

Direct Energy Investor Day

28 June 2011



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Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

Sam Laidlaw

Chief Executive



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Agenda

09:00	Introduction	Sam Laidlaw
	Update on strategy and progress	Chris Weston
	Financial context	James Spence
	Q&A	All
10:45	Coffee break	
11:30	Market environment	Badar Khan & Maura Clark
12:30	Lunch	
13:30	Line of Business presentations	
	DE Residential	Steven Murray
	DE Business	Maura Clark
	DE Services	Eddy Collier
	DE Upstream	Badar Khan
16:30	Close	Chris Weston

Our Strategic Priorities

- 1 Grow British Gas**
... leading the transition to low carbon homes and businesses
- 2 Deliver value from our growing upstream business**
... securing sustainable energy for our customers
- 3 Build an integrated North American business**
... with leading positions in deregulated markets
- 4 Drive superior financial returns**
... through operating performance and our investment choices

energy for a low carbon world

Centrica and the role of North America

Attractive growth opportunity

- Large profit pools
- Key positions in evolving competitive markets
- Continued demand and household growth

Leverages Group expertise

- Managing a vertically integrated business
- Core competencies in competitive retail markets
- Opportunity to develop services propositions

Invest for growth and value

- Reduces exposure to the UK market environment
- Disciplined investment to deliver growth for the Group

Good progress to date

Over 10 years experience in North America

- Contributing c.10% of Group operating profit and delivering above cost of capital returns

Profitable downstream businesses in key markets

- Transformation of the residential energy business
- 3rd largest C&I power supplier in North America
- Leading energy services presence in highly fragmented market

Enlarged upstream gas business

- Acquisitions concluded in low price environment
- Reduced cost of production

Well positioned for further growth

Strong financial track record under new management

- Successful integration of value adding acquisitions
- Good progress towards doubling the size of the business through organic growth and acquisitions

Further significant growth potential, organically and through acquisitions

- Building on our existing businesses in core competitive markets
- Leveraging our core capabilities
 - to achieve retail leadership in our target markets
 - to invest upstream for vertical integration
 - to develop services propositions
- Continued capital discipline

Value creation and growth for the Group

Chris Weston

President and CEO, Direct Energy

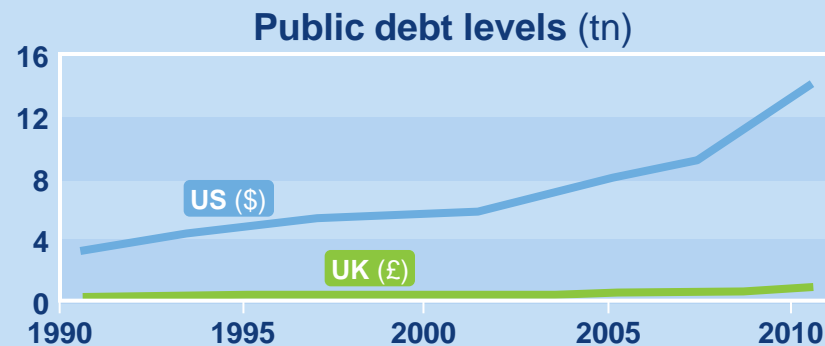


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Economic environment

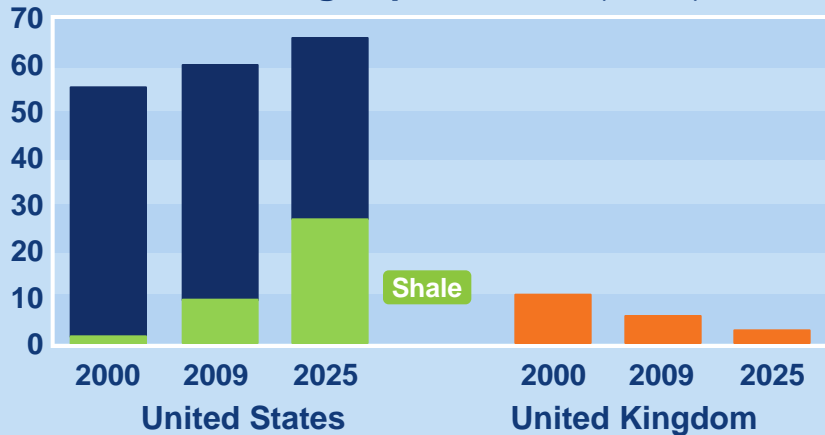
- Steady economic growth
 - recent US unemployment figures have raised some concerns that recovery may be slowing
- Political focus on debt and budget deficits
 - energy is not a top priority
 - state regulatory environment continues to evolve
 - no federal climate change legislation
 - Environmental Protection Agency (EPA) impacting retirements



