Centrica plc - Capital Markets Day Presentation

Transcript – 12 March 2010

Roger Carr - Chairman

Well good morning everybody and a warm welcome. This is very much a day for the Executive Management. But I did want to say a few words which can only be said really from my perspective as Chairman.

First and foremost, the business that you will see today is a credit to the skill, the competence and the determination of a management team that has been built and led by Sam Laidlaw. Under his leadership the company has been transformed in shape, mix, balance and performance. It has been a remarkable achievement in a very short time.

The team has been assembled by Sam in the last three years and has been drawn from both within and outside the organisation. And the blend has fundamentally improved the calibre, grip and pace of management, and with it the prospects for the business. It is a united team acting very importantly in harmony on a united front.

Whilst much has changed, the fundamentals of the Board's decision making have stayed firmly in place. Centrica is a shareholder value driven business. We are prudent in acquisition, demanding in our investment criteria and mindful of our balance sheet efficiency. We consider our dividend policy with a payout ratio of 50-60% to be appropriate to our current business model. Equally we believe that our cashflow should be directed towards building the business whilst ever acquisition returns favour investment rather than payment to shareholders. We will however reconsider the position if and when surplus cash becomes available. To be clear, shareholder value remains firmly at the top of our agenda.

I hope you have an enjoyable and informative day, in fact I am sure you will and I thank you.

[Video played]

Sam Laidlaw – Chief Executive

Well good morning everyone and welcome to the Centrica Capital Markets Day. I am very pleased that so many of you have been able to attend. And I would like to extend a special welcome particularly to those who come from overseas and those who are joining us through the webcast.

As you will see from the agenda, we have a very comprehensive schedule today and we hope that during the course of the day you will gain a deeper understanding of our new business model, meet some of our management and also understand our prospects for growth as we move into the next phase of Centrica's development.

So in this opening presentation, as well as outlining our new strategic priorities from a wider group context, you will be hearing from Phil Bentley, Mark Hanafin, from Chris Weston on what these priorities mean for their business. And then from Nick Luff on the financial implications. There will be time for high level Q&A at the end of these presentations and I would ask that you keep any business unit specific questions to the break out sessions where you will have a chance to see some of the individual experts later in the day.

Now following the main presentations at 11.30, we are going to divide into smaller groups for a series of three breakout sessions. The breakouts will be interactive and allow you to gain in-depth understanding of the strategy and prospects for growth in each of the businesses. It also will provide I think a good opportunity for you to meet some of the management team and experience first hand some of the real passion they exhibit for the business. There will be plenty of time for discussion over lunch and in the coffee breaks. And we will wrap proceedings up at 4 pm. After which there will be a chance to chat informally over drinks for those of you who would like to join us.

Now three years ago we set out the following strategic priorities for Centrica. To transform British Gas, to sharpen the organisation and reduce costs, to reduce risk through increased integration and to build on our growth platforms. Although we set these out as five year objectives, we delivered against these targets in three years and we now have a sustainable, lower cost, higher performing, more robust business model.

In British Gas the operational improvements in residential have substantially enhanced our service levels. Our customer satisfaction levels have moved from being the lowest in the industry, only two years ago, to being the best today. At the same time we have reduced the cost base by over £200 million. And we are now combining our UK downstream businesses and are in a strong competitive position to provide our customers with a broad range of energy and related service products. Both the number and value of our customer relationships is now increasing strongly.

The acquisitions of Venture and a 20% stake in British Energy have materially strengthened our upstream business and provide us with a hedge against volatile energy prices, a unique dual fuel advantage and a strong pipeline of investment opportunities to deliver consistent growth. We have a wealth of investment options that allow us to choose the projects with the highest returns and the greatest value. And our upstream division is now a growth business.

And in North America we are well placed to build on the existing business platform and leverage our distinctive capabilities. We have established key positions in key deregulated markets for both residential and commercial customers. And we will

now look to create leadership positions in those markets and also increase our level of vertical integration.

And we are leveraging the relevant capabilities from our UK business from customer care processing to bundled energy and services products and from risk management processes to upstream gas and power expertise.

We are also further integrating the business more closely with the rest of the Group to leverage the scale that we have in our downstream and upstream UK business. So in summary, we are in a very strong position to execute on our strategy and win in North America.

Finally, in achieving our strategic objectives, we have not only created a robust integrated energy business model, but a much more integrated management team. Across upstream and downstream and between the UK and North America, we are a more integrated organisation and that has transformed our ability to deliver.

Now as we look to the future, our strategy needs to be robust and take account of some key external trends. And against these trends we have developed key competitive advantages that will allow us to grow and thrive.

First, we see energy efficiency continuing to reduce household and business energy demand. This is more marked with gas than in electricity, where increasing numbers of electrical appliances and ultimately indeed the electric vehicle, will provide some growth. Now whilst this energy efficiency trend is likely to continue, for Centrica our unmatched energy services capability provides us with a unique opportunity to harness energy efficiency into higher margin products and services through the rollout of smart meters, micro generation, insulation and energy efficiency advice. In the US we are also building on our services platform to take advantage of the energy efficiency low carbon agenda.

Second, electricity decarbonisation. In the UK Government obligations and indeed international commitments to reduce carbon emissions are shaping the direction of the market. In the US, while starting further behind, carbon reduction is also starting to gain momentum both at the State and Federal levels. We currently have the lowest carbon power generation fleet in the UK. And our investment pipeline focused on renewables, nuclear and gas, is uniquely positioned to take advantage of this trend.

Third, we continue to experience and expect volatility in commodity prices. As we have seen over the last two years, the integrated energy business model that we have created, has proven to be robust. And our unique dual fuel hedge combined with the flexibility of those assets, like the Morecambe Bay gas field, the Rough Storage facility, together with CCGT fleet, allows us to maximise economic value in volatile commodity price environments.

And fourth, security of supply continues to be an imperative, both in the UK and even in North America. What is clear is that the UK will continue to have an increasing dependence on gas imports and will require a diverse and flexible set of supply options to meet this growing demand. The scale and diversity of our upstream portfolio, across gas and power together with our gas contracts and growing LNG business provide us with secure, sustainable, low cost sources of energy for our customers.

So the business we have created is well positioned to take advantage of some of the key industry trends that frame our strategic thinking. And building on the progress

that we have made, some of which you saw earlier in the film. And the capabilities we have developed over the past three years, we have established four new strategic priorities which will enable the business to move forward and deliver growth.

Our vision remains unchanged. To be the leading integrated energy company in our chosen markets. And our chosen markets are the UK and the deregulated markets of North America, where we can leverage our scale, skills and processes to deliver superior financial returns.

The new priorities however, are to grow British Gas, leading the transition to low carbon homes and businesses, to deliver value from our growing upstream business, securing sustainable energy for our customers, to build the integrated North American business with leading positions in deregulated markets, and to drive superior financial returns through operating performance and our investment choices. These priorities provide each of our businesses with a clear strategic direction and an important financial context to deliver growth across the Group.

So now let me turn over to Phil, Chris, Mark and Nick who will talk about each of these new strategic priorities in more detail. And then I am going to come back at the end and summarise the longer term vision for the Group and open it up to questions.

So let me first introduce to you Phil Bentley, Managing Director of British Gas.

Phil Bentley – Managing Director, British Gas

Sam, thank you. Good morning everyone. Gosh there is quite a crowd there now isn't there, that's great. Let me start by expanding on those key trends that Sam mentioned that our market place faces. And why we are confident that in a low carbon world, we have a great opportunity to grow British Gas.

What we see over the coming years is a growing imperative to transform the energy efficiency of Britain's homes and Britain's businesses, driven by a number of factors. An increased awareness, consumer awareness of their energy usage. Rising unit prices as network investment, environmental costs are passed through in the bill. And critically, government commitments on carbon reduction. For example, we have the 20% reduction in carbon emissions by 2020 now. And these drivers will lead to major growth in demand for energy efficiency products and services. The insulation market for example, will double over the next five years. As all homes in Britain need to be insulated by 2015. We see the roll out of green technologies such as micro generation, a market forecast to grow from virtually nothing today, to some £4 billion in 2015. And finally the installation of nearly 50 million smart meters at an industry investment cost of £10 billion, will transform customer relationships enabling a range of new added value services.

So in our view, this trend of convergence between energy and home services, plays absolutely to the strengths of British Gas. Quite simply, we see the market winners being energy companies who supply energy with broad servicing capabilities and at British Gas we believe we are uniquely placed to win that race. For example, we are the leading energy supply and services supplier in the UK today. The number one domestic supplier for both gas and electricity. We serve over half of the UK's homes. Last year we made nearly 12 million home visits. And in the business market, we are number one now for SME's as well, servicing over a million businesses.

The scale of our services capability is unique. By some margin we are the leading installer, servicer and repairer of heating systems in the UK with a national base of over 9,000 energies. Just to scale that, our nearest competitor has less than a tenth of this direct labour force. And of course we have a very strong and well recognised brand, the most trusted to deliver energy efficiency measures from seller to attic as it were. And having replaced our systems in 2006, we now have the most advanced customer focused IT platform, which is several years ahead of the competition. And our scale means that we are now beginning to build a lowest cost to acquire and a lowest cost to serve advantage. Government policy in our industry is a key factor and our leading position, of a unique UK downstream and upstream blend certainly gives us a very strong voice here.

Finally we are leading the way on innovation. Our website has the best functionality in the sector. You will see some of that later today. We are securing first mover advantage in the rollout of smart meters and we have invested in a portfolio of new technologies to give us the edge over competitors as we make Britain's homes greener in a low carbon world.

