, but let me explain perhaps in a little bit more detail as to how it is going to work. And that is, that this is not a move to a complete functional organisation where, for instance, you have global marketing and you have global back office and you immediately have a whole series of global functions. We will still keep the head of North American downstream, Badar Khan is moving into that position, who's very capable and has run actually BGB in the past, but he's currently based in North America running our upstream business. So North America, if you like, will be one report than a series of reports to Chris Weston. And British Gas Residential, run by Ian Peters will remain as British Gas Residential, which really is the customer facing piece. British Gas Services run by Chris Jansen will remain as a separate business. And BGB run by Stephen Beynon, will remain as a separate business. So actually you can think of it as those three people who are really the local face of British Gas, so it's not, this is not eliminating all the regional requirements as a true functional model would.

It's a little different in the upstream where actually the opportunities to leverage technology are greater and therefore I think we will see more cross-fertilisation.

Further question: Martin Brough
Can I ask then when the new regulator wants to see the head of British Gas who will they meet?

Answer: Sam Laidlaw
They will meet Chris Weston.

Q7. Edmund Reid, JP Morgan
Two questions: the first one is on the scope of energy efficiency for business customers. I think you mentioned it in the presentation I was just wondering if you could give us a bit more detail and sort of following on from that you seem to be quite bearish on spark spreads in the UK despite the reduction in some of the coal capacity. Is that a view on demand potential in the UK?
And then I said two questions but I guess this is my third is around upstream in the US. Obviously you've given us some more detailed numbers today about what you'd like there but my understanding is that you've been looking at upstream, certainly conventional upstream in the US for quite a few years now and that you've always found prices quite rich. I'm trying to work out your signalling today, is your signalling that you're more positive on how much you're willing to pay because of the power prices or because of the gas price environment or do you feel that prices in the market have now come back to a level that you're more comfortable with?

Answer: Sam Laidlaw
So why don't I take your second two and leave the one on BGB for Phil. But in terms of spark spreads I think that we are not bearish on spark spreads but I think we're naturally cautious on spark spreads. We don't see the economy growing rapidly. Obviously there will be a retirement of plant and some of that has already started to happen. And therefore, logically you would expect spark spreads to improve over time but we're just saying this could take a little while and other people will possibly be doing what we're doing at Humber in terms of upgrading old plant rather than building new plant and that obviously has an impact on spark spreads.
So we do see the trajectory long-term as being positive but we're a little bit more cautious about it perhaps than some people who've got a bigger exposure to it who might be naturally a little bit more optimistic about it.
In terms of the US upstream opportunities and yes you're right we've been looking and cautiously investing in upstream in the Wildcat Hills area as an example. I think a couple of

things are happening: firstly, we are although not expecting a rapid recovery in Henry Hub prices I think we're pretty close to a floor here so, as I said, I think we can see more upside probably than downside going forwards. But also we are seeing value starting to emerge particularly in properties that have significant liquids production which provides near term earnings enhancement. And so I think we're not rushing to do anything against the clock, we'll only do it if we can find value, but I think we are starting to see more value emerge. And on the slide I think we've put up, we're showing actually there's been some compression of multiples, and if you look at the transaction values per acre, they have been coming down, particularly in certain plays, as one or two of the early investors, who got in and got over-leveraged and over enthusiastic, are starting to try and dilute their positions.

Answer: Phil Bentley – Managing Director, British Gas
On BGB, we think there's quite a big opportunity actually, Ed, because you've seen a lot of investment in the home but very little in businesses. We have a green deal for domestic properties, but one of the things that's muted, that's currently going forward, is a green deal for businesses. For example, at the moment, if you're a Westfield commercial landlord, you don't have each retail site monitored for energy, so everyone leaves their lights on and it's just embedded in the rent that you pay. That's going to change, going forward, and I think there's going to be much more pressure put on commercial properties to think about how they reduce their energy consumption. We're already finding through Smart metres that we can give our B2B customers advice that says, 'Look, you close after 5 o'clock on a Friday but you've used this amount of energy over the weekend because you've left the car park lights on or you've left the heating on.' So I think there are some big opportunities there that we're just beginning to scratch the surface on. Three years ago we had no sales in that space. In 2012 we had £204 million of sales, so I do think there is more to come in that field, and we have a team working on Connected Homes and Nina Bhatia, who's at the back of the room there, she's also going to be looking at Connected Businesses as we go forward.