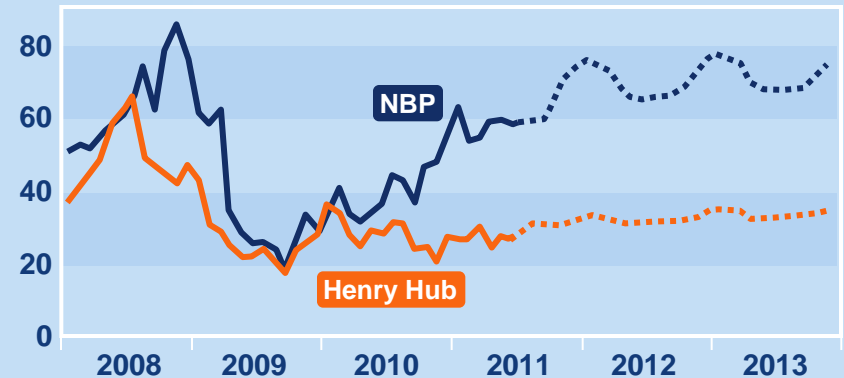
Note: GDP and Unemployment data sourced from UK and US government departments
Debt levels stated in nominal dollars, GDP is the average of all analysts' forecasts tracked by Bloomberg

Upstream gas

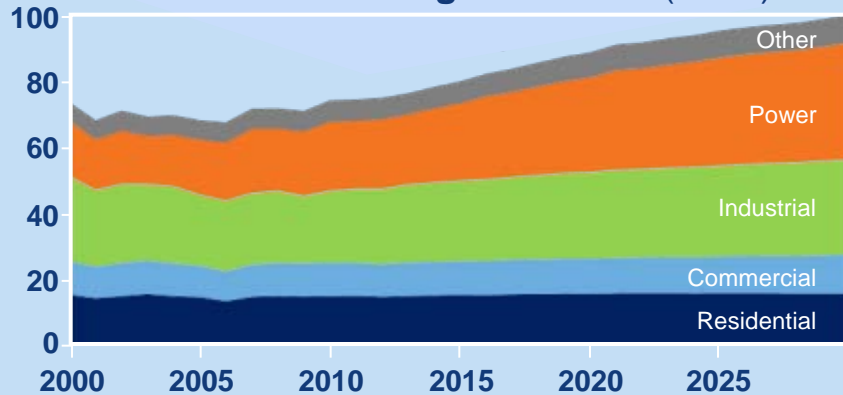
Annual gas production (Bcf/d)



Commodity prices (p/therm)



North American gas demand (Bcf/d)



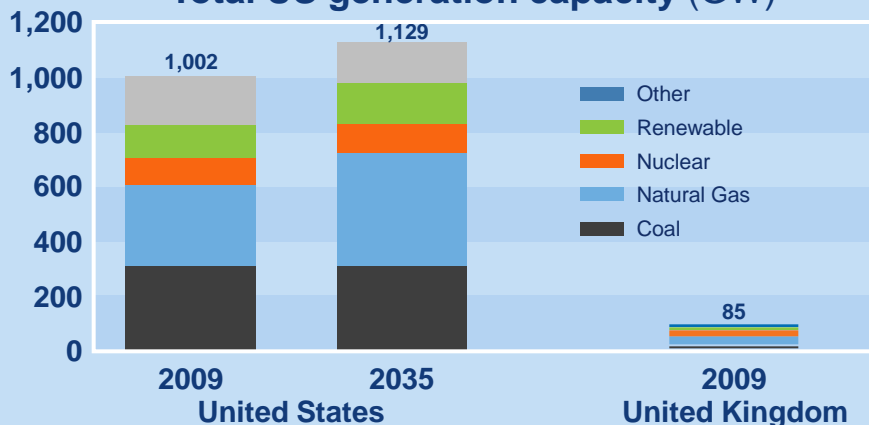
- Profit pool of c. US\$25 billion¹
- Driven by shale, gas price has disconnected from global gas market
- Demand growth principally driven by generation
- Plentiful supply expected to drive
 - continued low energy prices
 - greater role for natural gas in the economy

Sources: UK Office for National Statistics, DECC, US Energy Information Association (EIA). Natural gas demand from Wood Mackenzie – North America Gas Service

Note: North America refers to US and Canada throughout the materials; Nymex spot prices as of 9 June 2011; forward curves are month ahead prices; gas production is marketed production; ¹Operating profit from North American production, excluding Gulf of Mexico

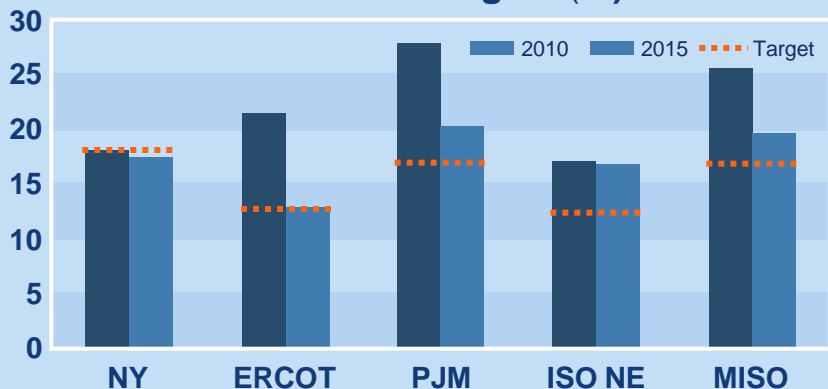
Power generation

Total US generation capacity (GW)



- US profit pool of c. US\$15 billion¹
- Reserve margins expected to fall
- Coal oversold; expected to remain key part of generation
- Gas the pragmatic solution to climate change
 - gas fired and renewables drive new build
 - EPA rules expected to eliminate inefficient smaller coal plants
 - no new nuclear build in past 20 years

Reserve margins (%)