But before I talk about the future, let me briefly remind you of the journey we have been on since Sam asked me to join British Gas in 2007. We have been working hard to transform our customer service by focusing on the basics, fixing our processes and delivering for our customers, we have seen our in-bound call volume fall by some 40% since 2006. And our average speed to answer now is regularly well below 60 seconds. We have seen the fruits of this in our net promoter score which is now firmly positive for energy having been minus 40 back in 2006. But also in services which has always had a strong NPS, but is still now on an upward trend. And in the recent Morgan Stanley Survey, British Gas was placed first for customer satisfaction. Quite a turn around from two years ago when we were in the last place. Thank you for that Bobby.

Of course this progress is largely down to the huge efforts of our 27,000 people who every day deal with our customers and help them. And I have to say they have never been more engaged than they are today. We have a record commitment score. And our employee attrition has halved since 2007. And for two years in a row now we have been recognised by 'The Sunday Times' as one of the best large companies in Britain to work for.

Now as a result of this improved service and competitive pricing, which I will touch on again shortly, customers have been reappraising British Gas and there has been a shift in perception of our brand. For the first time in our history, we actually have a positive net PR score where the positive press stories about British Gas are now outweighing the negative ones. We feel very pleased to see that. But it is our new brand campaign which we call Plant Home, which was launched at the beginning of last year, has had tremendous cut through with our customers, really addressing the key drivers of choice such as value for money, and easy to deal with.

And finally, we have received widespread stakeholder praise from high profile initiatives such as our swimming sponsorship and our Generation Green, where we have built relationships with over 10,000 schools in Britain where we have had great Ministerial endorsement.

The consequence of this is that British Gas is now growing across all areas of our business. Last year saw the first significant growth in domestic energy customers for some six years. And growth has continued in 2010. This primarily reflects our strong price position and even today we still remain the cheapest major supplier in Britain

for both gas and electricity. Of course our primary focus is on growing the value of our customer base. And we have restructured both energy and services pricing to minimise low value customers. And improving our sales focus on the highest value segments. And those high value customers, those holding both energy and services products, which are typically worth over three times more than an energy only or services only customer, grew by some 164,000 last year.

So in terms of our financial results, British Gas is now firmly a £1 billion a year operating profit business, with a strong growth record. On the energy side in particular, we have demonstrated that we can deliver sustainable levels of profits even in volatile wholesale markets. And our capital requirements are relatively low. In 2009 for example, our post tax return on invested capital was 140%.

Now although we have built a strong platform, we believe there is still a long way to go for today's British Gas. So let me turn now to our plans for the future. Having made the business work, and combined and worked together last year, this slide represents the three elements of our new strategy to grow British Gas: optimise the business, take a lead and capture new markets.

So let me start with optimising the business which is all about leveraging the scale and efficiency benefits from our core energy business. We plan to deliver sustainable profits in residential energy. Whilst we do expect an ongoing decline in average energy consumption, we will offset this decline by further reducing costs which I will talk about shortly and driving customer growth.

Key to customer growth is lowering churn. And our energy churn has reduced by a third since 2006 and additionally we know that a joint energy and services customer churns again some 30% less than an energy only customer. That is why we are focused on expanding our bundled product offers such as EnergyExtra, which was launched last year and has already sold over 200,000 products. And delivering an integrated energy and service experience in our call centres, what we call cross serving, will drive up customer satisfaction and also further improve the stickiness of our customer base.

This slide also shows an example of how we are optimising our sales spend to generate the best return. Since 2007 we have halved our field sales activity. This is a fairly high cost channel often winning lower value customers. But we have increased sales through the much lower cost internal channels, such as inbound call centres, which of course deliver those stickier customers.

The other side of optimising the business is a relentless focus on our costs and cost efficiencies. For example we have reduced our cost base significantly in recent years. For example, heating services. The ratio of customers to back office staff has now improved by over a quarter. And from creating the combined business last year, we have identified over £100 million of cost savings which we are on track to deliver in 2010. Savings are coming from further efficiencies in heating services, front and back office efficiencies, removing overhead duplication and combining sales and marketing functions. We are taking the opportunity though to reinvest a proportion of these savings both to grow the core business such as improvements in service and online, as well as pursuing new growth opportunities such as insulation and smart metering.

So let me now turn to the second wave of our strategy of taking the lead, which is all about growing more rapidly in existing areas of British Gas strengths. For example, online is becoming increasingly important. And we are keen to drive this kind of step

change in penetration we have seen in other industries such as airlines and banking, generating significant value of lower cost to serve and greater loyalty from those customers. Online transactions which include meter reads, bill payments, booking service calls, doubled last year to over £4 million. And so far this year, online contacts have actually exceeded those in our call centres for the very first time. That is quite a milestone in our journey. Self serve transactions of which online are a part now make up nearly 40% of our all total contacts up from 23% at the start of last year.

And we have been leading the way in online with innovations such as EnergySmart, a monthly billing proposition launched in November which is already doing very well with our customers, receiving great reports. Customers can now submit meter readings via a new iphone application which has even appeared in Apple's own advertising, so that is a first for us in terms of third party endorsement.

Now another area we plan to take the lead from a core strength is in heating services where we have a huge opportunity to tap into the 8 million energy households who do not currently hold a services product. Key to this is our push to cross serving. And our new insurance capability will provide a further boost. We are now FSA registered offering insurance products with more flexibility, extra features and lower price points to appeal to customers who have not previously bought our services. And increased evening and weekend appointments will also broaden our appeal to more customers.

Now we also plan to substantially increase our presence in two further areas. In the on-demand space today, we only have 5% share of a £700 million market. And we started to raise customer awareness of our new capabilities in on-demand with a major advertising Q4 last year, which has already driven volumes up some 50%. And in boiler installations we have only got an 11% share of a £1.3 billion market, even though we sell 44% of all the gas sold to Britain's homes. We have recently trialled lower prices and have seen a doubling in sales volume and that is going to continue. Our key to transforming heating services is a step change in engineered productivity, which whilst not without its local challenges, it is something we are absolutely confident we can deliver on.

We also plan to take the lead in the Electricals and Plumbing division. Now this is a business which perhaps has not always been fully appreciated by the marketplace. The division has doubled its operating profits quietly over the past five years to nearly £100 million. And operating margins in this division are the highest across British Gas, which is why you are seeing overall services margins creeping up now for the last few years and why we hit 17% margins in 2009.

We have a national coverage on a broad product range covering plumbing, drains, electrics, kitchens, locks and alarms. In fact we see this business as similar in scale and proposition to HomeServe, but with actually a much faster growth record and more potential. More growth will come from increased penetration through better customer targeting, improved pricing and more bundling. And once again our new insurance capability gives us added flexibility in proposition design.

We also plan to take the lead in British Gas business which has grown strongly doubling its profits in the last four years. This business has attractive fundamentals, limited commodity risks with 90% of contracts at fixed term and then hedged back to back as it were and improving and high retention rates in the core SME base.

And our new strategy focuses on those customer segments where we believe we have a clear advantage and a right to win. In essence our growth ambitions lie in the

medium sized SME and multi-site segments where we have service leadership through both our complex billing capability and added value energy services. In the smaller enterprises segment, the strategy is to reduce costs and leverage synergies with our scale residential business. And for those large single site industrial customers, where margins are wafer thin, and opportunities to develop deep relationships are very limited, we intend to price to value or exit.

So that was take a lead. Now let me turn to the third leg of our grow British Gas strategy which is all around capturing new markets. And it is about embracing new channels and new technologies. For example, as we have said insulation, a market forecast to double to £1.4 billion in 2015. Here we already have a 20% share through our leading CERT and CESP programmes, but previously we outsourced the customer experience to third parties. We have now announced the insourcing of this business, the recruitment of some 1,100 staff and we are already seeing an uplift in cross selling opportunities when our team are visiting customers homes. Our insulation business will leverage our outstanding lead generation capability and national coverage and a partnership with Europe's leading insulation manufacturer.

So looking at micro generation where momentum is building with the start of feeding in tariffs in April of this year. This market is forecast to grow from infancy today to some £10 billion by 2020. And if you look at learnings in Scandinavia and Germany, there is real precedent to how this market can take off with Government support. British Gas is well positioned to lead in this field with our broad spread of green capabilities and investments. We are already the largest installer of solar panels in the UK for example. And we have unmatchable scale in areas such as engineer training, logistics, customer service systems to install these measures cost effectively on a mass market basis. And we are leading the way through the Government's pay-as-you-save initiative, the only energy company involved in that. Helping to spread the cost of these new technologies over an extended period through savings on the bill.

Another new market opportunity is the provision of energy and related services to the large and growing local authorities and social housing sector. This is a sector we have had traditionally had a limited presence in. But the social housing sector in Britain comprises 5 million properties, 20% of the housing stock in Britain, a £15 billion property services spend of which £4 billion is within our core energy and service capabilities. And this market is growing, driven by new obligations placed on local authorities to improve the energy efficiency of their housing stock. Both the Government with its Home Energy Management Scheme and the Conservative Party with the Green Deal, have highlighted the critical role that local authorities have in delivering low carbon technology and initiatives such as smart meters. And our strategy here is to forge new relationships with local authorities. And we start from a hugely advantaged position. We already have community energy and services relationships with over a quarter of the local authorities here in the UK. And we are leading the way with Government's Community Energy Savings Programme.

A point to note in the context of potential chances in Government or possible spending cuts is that these initiatives don't require new Government funding. They are merely obligations that are passed on to local authorities and energy suppliers, the cost of which is invariably born by you and I in our bills.

Our final element of capturing new markets is to leverage the smart meter opportunity. Smart meters will revolutionise the customer relationships with the

provision of real time information enabling a range of new services to help customers manage their energy consumption. Smart is also linked with wider technology trends towards the home of the future, where consumers will manage their appliances and premises in a more integrated and co-ordinated, but also automated and remote fashion.