Q8. Bobby Chada, Morgan Stanley
Could I go back to slide 36 please? I just want to make sure I understand the return versus profitability dynamic, as there's a danger of double-counting I think. If I understand it properly, you'll invest around a billion per annum to keep at 75 million barrels of production, and you'd expect that billion of incremental capital to deliver returns well in excess of 10%. But thinking about it from the P&L perspective, isn't it fair to say that operating profit you derive from these assets is likely to decline in a stable commodity price environment? Because the new assets are more costly to run than the existing assets, or is that too conservative?

Answer: Sam Laidlaw
Well, interestingly, it's a question also of whether you look at it pre-tax or post-tax, because if you look at the Norwegian assets in terms of their unit costs, they will actually be lower than a lot of the UK assets, but of course they are highly taxed so you have to factor that into the equation. You will see, certainly, from the UK portfolio, a rise in unit costs from the existing fields, but also the new fields, as they are brought on stream, will be higher cost, and therefore lower margins. So there will be some margin compression there, yes.

Further question: Bobby Chada
And looking at the same kind of slides that you showed us a year ago, or a little bit more than a year ago, for 2013...

Answer: Sam Laidlaw
Just to clarify, this slide, compared to slides we showed you previously, includes North America, which is 10 million barrels and represented by the red line, I guess.

Further question: Bobby Chada
And it's a slightly different slide you showed at your E&P Investor Day in December 2011, I think, where there were two other fields due to come on this year, Annabel East. Is that being pushed back? I don't think you've mentioned it at all today.

Answer: Sam Laidlaw
Yes, it's still there but it's been pushed back, so actually I think we're now targeting 2014, if my memory serves me right, for Annabel East to come on stream.

Further question: Bobby Chada
And then my last question. Lots of people seem to be chasing US assets, particularly ones with liquids because they're obviously much more profitable. What is it that you think is your edge in North American E&P versus many, many other buyers?

Answer: Sam Laidlaw
Well, as I identified earlier, this is not a new search, if you like, we have been going through a number of properties, both in Canada and in the US. I think we have good subsurface skills, I think we have the capability of actually, with the horizontal drilling and fracking that we do, and we've seen that with Wildcat Hills, which is one of the reasons I've put it up as an example, I think we've actually got some skills there. Yes, it's a competitive market, but I think the market dynamics have changed a bit because some of the early investors, who piled in when gas prices were very high, have obviously found it difficult because they, as I said earlier, got over leveraged. Yes it will be competitive in North America, but actually we are still able, even in a competitive market, to secure negotiated transactions, because we are regarded as a counterparty that people can deal with and not everything goes out to auction.

Q9. Ashley Thomas, Societe Generale
It's been reported that you've retained good bodies to look at the Bord Gais energy disposal, but obviously given the strategic update, it would suggest that the focus for growing the residential supply business is North America. Is that a fair assumption of the strategic intent?

Answer: Sam Laidlaw
Well, I don't think we can comment on specific opportunities, but I think we would say that Ireland is a natural adjacency, so it would be natural to look at anything in Ireland, but beyond that I think it would be inappropriate to comment on specific opportunities.

Q10. Jamie Tunnicliffe, Redburn
In the past, when you've talked about growing the customer base and the electricity customer base in North America, you've talked about them potentially having to do work on the power hedge against that, and you don't seem to be talking about that. Is that a change in view in terms of that capital requirement, given now you're talking about a much bigger electricity retail base in North America than you were previously?

Answer: Sam Laidlaw
Yes, I think it is a change of view, and I will let Chris speak on our views of the power market generally, but the full cycle returns of investors in the power sector in the US have not been great, and I think we would have to have a particularly compelling case that was either underwritten by strong capacity payments that would actually give some certainty around near term returns for us to want to do that, and I think we are more comfortable buying the quantity of electricity that we need on the open market, in a world where shale gas is obviously ensuring that gas prices, although they may slowly move up, I think are not going

to be subject to the same magnitude of price increases that we've seen previously. But Chris?