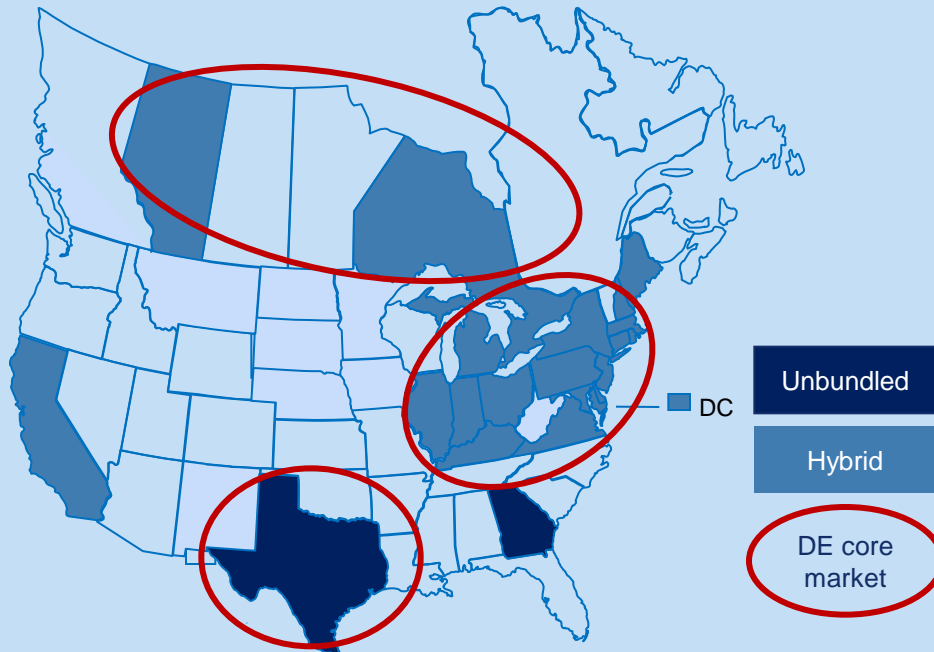
Sources: UK Office for National Statistics, DECC, EIA, ISO/RTO Council, NERC "2010 Summer Reliability Assessment"

Note: ISO = independent system operator; ERCOT reserve margins defined as "percentage by which available capacity is expected to exceed forecasted peak demand"

¹Operating profit from deregulated generation in the ISOs in the US

Retail: dynamic regulatory landscape

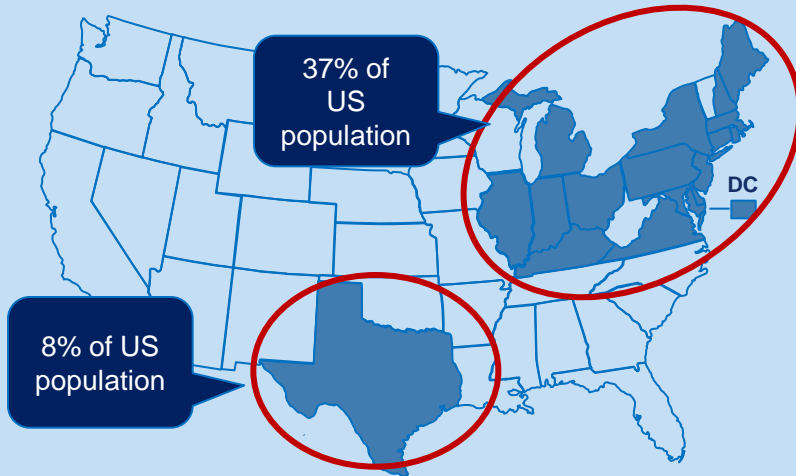
Restructured residential markets



- Three types of regulated market structure:
 - regulated
 - unbundled
 - hybrid
- Growth is driven by restructuring and economic activity
 - pace of restructuring varies
- Increasing political consensus regarding the benefits of competition in energy markets

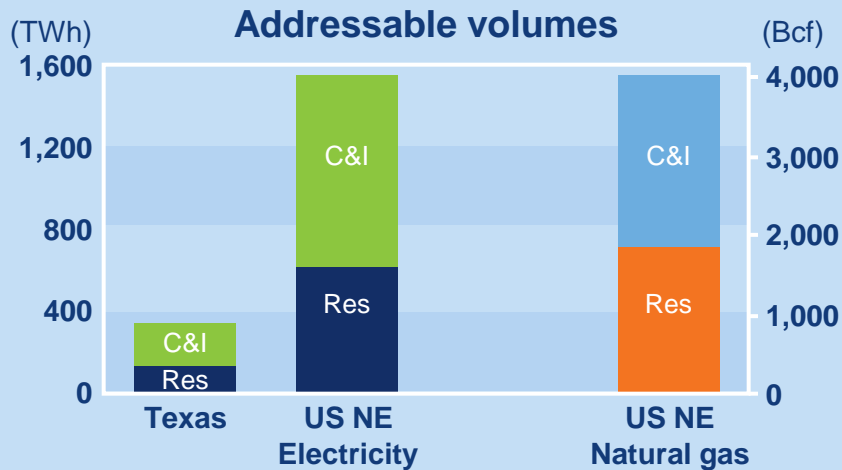
Source: KEMA Retail Energy Outlook, May 2011