Now having lobbied successfully for a supplier led solution to smart rollout which will enable British Gas to manage the interface with customers and minimise the stranding and costs of the old meters. Our strategy is to secure first mover advantage. We already have more meters on the wall than any of our competitors and our current plan is for 2 million smart meters to be installed by the end of 2012. We have created British Gas smart metering, a national network of some 2,300 engineers who not only install meters, but will provide a cross sell opportunity for all our other energy efficiency services, and we plan to announce a number of technology partnerships shortly to ensure that we have the capabilities to win in the smart world.

So wrapping up, this last slide summarises our strategy to grow British Gas over the next three years. We will optimise the business to deliver sustainable profits for residential energy with customer growth and cost savings offsetting the impact of consumption decline. We will take the lead in our heating services, electrical and plumbing businesses to increase product penetration amongst our 8 million energy only customers. And we will grow share in boiler installations and on-demand servicing and repair. We will build on the momentum in British Gas business focusing on the most valuable segments and expanding our business services activity.

And finally, these are small numbers today in our three year plan, but critical to the longer term, we will capture new markets, insulation, micro generation, smart metering, social housing.

So on a personal level I am really excited about the future of British Gas. Having transformed the business since 2007, we now have the leading position, economies of scale, distinct and unmatchable energy and services capability to win in a growing and exciting energy market. We have a dedicated and engaged team of people, some of whom you will meet today, and a confidence that we can make Britain's homes greener in a low carbon world and grow British Gas.

So that is the downstream story. There is a lot of excitement as well in the upstream business. So let me turn over to my colleague, Mark Hanafin who is going to talk about the upstream business.

Mark Hanafin – Centrica Energy

Thank you Phil. Good morning everyone. 2009 was a big year for Centrica Energy and Centrica storage. The acquisition of Venture, the stake in British Energy and the significant progress in our offshore wind business, has transformed our upstream business. In this presentation, I will outline our strategy and progress in upstream gas, storage and power generation. Our strategy aligns with some key market forces. For gas we see North Sea supplies as the best source of gas to the UK. As oil and

gas majors exit this region, we are positioning ourselves as a leading player providing Centrica with continued security of supply and protection from volatile prices.

For power, we see a shift to lower carbon generation. And we see continued support for wind and an increasing recognition of the role of nuclear in meeting our supply objectives. For the CCGT fleet, we see tightening reserve margins by 2015.

Our priority is to deliver value from our growing upstream business to secure our customers energy needs. We have a number of distinctive capabilities. We have transformed our scale and capability in upstream gas. We are the only UK supply business producing both gas and power, giving us a unique dual fuel hedge. We have a low carbon intensive generation fleet. We are leaders in UK offshore wind and gas storage. And we have an upstream gas business with significant flexibility for short term and in terms of investment choice.

Given these distinctive capabilities, our strategy has two key elements. Delivering value from our existing investments and developing our pipeline of low carbon investment choices. With access to a strong range of investment opportunities, including onshore wind, new nuclear, gas development and gas storage projects, we can target opportunities with the strongest returns, with each project competing for capital across the Group.

Let’s look in more detail at our gas business. Our upstream gas strategy is to be the leading consolidator and operator of mature and orphaned assets. In Norway, we are looking to partner with leading NCS operators and ultimately progress into operation. We plan to capitalise on these scales to build upstream gas positions internationally that can provide LNG into the Atlantic Basin.

The acquisition of Venture Production has materially increased the scale and capability of our UK upstream gas business and we are pleased to have retained the majority of the highly skilled Venture team. The integration of Venture with our own existing business provides us with a sustainable and flexible portfolio of assets with valuable development opportunities. The combined business is structured around five core regions to maximise the benefits of focus on asset and infrastructure performance on regional geology and business development opportunities.

Our LNG business has also developed quickly. During 2009 we brought 15 LNG cargoes into the UK and already we have a further 7 contracted for 2010 and 2011. We have utilised our capacity at the Isle of Grain and bought gas on both a delivered and FOB basis. LNG will be an increasingly important source of gas for the UK as domestic production declines.

We have also announced the acquisition of material upstream LNG reserves in Trinidad, which includes both current production and over a TCF of contingent resources.

The reserves audit, following the Venture acquisition, has confirmed a 50% increase in our 2P reserves to 400 million barrels. This is consistent with our investment case. The change in composition of the reserve also brings benefits. Firstly, a lower effective tax rate as younger fields are included. And secondly, increased flexibility, control and a pipeline of future development options.

At the beginning of 2009 our upstream oil and gas volumes consisted of production from our operated Morecambe assets in the East Irish sea and non operated joint ventures in the North Sea. Production was around 200 bcf per year, but it was set to steeply decline and many of you characterised the business as a Morecambe blow down business.

Our strategy developed in 2009 and the subsequent acquisition of Venture Production has dramatically altered the outlook for the business. Non Morecambe production has almost doubled and we now have a sustainable business which can deliver our targeted production level for the next decade and beyond. Having completed the audit of Venture reserves, we have recut the production profile presented in December. This now aligns with the three categories of development projects. Existing production will satisfy 60% of our projected production in 2012 and requires only small investments to maintain. Around 20% of 2012 production will be underpinned by existing in-flight and core investment projects. In-flight projects such as Chiswick and F3FA will be completed and core projects such as Signes and York will be developed.

The combined portfolio has the scale to present significant development options and affords us the opportunity to vary the pace of investment depending on our view of the market. These development options are currently expected to deliver around 40% of our production by 2015.

Our recent acquisition of gas assets in Trinidad has given Centrica our first producing LNG position and complements our existing production profile. The package consists of interests in the NCMA producing gas fields which supply gas into the Atlantic LNG facility and three additional blocks in which discoveries have been made and are now awaiting potential development.

The portfolio therefore incorporates a good balance of producing and development assets and significantly improves on Centrica's current position in country and in line of sight of future LNG projects.

Turning to storage. As you may have heard in the preliminaries, the Rough facility once again demonstrated exceptional operating performance in 2009, with overall reliability in excess of 98%. Storage utilisation was very high during 2009 as a result of very rapid withdrawals following the Ukrainian crisis, together with record rates of injection following the successful completion of compression upgrades.

The importance of gas storage and Rough in particular, was demonstrated in January with the fields supplying around 10% of the UK's gas demand on each of the three days when the National Grid gas balancing alerts were issued.

As the UK's dependence on gas importing increases, storage will play an increasingly important role in maintaining the country's security of supply. Work continues on our three new potential storage projects, Caythorpe, Baird and Bains, which together will add around 85bcf of storage capacity. This will represent a 100% increase in withdrawal capability and a 50% increase in storage capacity.

Turning to power generation. We see declining reserve margins in the medium term due to plant closures, while shorter term our CCGT fleet continues to have good utilisation and is well positioned in the merit order. Our power generation strategy will lead to increased generation cover and a more balanced fleet. From 2009 to 2010 our integration of British Energy and the completion of Langage has increased our target cover for downstream from around 60% to 85% of the high value residential and SME segments.

Longer term, we will move our generation fleet from a dominant gas bias to a generation mix more closely aligned to the market but with lower carbon contribution. In essence a mix of CCGT, nuclear and wind output.

Centrica Energy are leaders along key elements of the offshore wind value chain. In tendering, design and acquisition, we have had continued success. Recently evidenced with the award of the Irish Sea zone in the Crown Estate Round 3 process. With the financing structure developed for our existing wind assets, we have created a model for the efficient use and recycling of capital. Our in-house turnkey capabilities has enabled us to construct the Lynn and Inner Dowsing offshore windfarm on time and on budget. And our extensive first hand O&M experience provides key insights that are fed back into the design and construction of future wind farms.

The performance of the BE nuclear fleet has also recovered well from the reliability problems of 2008. Following the conscious effort to improve performance, investments in plant and in human performance were made in 2009 and we are starting to see an improvement in output. In addition to life extensions, we are considering nuclear new builds, with FID for the first reactor at Hinckley Point expected in 2011.

We have seen an increasing recognition of the role of nuclear in meeting low carbon and security of supply objectives. And we are engaging with regulators and Government to ensure the appropriate mechanisms of support are in place for a new nuclear programme.

2009 was a transformational year with growth in gas production and reserves mainly through Venture and power generation through Langage, BE and new wind developments. For 2010, Centrica Energy and Centrica Storage provides the Group a unique suite of investment choices, underpinning continued growth.

Despite recent volatility in commodity prices, Centrica Energy remains a strong contributor to Group results. Our returns are robust against changes in market fundamentals over the next 5-10 years and we are able to choose from a wide range of investments due to the flexibility and diversity of our portfolio. This together with

our distinctive capabilities will combine to allow us to capture additional value and exceed our hurdle rates.

Thank you. I will now hand over to Chris.

Chris Weston – Direct Energy

Thank you Mark. Good morning everyone. I am very pleased to be back to the UK to talk to you about the North American market and the opportunity it presents. Over the last six months that I have been in North America I have come to appreciate the size and the scale of the energy markets and I am convinced that both our business model and our strategy are the right platforms to help deliver the growth we believe possible in Canada and the US.

I would like to use this morning to provide an overview of the North American market, our business and our strategic priorities in a little more detail, including what the integrated energy strategy will look like for Direct Energy.

So what of North America, with consumption per household that is three times greater than that of the UK, new states opening to competition and increased customer switching in those markets that are already open, there is considerable opportunity for growth in the residential markets.

In the business market our largest competitors have scaled back over the past 18 months and profit margins have expanded as the credit crisis has improved the understanding and pricing of credit risk.