Answer: Chris Weston – Managing Director, North America
The market's changed over the last three or four years, but the reduction in price of gas on Henry Hub, and at our current size, at the current commodity prices, the current liquidity that we see in the markets, and the volatility we see in the markets, we're very comfortable with buying the options, the hedges that we need on the market. If we were to grow materially, or we see gas prices increase materially, or volatility, then there might be a case for some power generation to support the business. The most likely area that you would see that is in Texas, where you have slightly less liquidity than PJM or New York, and you've got tighter reserve margins. So that would probably be the most likely place, but in the current liquidity, the current commodity price environment, our current scale, we do not need any more power generation and we can buy what we need on the market.

Q11. Jonathan Constable, Nomura
Just a quick one: I want to check my understanding of your expectations on returns from E&P capex, because you've got some examples of successful projects, where there appear to be double digit IRRs achieved, and you're clearly targeting double digit returns from developments, and I'm sure every investment case for the project has a double digit return in it, but not all of the projects are successful, clearly. When you look at it on a portfolio basis, and if we're thinking about our expectations on a portfolio basis, for your capex over the next years, should we be expecting double digit returns on your investments, or it more realistic for us to expect a blended return that's some way below that?

Answer: Sam Laidlaw
Yes, I think you should absolutely expect. The point that was made in the earlier discussion around pre-productive capital versus productive capital, obviously lowering near term ROCE, but if we look at the business without the pre-productive capital, we're in the mid-teens, and if you look at all our new investments that we sanction, we should be well into double digits for any development, because we've had a lot of that exploration expenditure behind us. And if you look at sort of full cycle here, we should be well in double digit territory. And the assets are shorter life, but it is materially higher return business than the power generation business on a full cycle basis.

Q12. Peter Bisztyga , Barclays Capital
In the UK, a lot of the opportunity seems to be around energy efficiency. How confident are you that the revenue gains can offset the inevitable reduction in demands from both business and residential customers going forwards?

Answer: Sam Laidlaw
I think we are pretty confident, based on experience to date, and again, I'll let Phil come back in on this, but if you look at the growth of the services business, a lot of it being, if you like, has been encouraging energy efficiency, on the one hand, but actually the services business has gone from a business that five years ago were probably making £150 million to £300 million. So there's a big business in energy efficiency. Phil, you might want to speak about that.

Answer: Phil Bentley
It's not just a swap between sales revenue and the energy efficiency margins; you've also got to look at churn, because churn, as Sam showed on the earlier chart, is running at record low levels now. So, at the beginning of this year, the first couple of months, we've been running at just over 6%. Churn, which when you think, when I took over British Gas we

were running at 28% churn, that shows the progress that we've made. And so I think if we look at new-to-brand, how do we get customers back into our brand, then energy efficiency and all the new products is going to be the way in. We've got some quite exciting new product launches to come in the next few months, and that's targeted, not at retention anymore, because we think we've cracked retention, it's targeted at new-to-brand acquisition, so it's all part of how we grow the franchise at British Gas.

Q13. Andrew Mead, Goldman Sachs
Following on from that: your free Saturday Power Deal, why is that not an offer on a product in the UK?

And two, whether or not it is or isn't - actually I'd prefer Sundays, to be honest, rather than Saturdays. But the second thing is: on the outlook for the tariff simplification, does Ofgem's move mean you can't do that in the future?

Answer: Phil Bentley
I mean without giving all our secrets away, but part of the reason why we looked to run the downstream internationally is sharing those sorts of ideas. Now, the key of Free Saturdays is you need a smart meter, and we've been successful: Chris and the team have rolled out smart meters in Texas, and we have done 800,000, so as soon as we get the volume up of smart meters, and remember, we've done 80% of the country's smart meters, then that's what enables those types of tariff offers. Our belief with Ofgem is that they want to see innovation in things like time of use, and therefore there will be carve outs within the strip for tariff regulation coming out of RMR, but we're obviously going to have to see the detail of that, but that's certainly our expectation, that it wouldn't use a tariff slot directly.

Q14. Iain Turner – Exane BNP Paribas
Can I ask about the 20% stake in British Energy? Now that you're not doing New Nuclear, does that still make sense as part of the group, or if perhaps you're looking, or you're recognising that CFDs aren't a very good hedge, then perhaps a bigger stake than 20% in the nuclear stations will be a better hedge for you?