The US Northeast and Texas are key growth markets



US Northeast

- Largest energy market in the world
 - generating capacity: 340 GW
 - gas demand: 4 Tcf
- Retail energy profit pool¹ of \$7 billion
- Utility default service
- Residential electricity sales expected to more than double in 5 years



Texas

- Retail energy profit pool¹ of \$1.5 billion
- Largest state power market in the US
 - generating capacity: 104 GW
- High average power consumption (3x UK)

Sources: EIA, KEMA Q1 2011 "Retail Energy Outlook"
 Note: ¹operating profit

Direct Energy management team

Chris Weston
President &
CEO



Steven Murray
President
DE Residential

James Spence
Chief Financial
Officer



Maura Clark
President
DE Business

Anna Filipopoulos
EVP Human
Resources



Eddy Collier
President
DE Services

Adèle Malo
EVP Legal and
General Counsel



Badar Khan
President
DE Upstream

Direct Energy: established expertise and platform in North America

Downstream

DE Residential

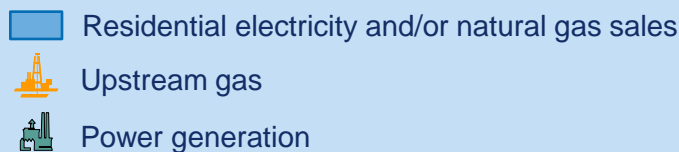
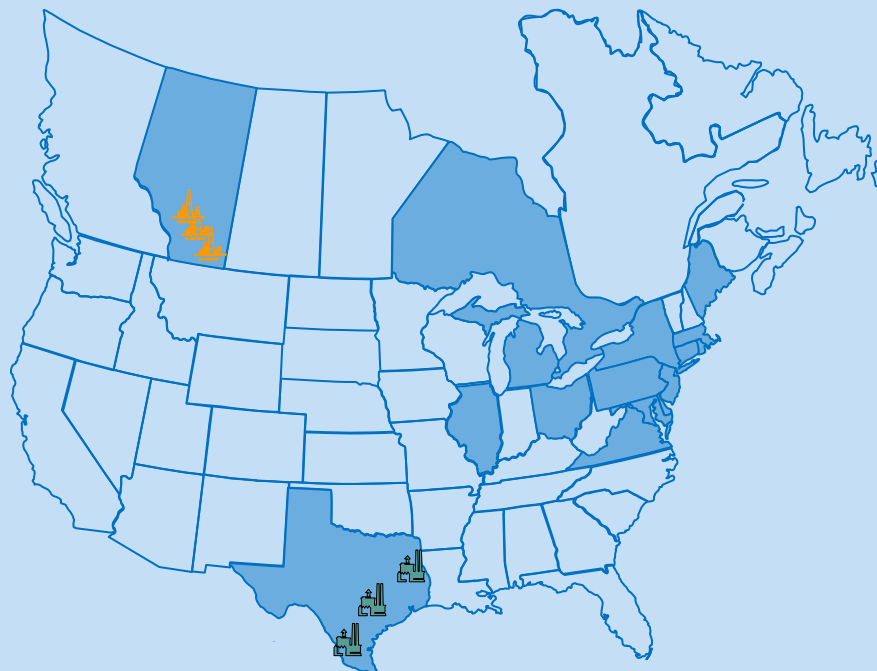
3m customers in
Canada, Texas, US
Northeast

DE Business

Number 3 in North
America
40 TWh and 63 Bcf

DE Services

2.8m residential and
business services
customers



Upstream

Upstream Gas

4,600+ wells
60 Bcfe/year production
618 Bcfe reserves (2P)

Power Generation

Three CCGT plants
(1,215 MW)

Note: DE Residential customers include Gateway; DE Upstream includes 2011 acquisition of further Wildcat Hills assets; DE Business volumes are 2010

Centrica capabilities, North American opportunities

Regulatory/ government relationships

- Established working relationships with government and regulatory bodies

Retail operations excellence

- Sales & marketing
- Customer experience/
propositions/
segmentation
- Effective low cost platform

Managing an integrated business

- Gas and power upstream capability
- Managing across the commodity cycle
- Retail procurement and risk management

Positioning for a low carbon future

- Services capability
- Smart energy and smart meters

North American strategy:

. . . building a scale, vertically integrated business

IMPROVE
returns from
existing
business

- Drive operational excellence and cost efficiency
- Be the most recommended provider