The services market is recovering with the US economy and new energy efficiency incentives are creating additional opportunities. At all levels North American Governments are seeing the potential economic benefits of energy efficiency and a green economy in terms of potential jobs and investment.

In power generation, returns have been challenged by recent low spark spreads. With the impact mitigated in those markets where more stable capacity payment markets exist, like the US North East. Fundamentals however are positive with shrinking reserve margins in key markets and a looming overhang of investment required in new generation to meet future needs.

In upstream gas, recent commodity prices have also lowered returns. But where this was seen as a declining market just two years ago, unconventional production in the form of Shale gas made competitive by advancements in drilling technology and therefore reducing costs are helping to expand current reserves and output forecasts. As the market evolves and innovation takes hold, North American's energy markets are opening up greater opportunities and supporting our growth ambitions for Direct Energy.

When you compare North America's de-regulated market segments to those of the UK you find that most of these markets are materially larger and within each segment Direct Energy is focused on a specific subset of the markets, where we think the opportunities are most attractive.

Consider the residential markets in North America. In total there are some 27 million power customers and 37 million gas customers in competitive markets. The markets we target include 40 million customers which translates into an annual profit pool of C$4 billion.

In business energy where markets are more deregulated, total volumes are 5 to 10 times greater than the UK and the profit pool specific to the markets we have targeted is C$3 billion per year. Like the UK, the services market in North America is highly fragmented, served predominantly by small local businesses, but unlike the UK it does not have a true scale player like British Gas. The market includes 112 million homes and there are roughly 10 million new units installed each year. For our part we are focusing on higher density metropolitan areas where there are about 90 million homes and a profit pool of about C$3 billion.

Turning to upstream, domestic gas production in North America is 250 billion therms each year and 20% of this gas comes from the Western Canadian sedimentary basin where Direct Energy operates. Annual production in Western Canada is about twice that of the UK and generates a profit opportunity of about C$9 billion.

In terms of power, roughly half of North America's power generation is deregulated with a total capacity of 540GW, seven times the size of the UK market. DE has a downstream power business in most of these deregulated markets. We estimate the annual profit pool is in the order of C$14 billion.

As you have seen, North America represents a significant market and in 10 years Direct Energy has developed into a considerable business. Revenues last year of nearly C$11 billion, underlying profit before adjustments of C$387 million, and growing from 300 employees in our first year to about 6,000 today. Direct Energy provides the Group with a good foundation in this market. With the size and scale of the opportunity before us, we believe it is important to focus on a number of core areas and market segments, building scale within each.

In residential and business retail energy, we focus on three key regions, Canada, Texas and the US North East. We are the largest retailer in North America serving 3 million residential customers. And the third largest C&I competitor providing 33TW hours and almost 700 million therms of gas to business customers. In each region, we also have a services business maintaining, fixing and installing heating and cooling systems serving about 2 million customers.

Our upstream gas business produces 375 million therms from both conventional and unconventional sources exclusively in Western Canada in Alberta. We also have three CCGT stations with 1.2GW of capacity located in the Texas wholesale power market or ERCOT.

Ten years of experience has allowed us develop a distinct set of capabilities. These capabilities are significantly enhanced by our ties to Centrica Energy and to British Gas and ties that will undoubtedly become more important in the future.

In our residential energy business, we have systems and processes that allow us to manage the complexity of customer care and meet the full requirements of energy risk for our customers in each particular market. In conjunction with this, our services business which is unique among energy retailers allows us to exploit the move towards a more energy efficient future. Our capabilities in both of these businesses have been enhanced by the Group's experience in British Gas. A recent example of this being the review of our Texas debt operations by the British Gas debt team, which identified the valuable improvements in this area. And a similar collaboration will be particularly beneficial over the next few years as the importance of the energy and service relationship develops and smart meters are rolled out in both Direct Energy and British Gas's markets.

The last ten years in the North American market have also allowed us to build experience in the complexities of local regulatory and wholesale markets, the lack of which is a risk to any retail energy business. In upstream we have between our North American and our UK businesses, a strong track record of acquiring, integrating and improving the operation of our power assets. They are now running with a force outage factor of under 3%, significantly better than the industry benchmark. Turning to gas, having demand in both North America and the UK, provides additional optionality for LNG cargoes from our recent investment in Trinidad.

Having explained the market opportunity and our capabilities in North America, I would now like to walk through our strategy to become the leading integrated energy company in North America. Firstly, we will improve the returns from our existing business. This will be done by reducing costs and improving efficiency in each business unit and by exploiting the synergies from our existing positions across regional markets. It will not be done at the expense of the service we provide to our customers. Like the UK, we aim to be the most recommended energy and services provider in North America. Secondly we aim to grow scale and leadership across our downstream. We will build on our strong national position to achieve leadership in each of our target regional markets, both through organic growth and through acquisition. Further we will grow our services business in order to create value from the energy services relationship and the development of the energy efficiency market.

We have developed one of the largest C&I businesses and we will continue to grow primarily by organic means, addressing new market segments, particularly the small commercial segment. And thirdly both in support of our retail energy business and as an attractive value opportunity in its own right, we will invest in increasing our asset coverage, much like Centrica has done in the UK.

In upstream gas we will build upon our asset base in Western Canada and we will explore opportunities in Shale. In power generation we will focus on our largest and fastest growing markets, the ERCOT market in Texas and the Pennsylvania, New Jersey Maryland power market, better known as PJM, in the US North East. Overall we aim to better balance our upstream and downstream businesses, moving towards

35 to 40% asset cover of our relevant gas sales and peak power load. Through the execution of the integrated energy strategy we expect Direct Energy to deliver a more material contribution and diversification to Group earnings over the medium term.

I will now briefly take you through how the strategy comes to meet in each of our business units. Starting with our downstream businesses where we are focused on two key areas, improving our returns and growing scale. As you can see on this slide, we currently have the largest competitive residential energy business in North America, we have 1.7 million gas and 1.4 million electricity customers, giving us a greater overall scale and a broader footprint than our competitors who are primarily regionally based. This is important in a business where there are economies of scale both in and across different markets, allowing us to drive greater efficiency. We have a transformation programme under way like that of British Gas. This will improve returns and enable us to pursue growth opportunities in the market. We brought our Texas operations back in-house, enabling us to focus on cost reduction and churn reduction. We are focusing on stabilising our Ontario business in the face of regulatory and market structure challenges and we are growing scale by taking advantage of new markets and those where structural improvements are expected to increase customer switching. For example, in Pennsylvania which we entered when it opened to competition late last year, we have built 3% market share in just three months. With new markets opening, the prospects for continued organic growth are strong and we will supplement this with selective acquisitions when opportunities arise.

DE business has demonstrated an impressive track record of growth, building upon the foundation created by the acquisition of Strategic Energy in 2008. DE business has continued to gain share through organic growth. As I said earlier we are the third largest energy provider and the market leader in serving national accounts such as Macy's, Whole Foods and Time Warner.

Going forward, the business is focused on continued growth, developing and improving its channels to market and on enhancing returns through continued cost improvements. Organic efforts to grow scale are focused on serving the higher margin segments, particularly the underserved small commercial market where we are using the experience and learning that has underpinned British Gas business's success within this segment. In addition, the business is developing new and differentiated products to enhance the customer value proposition, including demand response and integrated energy management services.

In the fragmented North American services market, DE services is one of the largest providers. The services business has several leading local market positions in both Canada and the US. The business is focused on improving returns by reducing operating costs and improving productivity, realising the benefits of scale and enhancing customer service. We are drawing upon the depth of home services experiences in British Gas and its experience in aligning energy and services businesses to capture additional integration benefits and we are building our energy efficiency capabilities to address the growing market opportunity created by increasing consumer interest and importantly new Government financial initiatives. The draft US home-style legislation for example which was released last week proposes rebates of up to $8,000 to consumers for energy efficiency measures including heating and cooling equipment upgrades.

Turning to upstream, the DE upstream gas business is well positioned to capitalise on expansion opportunities in Western Canada. We produce around 100 million cubic feet of gas per day which is roughly 40 bcf per year. Our production is 50:50 conventional and unconventional and our cash cost of production is top quartile, making DE one of the more efficient producers among those in Western Canada. We are using the inherent flexibility of our asset base to pace the development of our resources in the current commodity price environment which has allowed us to reduce costs while boosting reserves. Our focus for growth in this business is specifically on Western Canada where we intend to expand both our conventional and unconventional production and make use of production synergies where we can to produce incremental value.

In power generation we have a competitively positioned fleet of gas assets in ERCOT with low heat rates, high flexibility and low carbon intensity. Our underlying recent financial performance has been impacted by low spark spreads, particularly as ERCOT, which is an energy only market, does not offer the stability of capacity payment mechanisms found in other regional wholesale markets. However due to falling reserve margins in Texas, a scarcity premium is expected in future which may materialise in the form of capacity payments. We continue to improve our strong record of asset reliability taking advantage of the broad pool of power generation experience in Centrica Energy. And we have demonstrated strong acquisition discipline requiring our CCGT assets in ERCOT of between $200-300 per kW significantly lower than today's roughly $900 per kW for new build. We aim to grow our generation portfolio to support our priority retail power markets. Texas,and the US North East, our fastest growing region where we have no generation capacity today.