Answer: Sam Laidlaw
I think those questions are going in different directions, but if we take the first one: actually what our stake in British Energy does, and I think is doing very successfully, is it does provide a low carbon power hedge, it's obviously in the event that electricity prices do improve, unlike a CFD where the upside obviously gets given back through the CFD mechanism, our existing nuclear operations would perform better than they already are doing, and the life plant life extractions have obviously been very positive. So we're pleased with the investment and I think it's delivering good returns, and we want to hang on to it, and whether we would want to go further in plants that are starting to age I think is questionable.

Q15. Richard Alderman – Macquarie Securities
A question for the CEO. You rightly pointed in your article in The Times this morning that there isn't a substantial shortage of gas coming into the UK, so you've partly answered one of the Ofgem concerns from last week's presentation by Alistair Buchanan. Could you perhaps outline what your thoughts are on the possibility of any form of generation price spike in the '14/15 winter that he also outlined, and the circumstances why you wouldn't agree with that, if at all?

Answer: Sam Laidlaw
I think what I was trying to say in the article is that we do need to recognise, as I said in this presentation, that we are going to be importing more gas and we need to work hard to secure those new sources of gas. So I don't want to, in any sense, suggest that we should be complacent about securing new sources of gas as the UK moves into greater import dependency and greater LNG dependency, but we think building on the sort of relationships we've got with the big suppliers, the Qataris and the Norwegians and others, and also if we continue to explore and maximise the recoverable reserves from the North Sea, that should be a manageable problem. On the power side, our modelling suggests that given where reserve margins currently are, even though a considerable amount of capacity is going to come off the grid over the next 24 months, we think it's not such an immediate problem, perhaps, as the regulator was suggesting. Now, it is very sensitive, obviously, to demand growth on the one side, to weather, to individual days, and to how reliable, particularly with a nuclear plant, continues to be. But I think we feel a little bit more confident over the next sort of 24 months, certainly, that load shedding can be avoided. But Mark, you might want to...

Answer: Mark Hanafin
The sort of bid offer on this one is the forward market at £1 a megawatt hour. Okay, it's pretty liquid out there, but I mean that's what the forward market is saying. And Ofgem, sort of lights out, which would imply prices through the roof. And I think our modelling suggests, in the '15/16 period, clean spark spreads of 4-6 sort of range. We need 10 for a cost of capital return on a plant like Langage, so I think it sounds right to point out that there's no room for complacency, there's no room for any delay in terms of getting the legislation for capacity payments in place, and all of the other parts of the energy bill, but I think we have perhaps a more measured view of what the next three years holds.

Further question: Richard Alderman
Does that model also include the 60 terawatt hours from British Energy continuing for the next three years? Because I guess that's a one in seven year performance, and probably only twice in twelve they've done it.

Answer: Sam Laidlaw
I think whilst we would hope that continues, I think that's not in our base assumptions. I think it would be fair to say that the considerable investment that went into the British Energy plant in the last few years prior to the sale, but also I think the operation of EDF subsequent to the sale, has delivered some material improvements and we do expect those to be sustainable, but I think we wouldn't necessarily predict a record as our base assumption.

Q16. Verity Mitchell, HSBC
Just in terms of the share repurchase, how should we be thinking about that? Is that a one-off, or within new strategies is it going to stop, or will you continue perhaps to do it in future years?

Answer: Sam Laidlaw
Let me take that one, because I think it's an important point. Obviously we're only just launching, as of today, our share repurchase, and we intend to complete that in the next 12 months, and that's the immediate priority. But I think what we're saying, taking a three to five year view, is we'll continue to measure organic opportunities and the headroom we have in the balance sheet, and if we see the opportunities to do more of this because either we have an inefficient balance sheet or we don't see the opportunities that are as attractive to our shareholders as stock repurchases we'll continue to do them.

Answer: Nick Luff
It does say it on the slide actually it's the last bullet. Which suggests that if we have surplus we will return it.

Concluding comments: Sam Laidlaw
I think that's probably a good point to end on. But thank you all very much indeed for your patience and support. And we look forward to taking the next chapter of the growth of the company forward.

End of presentation