GROW
scale and
leadership
downstream

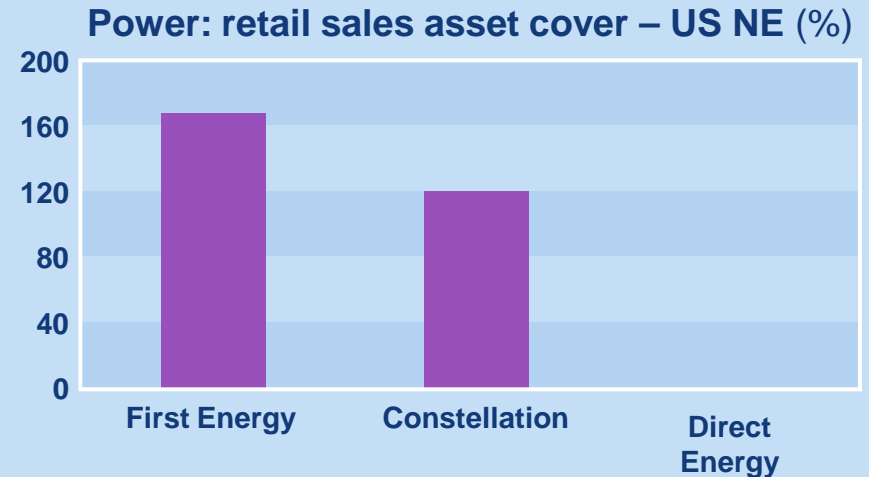
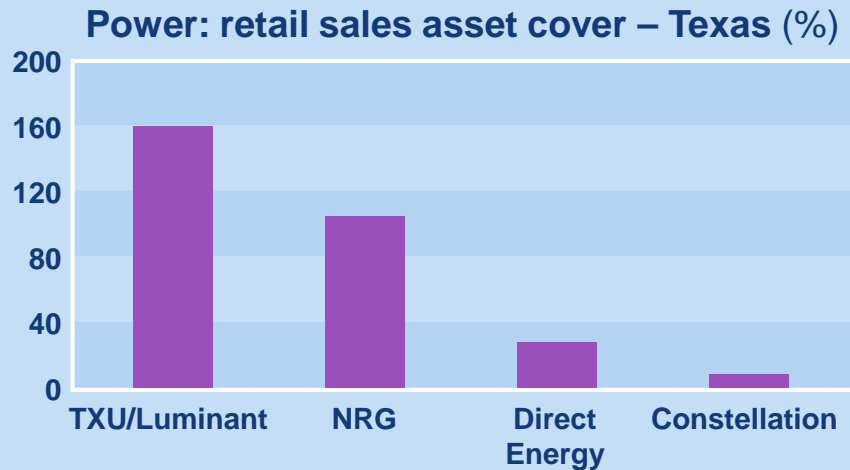
- Achieve leadership in each of our core markets
- Build a single pan-North American Services platform
- Leverage energy-services overlap

INVEST
in upstream
for integration
and value

- Continue to invest in our upstream gas business
- Invest in generation to support core retail markets
- Achieve 35-40% cover

The value in vertical integration

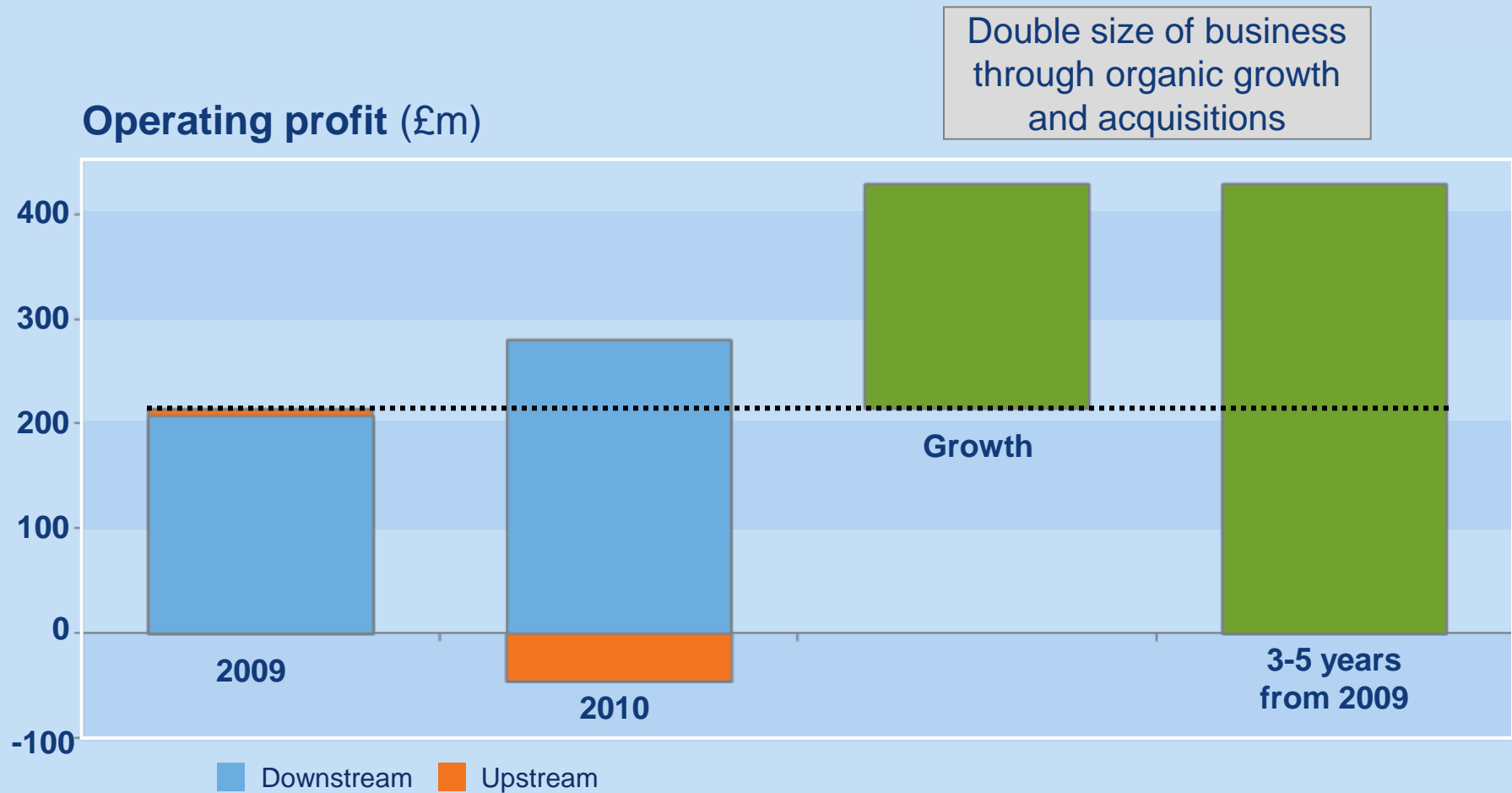
- Upstream assets and retail positions provide an advantage across the cycle
 - earnings stability and growth, during periods of volatility
 - reduced transaction costs
 - enhanced portfolio optimisation
 - reduced collateral requirements
- Our competitors typically have higher asset cover
 - Direct Energy targets 35-40% cover