This brings me to our integrated energy strategy. Like Centrica's strategy in the UK, we are focusing on achieving a better balance between our downstream and upstream business by expanding our gas production and power generation capacity. Currently we own ERCOT generation capacity that covers roughly 25% of our peak load in that market which equates to just over 10% of our overall power load in North America. Our gas production in Canada covers 20% of downstream gas demand. We aim to move towards 35-40% asset cover in North America in the medium term. This increase in our asset cover will provide a stronger offset to downstream price and collateral exposure. In order to deliver the benefits of integration, the investment and generation needs to be located adjacent to our retail load as a result and as I have already indicated, our focus is on ERCOT and PJM. Whereas power generation assets must be close to customer load, that is not the case for upstream gas. And as I said, we aim to build upon the strong foundation we have established in Western Canada.

As we consider the many opportunities in North America in terms of both the upstream and downstream businesses, all investments will be value driven and executed within Group capital allocation parameters, while also recognising the Group wide competition for capital.

To sum up, we plan to build the leading integrated energy company in North America and to do this we will focus on three priorities. Improving the returns of our existing business through efficiency, scale and customer service. Growing our downstream business both organically and through acquisition to achieve leadership in each of our target regional markets. And finally, we will invest in integration moving towards

35-40% cover in gas and power both in support of our retail energy business and as an attractive value opportunity in its own right. And through the execution of this strategy, we expect to double the size of Direct Energy in the next 3 to 5 years and to deliver a more material contribution and diversification to Group earnings.

In closing, Direct Energy has an exciting future. We have established ourselves as a leading energy retailer in our first ten years in the market, and there is still a significant growth opportunity for us to realise in the years to come. I look forward to meeting each of you and discussing the strategy in a bit more detail.

Thank you very much and I will now hand over to Nick Luff our Group Finance Director.

Nick Luff – Group Finance Director

Thank you Chris. Morning everybody. I am going to draw together what you have heard so far today in financial terms. I will talk briefly about cash generation, about the capital choices we have and how we go about making those choices and then I will comment briefly on the different gas price scenarios that we might be facing into the future.

The first point to make is that Centrica is now a highly cash generative business. Annual depreciation and amortisation is now around three-quarters of a billion each year and if you pro-forma in Venture and 20% of British Energy for a full year, based on the 2009 numbers, the Group is now generating some £3 billion of EBITDA. Of course interest, tax and dividends do take up about half of that, but that still leaves us with around £1½ billion of free cashflow each year. We could of course return that cash to shareholders and that remain the benchmark as Roger said, against which all other opportunities have to be assessed. Equally, we have a significant range of investment opportunities and I will come on and talk about that a little later. And as you can see we have the balance sheet and the cash generation to finance those investment opportunities if they are attractive.

It is true the business has become significantly more capital intensive. The UK gas and oil production which for this purpose includes Holland, Norway and Trinidad and also the UK power generation business. Each of them now have capital employed of over £ 3½ billion. And as Chris was explaining, if the returns are there, we may put more capital into the North American upstream assets. In contrast though, as you can see, the downstream businesses are very low capital intensive businesses apart from any goodwill you get through acquisitions and they do offer a source of good growth without absorbing significant cashflow.

So what are our investment choices? This chart here shows the range of opportunities we have got and how we might deploy capital if we did all the projects that we currently have in view at their earliest opportunity. As you can see UK gas development does take the largest share as we build out the Venture portfolio that we acquired last year and indeed pursue the projects that we were looking at pre-Venture. It includes the in-flight projects that Mark described and also the core projects of York and Cygnus both of which are robust in low gas prices and both of

which we are likely to press the commitment button on this year. Beyond those, the gas investment projects are at earlier stage of development. We have yet to complete the engineering and assess the economics, and those economics of course will depend on how gas prices evolve.

The spend in upstream UK power shown on this chart in 2010 is mainly the final stage payments on Langage as the new CCGT there comes into service. Beyond 2010 most of the spend is actually on the Lincs windfarm, our 50% share of the Lincs windfarm which is due to complete in 2012, in good time to quality for double ROC support. The other significant area of spend is storage. Mark outlined the three new projects we are looking at. If we did our current share of all those projects on finance on balance sheet, that is what is included here, that is of course the maximum spend. Storage is something that might lend itself to partnering which of course would reduce our commitment in that area.

The total spend in this chart shown here is over £5 billion over the three year period. But notice that only around £ 1 ½ billion of that is already committed. And if you take our pure maintenance Capex on the existing asset base, that is only around £300 million a year albeit of course we would have to spend on new assets to maintain gas production at its current level. But that does mean we have significant flexibility and significant choices and that enables us to pursue the projects that offer the highest returns.

So how do we go about making those choices? It is about developing the right opportunities, the ones that fit our strategy, the ones that fit our capabilities and then assessing the economics. We look for double digit after tax returns, more depending on the risks involved. And returns that are therefore well in excess of our cost to capital which we now estimate to be around 7%.

But rather than leaving too much theory on it, let me show you an example of how it works in practice. I know some of you have seen this before, but it is worth repeating. The Lincs windfarm is a project we have been looking at for several years. We have developed the opportunity ourselves, it isn't something we have brought in, and having been so successful both operationally and financially on the Inner Dowsing and Lynn project, it was a natural follow on for our team to look at. We had the expertise to deliver the project and the strategic fit from it was excellent. However, when we came to press the button on the commitment for the project in 2008, the returns weren't there. Turbine prices had risen and with only 1½ ROCs, the project did not meet our return requirements, therefore we rejected it. However we did keep working the opportunity. We worked with the supply chain to get the construction costs down. And we lobbied Government for additional ROC support. And when they came forward with double ROCs in the Budget last year, we were then ready to proceed with a projected return for the project in the 11-12% IRR range. Of course since then we have put the project into joint venture with Siemens and Dong, giving us access to Siemens new 120 metre turbines. That will improve wind yields from the project and therefore improve the returns as well.

We are conscious that a lot of our organic Capex goes into large projects often with quite long lead times. That does mean we have to balance in the overall Group financials the need for immediate earnings with the longer term return potential of

these projects, partnering and third party finance are one way of addressing that. The Lincs JV is a good example.

But when you are looking at Centrica, do remember there is always a pipeline of investments we are pursuing. There will always be capital tied up that is not yet generating returns. And this slide just highlights some of the more significant projects that we have got that will contribute to pre-productive capital. And the years show when we expect them to start contributing to earnings as well.

And finally from me, I know there is quite a lot of debate in the investment community about the impact of low gas prices on the sector as a whole and I just wanted to examine how that flows into Centrica. I hesitate to claim that low gas prices are good Centrica and high gas prices are good for Centrica. But it is true that we have a robust model and we are confident of delivering good financial performance regardless of how prices evolve.

This slide here shows you the dynamics that would occur if we were in a sustained period of low gas prices. Clearly in that scenario our upstream earnings will be reduced. And when the hedges roll off the returns from the nuclear generation would also fall. But in that scenario, if low gas force prices coal generation to the margin then our CCGT assets become very valuable. And of course as Mark was outlining, we have significant flexibility in the gas production assets and we can use that to leave the gas in the ground and preserve value. Something you can't do with contracted gas or coal generated power. Of course low prices help our downstream business, but more importantly than that, I think we are competitively advantaged in that scenario. We have less exposure to low dark spreads in that scenario and we have very little oil linked gas procurement. And how we use that competitive advantage is a matter of choice. We could either drive for more margin or look to accelerate growth. But it does put the business in a strong position.

It is difficult to say how all this balances out, in terms of short term earnings and long term value. But there is no doubt we are in a better position in a low gas price scenario than say a merchant generator or indeed a company that is integrated mainly through coal fired generation.

But the big different to where we were three years ago is what happens if commodity prices start to rise. We are no longer exposed in the same way that we were. The structural hedge is in place for the UK business and we believe we can now hold our own competitively as gas prices rise. And ultimately generate the higher returns you would expect to see from an integrated energy company with high gas and power prices.

With that I will hand you over to Sam to bring it together from a strategic perspective.

Sam Laidlaw - Chief Executive

Thank you very much Nick. So I think as you heard, 2009 marks a successful culmination of a three year programme in which we made great progress right across the business. This transformation of Centrica has delivered a business model that is highly cash generative as you saw from Nick's slide even in a low price environment, with a strong pipeline of growth opportunities. And having had a chance to hear first hand from Phil, Chris, Mark and Nick, I hope you have a better understanding and confidence in the business's ability to deliver what we think is an exciting set of new strategic priorities.

Now whether upstream or downstream or in the UK or North America, we do believe that our integrated energy business model and a distinctive set of capabilities that we have makes Centrica uniquely positioned to capture both value and growth. And while you will have a chance to engage in more detail in the breakout sessions with the individual leadership teams, let me first just summarise what Centrica is going to look like 3 to 5 years out.

First, we will have a downstream business in the UK with a strong growth trajectory and significantly enhanced earnings driven by continuing to leverage our scale, systems and brand to be the low cost supplier, capitalising on the opportunities to supply and service the low carbon homes of the future with new propositions and using new technologies to lead the industry, particularly though online and innovation. Capturing new markets, whether in residential through smart meters or micro generation or targeting local authority customers or in the business and commercial sectors.

So what does this mean for British Gas? Over the next 3 to 5 years we aim to double the number of energy customers to whom we provide services and widen the gap between us and the competition. We will lead the transition to low carbon by rolling out 2 million smart metres and be the leading micro-generation installer in the UK. We will achieve strong penetration of new markets like local housing authorities and we will be the leading provider of energy efficiency services in the commercial sector. And we will use our scale and improved operational performance and the innovative use of technologies like online to be the lowest cost provider in the industry.

Ad you saw from Phil's presentation, taking all this together, capturing opportunities will drive strong earnings growth for British Gas. Second, we are going to have an upstream business based in the UK with sustainable growth and a focus on delivering returns from its capital investment, driven by in upstream gas, developing our low cost profitable fields in the UK, Dutch and Norwegian continental shelf to keep our hedge ratio in the 50-60% range for our tariff customers. Our advantage gas supply position will be enhanced by new gas storage projects to drive competitive advantage and capture the value of volatility. And we will continue to diversify our gas supply options by further deepening our LNG business through longer term relationships with key suppliers and developing our Trinidad investments for the benefits of both our UK and potentially North American customer base.

In power generation we will continue to develop our extensive offshore wind pipeline, as long as the two ROC regime remains and the returns are attractive. And we will participate in new nuclear build provided the necessary carbon price framework is in place to ensure the economics are commensurate with the risk. Now all of this will

be developed with a focus on ensuring that the reliability, efficiency and safety of our existing operations remains undiminished.

So what will that mean for the upstream over the next 3 to 5 years? In upstream we will have a sustainable business producing around 300 bcf per annum, robust against low gas prices. We would aim to secure long-term gas contracts with major resource holders. And we would develop the leading multi-asset, multi-product gas storage business in the UK.

And in power generation, would have an operated renewables portfolio of over a 1GW, with Lincs and Race Bank operational. And work commencing on Docking Shoal and the Round 3 area, if the economics are attractive. And on nuclear again, if the returns are robust we would aim to have an FID on our first new project at Hinkley and construction under way. So our upstream business, the new projects that we are investing in, as Mark and Nick both show, will also be drivers of earnings growth.

Third, we will have a North American business which will have built leadership positions in our key deregulated markets and developed our services capability to help our customers decarbonise. We will enhance the integration of the business in North America through the addition of new power generation assets and new sources of gas.

What will this mean for Direct Energy over the next 3 to 5 years? We will aim to first, build our strong existing retail energy businesses into leading number one or two positions in the core retail markets for both residential and business markets. We will support our energy business with a strong services capability. And we will have materially increased the integration of the business from the current level of only 20% of our retail energy coming from our own sources to closer to 35 to 40%, providing a more robust and competitive model. And true operational improvements and phased investments at appropriate returns, we would expect the North American business to double operating profits over the next five years.

And we will continue to drive superior financial performance across the Group. We will leverage the inherent optionality of our upstream investment pipeline, ensuring the necessary returns are achievable and that capital is deployed at an appropriate pace to maintain consistent earnings growth.

All of our businesses and their investment opportunities will be assessed against each other and compete for capital to ensure that shareholder value is maximised. We will maintain our commitment to financial discipline, not withstanding our lower cost of capital. As Nick said, we will look for at least double digit returns from our investment pipeline.

As a Group, we see delivery on our strategic agenda driving strong growth in both earnings and cashflow underpinned by a robust competitive model, as we lead the transition into a low carbon world. And as we move forward towards our vision, to be the leading integrated energy company in our chosen markets, we will stay focused on value for shareholders.

So thank you. That concludes the formal presentation. I would now welcome the opportunity to open it up to questions and answers. What I would like to do I think is start with questions and answers from the room and then open it up to anybody on the conference call after we have taken the questions in the room.

Questions and Answers

Q1. Ajay Patel, UBS

Good morning, Ajay Patel from UBS. I have got a few questions. Firstly on the US. On the doubling of profits from the US over five years, what proportion is acquisition and what proportion you would expect to drive organically? Secondly, why do you feel a hedge of 35-40% is right and does that make you comfortable in terms of your competitive position relative to other peers? And then the third question is on the development options on the UK Gas, what is that number on risk? Is there a risk factor in that chart in the presentation?

Answer: Sam

Sorry, your first question Ajay? How much of the doubling of growth in North America will come from doubling or earnings will come from organic versus acquisitions. We have, I wouldn't want to give a specific number to this, but we have a historical track record of bolt on acquisitions. In order to close the structural hedge we described to get from 15-20% depending whether you are talking gas or power that you saw on Chris' slide, to the 35-40% clearly there will be some additional capital investment and clearly that will be part of the earnings growth story. But actually if you look at the opportunities that exist within the market place to grow customer numbers, the opportunities in terms of actually improving the operating performance of the business that we already have, I think we can make a big part of that earnings growth improvement over the doubling of growth will actually come if you like from our organic business rather than through acquisitions. And it will also depend of course on the mix between upstream and downstream acquisitions. There may be blocks of customers we wish to acquire which will be traditionally shorter pay out more accretive than longer term upstream assets. Chris is there anything you would like to add?

Chris

No I think you have covered it there Sam.

Further answer: Sam

And in terms of the reason for the percentage hedge at 35-40%, I mean in the US markets that we are in, we certainly are able to buy commodity further forward, deeper markets. And therefore we have less of a concern about moving the market against us in the way we would if we try and buy gas in large quantities in the UK which is one of the challenges in a rising market. So that means essentially that there is less of an immediate need for such a high hedge. We clearly see on power in particular a benefit in covering the peaks however through greater integration. And we clearly see a benefit of integration in managing the credit collateral. And therefore the drivers actually for the integration are a little bit different in the US, where it is less about price and more about credit. And it is market specific. So in ERCOT, we have already got three power generation assets. In the North East we don't have any power generation assets. As Chris mentioned in his presentation, gas is clearly something that is national rather than local, therefore we can provide the hedge from our Canadian production. But when we look at both the risks we are trying to manage, which is collateral stress and the individual volatility and price, and when we look at also what we think is affordable and practical in terms of driving consistent earnings growth as we described, then I think the 35-40% target is appropriate.

And on development options, I would just say there is not one single risk for the whole portfolio, but I will let Mark speak to that.

Answer : Mark
I think you were referring to page 31. The gas in here is mainly contingent resources and there is an appropriate risk factor applied to those contingent resources before we have included it here.

Further question
Could tell us what that number is on risk, so we have an idea of the sort of absolute so we can put our own assumptions to that?

Answer : Mark
On risk it is going to be probably 50-60% higher than you see there.

Q2. Nick Hislop, RBC
Nick Hislop from RBC. On the micro-generation, I had a couple of questions in terms of that opportunity. Could you comment firstly on what sort of market share you think you might be able to achieve, given your current dominant position in gas purchases supply? And secondly could you just comment on what the installation margins are you think you could achieve there relative to BG services as it currently stands.

Answer: Phil
Yeah, a great question. As you saw we did not have a large amount in there. It is probably a bit early to call it. So I will sort of probably more hedge my bets. We would expect to do better than where we are today in the installation business for Central heating where we have only got 11%. And as I said, if we have got relationships with half of Britain's homes, we should be looking to do a lot better than 11%. In terms of margins. Margins are quite strong. I don't really want to say any more than that. But they are good margins and we think that with our scale around the logistics and the supply chain we have real advantage there. Once you start to get up to scaling up because at the moment it is very much sort of local people doing this work, but when it really gets momentum behind it as we expect it to then speed of execution and scale is going to come through. So I would rather leave it at that for now. It is not a big number in the plans today, but we have got some quite high ambitions for that business.

Sam:
And you will have a chance to see more on the micro-generation in the breakout sessions.

Q3. Bobby Chada, Morgan Stanley
It's Bobby Chada from Morgan Stanley. Two questions, first on the downstream business. You gave lots of data on churn rate improvement and brand recognition improvement. Do you have a feel for how that is relative to the average improvement in the market?

Answer: Sam
We make up a big part of the average. But we think certainly our churn now is probably below the average now. Part of that is the significant improvement to customer service and part of it is the fact that many of our customers are now adding products, particularly services product and as the chart showed, we do know empirically those customers who have services products do churn about 30% less than those who don't.

Further question:
And then the second one was really on the balance sheet and the capital allocation. I think you said previously Nick you add all those numbers up and get very large numbers, but you expect Capex plus tuck under or bolt on deals to equate to something like £1½ billion per annum. Is that still a reasonable expectation?

Answer: Nick
Yes. As you said on the chart, the organic Capex, if we did everything at the earliest opportunity, you are getting up to a little bit more than that. But inevitably some things, the economic won't be there or the initials won't be there on that timeframe. So £ 1½ billion is about right. Clearly acquisitions are lumpy and it depends which period they fall into but £1 ½ billion a year is a good guide.

Q4. Peter Atherton, Citigroup
Morning, it is Peter Atherton from Citigroup. Can I just touch on the issue of affordability and financing from a customer's perspective. In last week's home energy efficiency document the Government stuck out, they costed the insulation programme at around £19 billion, they costed smart meters about £10 billion and micro generation about £20 billion. So their overall programme was going to be about, I think their number was £40-60 billion. And they said that would be financed basically through two things. The customer would not pay for this upfront themselves, it would be financed through an enhanced supplier obligation, and secondly affectively a series of soft loans from both the industry and perhaps other providers to the consumers who would get payback over a period of time. So two questions about one, what do you think an enhanced supplier obligation will be for yourselves? And secondly, would you be putting your balance sheet forward for the soft loan programme?

Answer: Sam
Good questions Peter. I mean both the current Government and the opposition have got different proposals on the table if you like for reducing the carbon emissions in the home, but also the Conservative green deal is actually more extensive than the Government's proposal. In terms of how we would finance this and in terms of what our obligation might be, I think the first important point to make is we have an existing obligation that is in the circa £200 million a year on CERT and we are the biggest spender on CERT, and that is something we wanted to internalise rather than give that margin to someone else, so that we actually turn this into a growth business for ourselves rather than outsourcing it as we have historically done in the expectation that some form of commitment will continue. And then the question is to your point, how does that end up getting passed on? We are in discussions. And is it on our balance sheet? The answer to that is we are aiming not to have it on our balance sheet. We are in discussions with a number of banks about different financing mechanisms and there are different proposals out there in terms of if you like, mortgages on the home or loans on the home that actually stay with the home as this kit, if it is more expensive micro generation kit is installed. And we are in some key discussions with third party finance providers as to the best mechanism for that. But it is not something that we, we have got a model for this in a way in what we did with the Canadian water heater fund in Ontario. That was a good example of not having it on our balance sheet.