Sources: Annualised load sourced from KEMA's retailer landscape, March 2011

Note: Power cover assumes 50%/60% capacity factor for residential/C&I respectively; all figures based on 2010 data

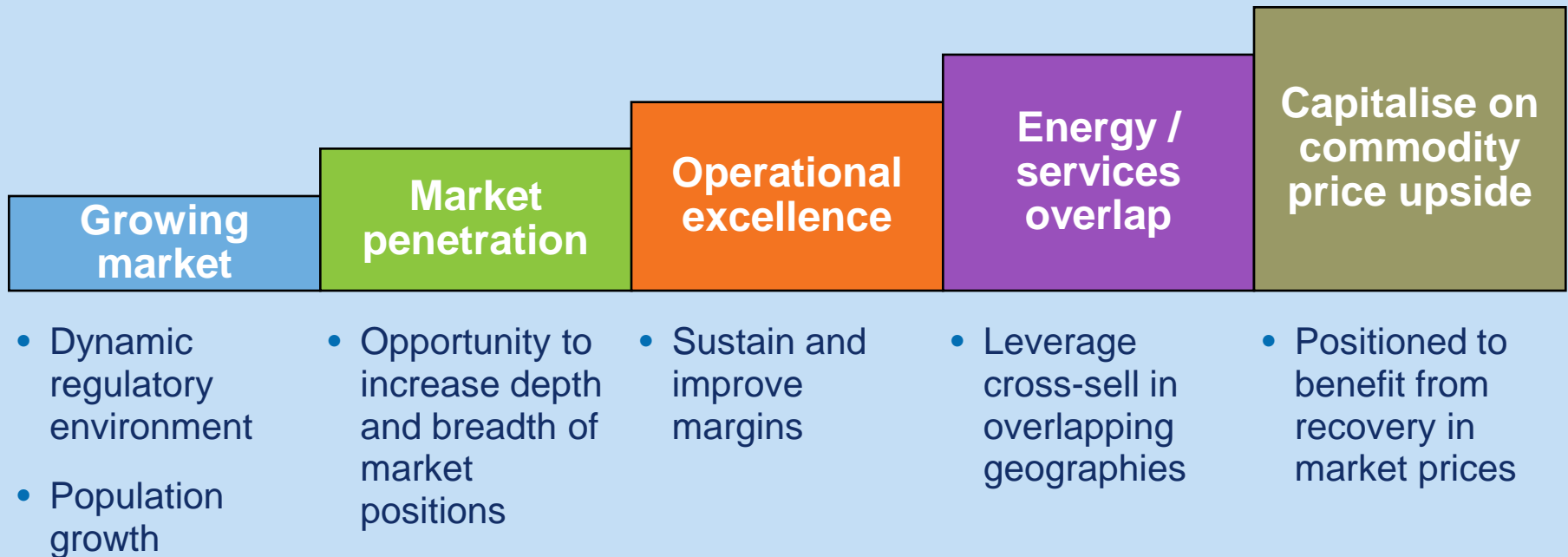
Doubling our business



Note: 2009 operating profit stated before £61m of one-off charges

North America – platform for growth

A strong set of growth drivers supplemented by further acquisitions



DE Residential

Progress

- Texas transformation
 - consolidated platforms
 - reconfigured channels
 - improved cost to acquire
 - prepaid
- US Northeast growth
 - doubled customers from 2008 to 800k
 - almost 30 market entries in 16 months, including Gateway markets
- Improved Ontario cost base

Challenges

- Largest in North America, but neither number 1 or 2 in core markets
- Brand awareness and billing relationships
- ECPA¹ in Ontario
 - sales and retention
 - cost base

Opportunities

- Further leveraging North America scale
- Significant growth potential in US Northeast
- Continued organic and acquisitive growth
 - leveraging Texas prepaid platform in other markets
 - potential acquisitions

Note: ¹Energy Consumer Protection Act

DE Business

Progress

- Strong profit growth
 - operating profit more than doubled in 2010
- Improved margins
- Market leadership
 - number 3 retailer in North America
 - customer satisfaction
 - NPS 24 (2010) vs. 7 (2009)

Challenges

- Competition intensifying
 - consolidating market, with competitors becoming larger and more vertically integrated