Further question:

Can I just follow up with a general question about affordability as a discussion we have had before. You have got £50-60 billion on home energy efficiency alone, we

have £150 billion on renewables, £50 billion on networks connected with renewables. If you want to add in water, up to £250 billion, some people talk about £300 billion spend by the utilities sector as a whole. Ofgem currently says all that can be afforded with an increase in bills of between 12-24% which strikes me as a ludicrously low number. What is your sense, that if all this does get done, what impact will it have on bills? And secondly at what point will bills become unaffordable to consumers so that consumers start revolting against this?

Answer: Sam

Well I think we are some way from that. And much will depend on what happens to the bill overall. If you start to see the benefits of energy efficiency coming through, then actually bills overall, although some of the underlying costs are going up because people are using less energy, that is a mitigator. I don't think it will completely offset it, but it will certainly I think mitigate it. So I think the biggest area of concern if you take a ten year view if you like is clearly going to be around offshore wind because that is the piece that is ultimately going to be the most expensive per megawatt installed which is one of the reasons that we have been looking at ways of refinancing it and we have refinanced Lynn and Inner Dowsing and we have brought in partners for Lincs, because we actually think it is capital intensive for us and clearly bringing in partners so that we can fund the ongoing pipeline is the right thing to do. There may come a point when you know people question whether that is much more expensive than new nuclear or rather low carbon options. I think we are a long way from that at the moment because we start from the premise that actually we are behind the rest of Europe in terms of our installed renewable capacity and we have currently higher renewable commitments than the rest of Europe and therefore we are still in the catching up phase. And I think it will have to at least get caught before that debate changes.

Q5. Ed Reid, JP MorganCazenove

Ed Reid from JP MorganCazenove. Two questions kind of linked actually. Both political parties have talked about a more interventionist policy towards energy. How do you manage that risk going forward? A general question. And then secondly given that they are likely to be more interventionist, what kind of changes would you like to see in the policy programme?

Answer: Sam

I think you are absolutely right Ed, that both parties have signaled an enthusiasm for greater intervention. I think that is probably going to be tempered by their financial capacity for any new Government. And therefore I think we will have to see how we manage that. I mean I think we have deep engagement with both the main political parties and indeed the Lib Dems. So I think we just have to continue the education and actually fundamentally if you look at the big agenda which is around ensuring security of supply, ensuring that the UK de-carbonises and looking after vulnerable customers, we are well aligned. So the differences are around how you might get there. In terms of the area if you like where we would like to see the Government be proactive, and we think the Government needs to be proactive, is clearly around providing the necessary support mechanism for new nuclear. And we have got a situation where all the other low carbon technologies whether it is offshore wind with the ROCs or now with clean coal have Government support, nuclear doesn't. And you know some form of carbon price floor or redesign of the renewables levy or a combination of the two. Or a move on capital allowances. There are a number of different levers here, but I think both main political parties recognise that new nuclear has to happen. And I think they are committed to doing something about it although we won't have any negotiations and discussions in earnest until we are further along

probably with the cost estimates in nuclear and we have a new Government in place that is able to discuss it.

Q6. Luis, Cygnus Asset Management

Hi, this is Luis from Cygnus Asset Management. I had a couple of questions. First a follow up in relation to the Capex. You were mentioning £1.5 billion. How much of this would you qualify as Capex required to grow and how much to stand still or to maintain for a level of operating income? Then you mentioned that there was some capital deployed that has yet to generate earnings. Could you quantify how much capital has been deployed that is not yet generating? And then finally, you were mentioning that cashflow before Capex is about £1.5 billion. Your Capex is probably £1.5 billion, so you are not generating cashflow. What happens if your Capex suddenly one year is lower? Would you just automatically be giving it out in higher dividend or share buyback? And on the other side, what happens if your Capex is actually higher than that? Are you comfortable with a higher leverage there.

Sam:

Nick would you like to take those?

Answer: Nick

The first one was about, how much is maintenance Capex? As I said, not much of our Capex is actually on to maintain the assets and existing assets. It is only about £300 million a year. Clearly we have to spend on gas production development to maintain production level. So as Mark was outlining, the spend we have got in that projection which I guess is about a third of it in total, would be needed to maintain the production levels. The £5 billion or so I showed on the chart, so about a third of that is gas. And that would, as Mark was saying, that would broadly maintain the gas production. Now the rest of the Capex is mainly on wind and storage and so on and they would all be growth. So a billion of the £1.5 billion is growth.

And second question. How much is on capital? At the end of 2009, we only really had Langage and what we had spent on Lincs, which was not much then and the gas development portfolio. So probably about a billion and a half I would think. The point I was making was that that will go up and down depending on the timing of these new projects coming in.

And I think the last question was about the balance sheet and what happens if it is more or less. Clearly we are managing the company's finances through those ups and downs and Capex will vary from year to year depending on, and these do tend to be lumpy projects and so you know won't fall neatly at £1 ½ billion each year. And in managing the balance sheet, we can cope with that flexibility and if one year it is a bit less then we would have more capacity the following year or vice versa. I think the key point we just wanted to make and as Roger said at the outset was that everything is being assessed the whole time against would it be best to give the funds back to the shareholders. And clearly at the moment we see lots of investment opportunities and we think they will be there to invest in. But that is subject to returns when we press the button.

Q7. Thierry Bros, Soc Gen

You are growing British Gas residential. Do you want to grow it even further? So which one of the big six is going to suffer the most from this?

Answer: Sam

Ah well, I think they will all feel the pain.

Further question
I am sure you have an idea, customer switching, which are coming the most from the other one?

Answer: Sam
Yes I mean I think it is probably well known in the market place that certainly in 2009 NPower had some of the greatest difficulties, but I think we all see it is a competitive market, people adjust their prices and you know we need to be competitive against all of them all the time.

Q8. Andy Stone, Tufton Oceanic
Andy Stone, Tufton Oceanic. You signed off with strong earnings growth and superior financial returns. I would like to explore that a little bit more please. Is that relative to the sector or is it relative to past performance?

Answer: Sam
I think it will be relative to the sector. You know it is inevitably as Nick described. It will to some extent be a function of commodity prices, although what I think we showed in the presentation, in the low price environment, we have relative advantage that enables us to grow our downstream business. And it also increasingly as we move to a world where services are going to be become a more and more important part of the overall revenue stream then that actually de-correlates from commodity prices which is good. But also our upstream business, the power generation does well in low gas price environment. So it is relative to the sector, but I think ultimately we don't want to put a number on it because it will depend on the commodity price. In high prices we will clearly, our upstream business will clearly do very well and low prices will have competitive advantage relative to the sector.

Further Question
I think E.ON this week, the outgoing CEO claimed sort of 8% compound average growth rate in earnings per share over the last 8 years or so. Would that be your understanding of the benchmark going forward?

Answer: Sam
Well I think we should resist being pinned down to numbers because I don't think E.ON would be pinned down to numbers for the next five year.

Further question:
Meaning you don't think they would achieve 8% going forward?

Answer: Sam
I am saying that they are looking at an uncertain commodity price environment in the same way that we are.

Q9. Lakis Athanasiou, Evolution
Could I just explore a little bit your value proposition, bundled energy and services. The diagram you showed on profit growth seemed to be implying really not much growth in residential and it all coming through the services. To what extent is that really following on from Ed's question about the politics problems on retail and the pressures there on, is there a glass ceiling on retail margins? Is there a glass floor on churn? Also just as a little bit of follow up on that, I mean one of the major things is looking forward, is there is lower churn on energy and services combined, but

could the logic of that be that those customers who go for energy service combined are just low churn and just having energy and services combined does not necessarily give you low churn? And following on from that is that in the US, your proposition there, I mean at what stage are we really at on combined energy and services outside of the legacy of water tank of contracts in Ontario? Do you have much combined energy services offers for residential customers?

Answer: Sam

You are absolutely right. The graph that Phil showed, showed residential energy being largely flat. There are a number of factors in there really. One is we do recognise that there will be lower consumption on gas. And I think therefore that is a prudent thing to put in. It is not capped by a perception of you know, a regulatory maximum. What caps returns, if they do get capped, is actually competition and how competitive we can be in this marketplace. But we think that is a reasonable proposition and what we are saying is even if it is flat and we will certainly aim to grow the earnings in the residential business both through acquiring more customers, and you know through margin expansion by continuing to take the £100 million of cost out of the business that Phil described, then we might be able to do better than that. But I think that is a reasonable working assumption.

And to the question of churn, is it just the low churn customers are buying the services, we know, we have been trading up in value here and if you look at the average burn of those who are buying services too, we have been increasing the value propositions here. So I don't think it is actually that they buy services, the fact that we have a deeper relationship with the customer, that is causing the churn to come down rather than the other way round. So I think that is clearly the causal link.

The third part of your question which was round you know, do we have the same linkages and opportunities for cross sell in North America? You are absolutely right we clearly have them in the Ontario market where we have a well developed services business. We do not yet have as well a developed services business in the rest of North America and as Chris indicated in his presentation, North American services market is very fragmented. So that is something that we will be building in these key metropolitan hubs and deregulated markets over the next three years.

Q10. Andrew Mead, Goldman Sachs

It's Andrew Mead, Goldman Sachs. Just three basic questions on the three operational presentations. Just to make sure I have joined the dots up right. The British Gas operating profit side outlook, is that to scale? [laughter] I think it is.

Answer: Sam

I am sure everybody will be taking their ruler out.