Opportunities

- Small business growth
 - product portfolio catering to underserved segment
- Non-commodity offerings (360Direct)
 - demand response
 - energy management
- Operational and scale efficiencies
- Further acquisition opportunities

DE Services

Progress

- Transformation through Clockwork acquisition
 - number 1 services provider in a highly fragmented market
 - doubled services and energy footprint overlap
 - strong brands
- One North American services platform
- HS&E improvement
 - 87% reduction in Clockwork LTIF¹
- Improved US NPS to 70

Challenges

- Weak housing market, in new build and in housing prices
 - impacts household spend, including heating and cooling
 - impacts new residential build

Opportunities

- Large market: 130 million households and a potential services revenue pool of \$75bn
- Protection plan and franchise expansions
- Further penetration of the largest US metro areas
- Market fragmentation presents consolidation opportunities
- Cross-sell opportunities between energy and services, leveraging UK experience

Note: ¹LTIF: lost time injury factor

DE Upstream

Progress

- Increased gas asset cover to c.35%
 - Wildcat Hills: C\$367m
 - further Wildcat Hills assets: C\$47m
- Low cost gas production
 - top quartile in WCSB
- Improved retail procurement capabilities and efficiencies
- Improved asset utilisation

Challenges

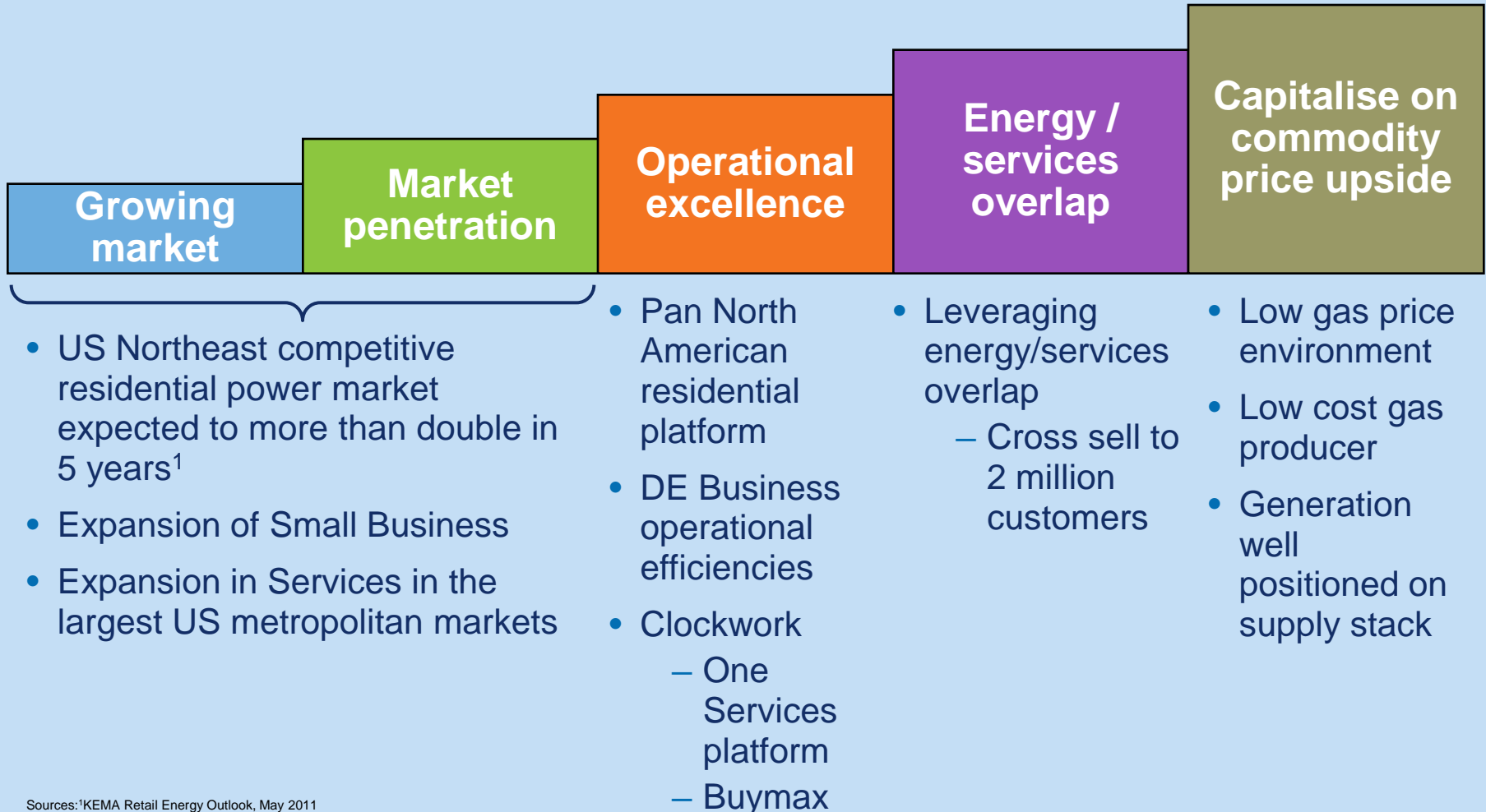
- Low commodity price environment
 - impact on near term earnings
- Scale and diversity