Further question

Secondly in the North American business, you say you are doubling operating profit. Is that from the stated number in 2009 or is that the underlying number once you strip out the bad debt?

Answer: Sam

No it's the underlying number.

Further question

Lastly, in the upstream business where there are no numbers I can join up! Just to make sure that you have got the volume piece….

Answer: Sam
And the reason there aren't on the upstream, is clearly that it is more energy price cost.

Further question
I wanted to ask about the cost then, that was the thing to understand the revenue, is there any further structural change in the production cost after you have got your new portfolio?

Answer: Sam
I mean I think you saw in, I will let Mark speak to the detail of it, but you will have actually seen quite high costs in 2009 because actually Morecambe was shut in for quite a long period and therefore we had both a change in mix more North Sea fields producing as part of the portfolio and less of Morecambe which is very low cost and of course when Morecambe is shut in, actually we have some fixed costs there that continues. Therefore if you look at the numbers you will see that overall the operating costs did jump up in 2009, but when we look forward integrating the Venture portfolio, we don't see that big jump up again. Mark do you want to?

Answer: Mark
Yes the only thing I would add to that Sam is you know the projects that are in the pipeline have a broad range of costs. So you have projects ranging from Opex and Capex combined, 25 pence per therm through to 35 pence per therm. So obviously we will be prioritising and choosing goals that can feed into this portfolio at lower levels. And obviously keeping a close eye on what happens in the commodity markets.

Answer: Sam
Mark has made a very good point in that you can't just look at the Opex line for the small fields you have look at Opex, Capex combined for the life of the field? What is happening to depreciation charge as well.

Q11. Lawson Steele, Execution Noble
Lawson Steele from Execution Noble. Can I go back to your UK reserve margin outlook and perhaps dig a little bit deeper there. What assumptions are you making there about how LCPD closures, do you think there is a chance that companies can be running those quite hard ahead of 2013, higher carbon costs? And also you know you can see that by 2020 or so new Nucs might be built, but nothing in the intervening period to soften that below 15%. So I am just wondering what is going to give there? Are you just simply going to run out of electricity or is there going to be something coming on? It is difficult to rationalise why you are going to build a plant which is going to have six years or …..

Answer: Sam
Which will then be subject to intermittency. Mark do you want to?

Answer: Mark
Well LCPD is a difficult one. If you look at the coal plans today, you know their running behaviour will be a combination of how they see margins in the market, but also the option value of the number of hours they have got left. So they have to get that balance right? Do they run very fast and then lobby Government for some relaxation? Do they wait for margins to improve? So it is a very complicated picture and very difficult to predict how that would play out. The assumption that we have of course is on page 36 where we have shown a 1GW of coal plan coming off. And I guess you know in terms of what is the position with the lights being on or off, what

the chart shows on the reserve margin is that we are coming down to the 20% level by the middle of the decade. That is not a lights out scenario, it is just a tightening of the reserve margin and an improvement in spark spreads. I think the big challenge will be in probably 2-3 years time when perhaps there is more gas fire plant needed for the intermittency challenge. And the question will be then, is the market designed to reward that kind of investment. I think a lot has been written about the Ofgem report. So really in one sense all it was signalling was that although markets have worked and are working, in the future, for them to be fit for purpose, they need to adjust, so perhaps capacity payments need to come in or some other kind of mechanism. So at the moment I am not seeing this like some of the scariest stories that you read about, it is just a market adjusting to different circumstances.

Q12. Bobby Chada, Morgan Stanley

To a greater or lesser extent, most of your big five other competitors are starting some kind of service proposition as well. One of them is training up a fleet of engineers, others all talk about it. Obviously you have a lot of engineers, but how big is the competitive advantage and how long do you think it takes for someone, even if it is not a big six player, if it is a HomeServe for someone else, to really take that away?

Answer: Sam

I think the answer is, it takes a long time it is quite a big barrier to entry. It isn't just about training the engineers, although that clearly is a fundamental part of the service proposition, it is about also having the deployment systems in place so you get the maximum utilisation out of the engineers and with the density of footprint we have, our engineers can make far more service calls a day than if you have you know only a few engineers around the countryside and they spend a lot of their time in their vans. And then we have the national parts warehouse, the NDC that actually can get any part of any appliance, whether it is a washing machine, dishwasher, fridge or boiler to anywhere in the country in 24 hours, which is a substantial investment and to be fair, it took us some time to get set up and that is the transformation our business has been on for you know the last three years. So this is not an easy area to catch up on.

Further question

You mentioned changes in engineer productivity and some challenges that were presented at the local level, can you flesh that out please? Asking people to work harder and more flexibly?

Answer: Sam

I think what we are saying to our engineering workforce is you know 80% of our customers are now dual income customers, they no longer want to wait in all day for the engineer to turn up to fix the boiler. They want their boiler fixed early in the morning, late at night or at weekends. And that is going to require more flexible working patterns.

Further question

And is this something you have just started to discuss with the staff?

Answer: Sam

Well we already, Phil you might want to talk about what we are already doing?

Answer: Phil
As we will show downstairs actually, I mean 90% of our jobs are done between 9 and 5 Monday to Friday at the moment. And what we are looking to do is bring in more flexibility around rostering of what is called core hours. So an engineer will work a core hour and outside that core hour is overtime. Actually if we can shift and spread different shift patterns to different core hours, then we have got coverage for a longer period of time. That is the first one. The second one would be around engineer skills. I mean at the moment engineers have not been traditionally rewarded for acquiring more skills. LPG skills, electrical skills. And what we are trying to do is encourage them with if you like more tiering of structure for development. And that is something that we are discussing at the moment as well. I think, just one point, as a build on the density point. If you take something like smart meters, we are able to roll out gas and electric at the same time. And we are training our engineers to do both. Whereas if you are a competitor you can do the electric in your area, but you haven't got the density out of area and you haven't got the skills in gas. So you are outsourcing a lot of that to a third party, whereas we have it all within the hub and we think that is a real advantage.

Sam Laidlaw
Can I suggest conscious of the time that we just, if there are any questions. There are no questions coming in from the webcast, okay we will take two more questions then.

Q13. Chris Rogers, ICAP
Chris Rogers from ICAP. Two hopefully short number questions. Firstly what sort of quantum are we looking at for investment in the US to get to your hedge ratio so we can back out what was required in the UK? And obviously that varies with where commodity prices go, right? So what are we looking at there? Secondly, I appreciate you can't give guidance, given where the commodity prices may or may not go. But if we lock, if we assume a mark to market for where we are at the moment, so if we assume no change in the forward curves and where they are now, what are we looking at in terms of organic growth, ex commodity for the upstream business?

Answer: Sam
Well we are not going to give a profit forecast, I think that would be inappropriate for reasons I think everybody understands. But I think even what we are saying very clearly is that even with the low prices that we currently have and the forward curve that we have, we have growth in the upstream business.

North America, your question was around how much capital. I mean it will be very opportunity specific. It will depend whether, and this is all, we are not managing this to spend a certain amount of money. We are managing it to grow consistent returns. So it will depend for instance whether we buy gas reserves or whether we buy power generation and in power generation it will depend what type of power generation it is, whether it is peaking or whether it is mid merit or base load. But to give you a sense of this, if you look at the capital employed and I think it is on one of the slides of our upstream business in North America and we are currently at a 15-20% hedge and we want to double that, then we would be talking about doubling the capital employed that is in there, and this is over a 3-5 year period and it has to compete with other opportunities we have in the UK and that is the important point. We are not managing this saying we have got to spend a certain amount of money in North America. We will only do it if the returns are there.

Q14. Mark Freshney, Credit Suisse

Thanks, it's Mark Freshney from Credit Suisse. I just have a question, slightly beyond the Capex period that you highlight on the new build nuclear. That is probably the single biggest thing you know and it has slightly gone beyond the horison, but I guess firstly, is it a bit premature to be talking about potentially returning cash to shareholders if you don't know what the new build cost is going to be and if it is some years out? And I guess secondly, I know that there is an agreement with EDF, you have to work with them on the first one, or you might not be able to work with them on the remaining three. Does that not impose like a constraint and does that make it difficult for you to really see returns and cashflows going back to shareholders until after then?

Answer: Sam

Well I mean, I think you are on an interesting point, but actually when you look at our agreement with EDF and we have been very clear about this. It is an option to participate, not an obligation and you are right, yes if we drop out then it makes it more difficult for us to get in back with them later on in new nuclear. So it is an important decision. But I think you also have to look at you know the spend on nuclear which will be phased over, for each plant over a five to six year period. And our 20% share of it is actually is digestible. Now if we got to a point where actually we could not see the returns and whether or not EDF saw the returns, they may be in the same situation and they may conclude actually it needs a better carbon price or whatever and therefore we both pull back and have a further negotiation with the Government. Or it may be that we both think the returns are there. I think the possible, but least likely scenario is that they will wish to proceed and we won't wish to proceed, but if that happens then clearly we would have the opportunity also of giving money back to shareholders.

Closing Comments

I think I would suggest at this point that we conclude the formal Q&A, take a break. Thank you very much for your patience, you have all been very forbearing as the temperature of the room has warmed up. What we are going to do now is break into three groups. You should all have a coloured lanyard, which on the back of it will have your programme as to which group you are in. If I could ask everybody to leave this room because we are going to get rid of the chairs and change the format of it. This will then become the room for those who are going to see Direct Energy first. On this floor is the room for those who are going to Centrica Energy. And downstairs where you began this morning will be the British Gas room. So back down the stairs. But please take the opportunity to have a cup of coffee, have a bit of a break beforehand and the formal proceedings restart in twenty minutes. Thank you very much.

End of Presentation