Opportunities

- Further upstream gas investments in the Western Canadian Sedimentary Basin (WCSB)
- Wildcat Hills: horizontal drilling and fracing expertise
- Increase generation asset cover

North America – platform for growth

A strong set of growth drivers supplemented by further acquisitions



Sources: ¹KEMA Retail Energy Outlook, May 2011

Build an integrated North American business ... with leading positions in deregulated markets

Good progress to-date

- Organic growth, operational efficiencies, and value-adding acquisitions

Well positioned for further growth

- Increase penetration in dynamic retail markets
- Further grow C&I, especially small business segment
- Leverage services potential
- Drive further operational efficiencies

Building the business downstream and upstream, to achieve scale

- Achieve retail leadership by becoming number 1 or 2 in our chosen markets
- Achieve 35%-40% upstream cover

Disciplined approach to further investment

- To deliver value for the Group

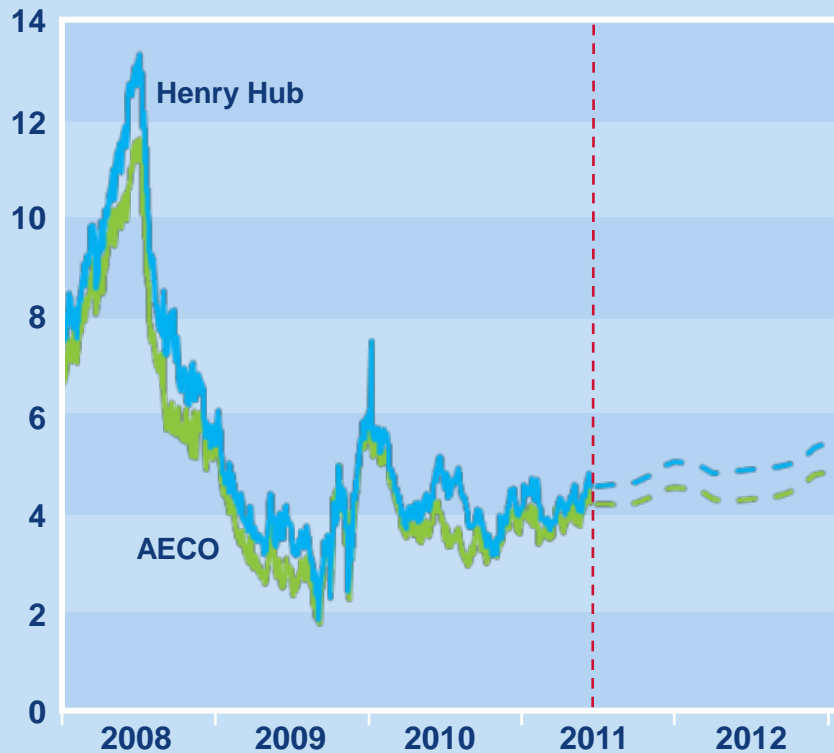
James Spence

CFO, Direct Energy

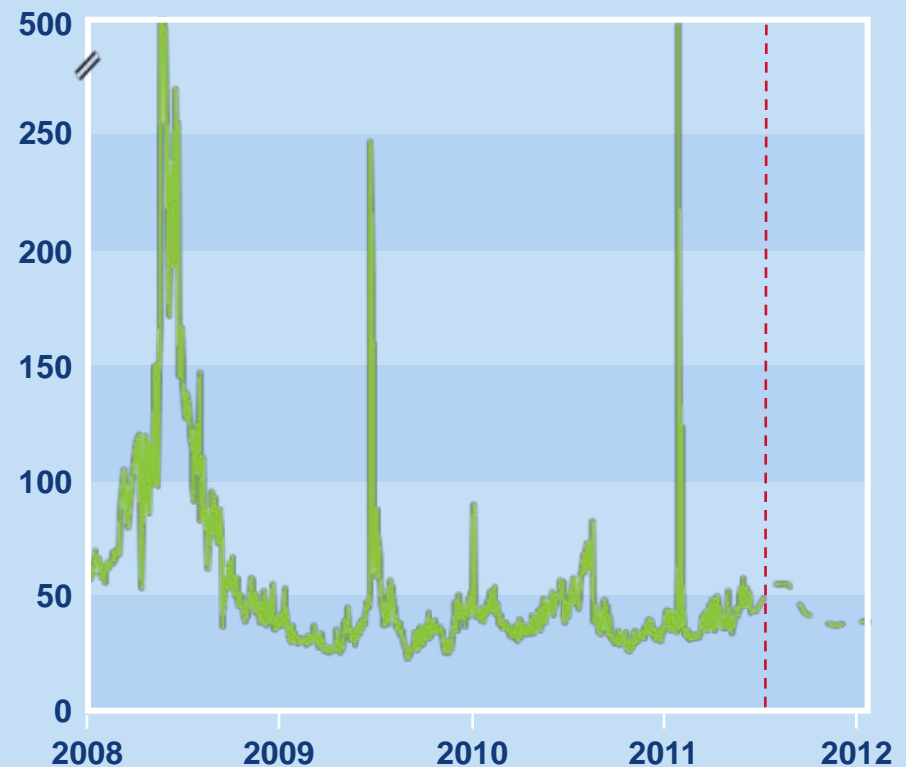


Energy prices

AECO and Henry Hub gas prices
(US\$/MMBtu)

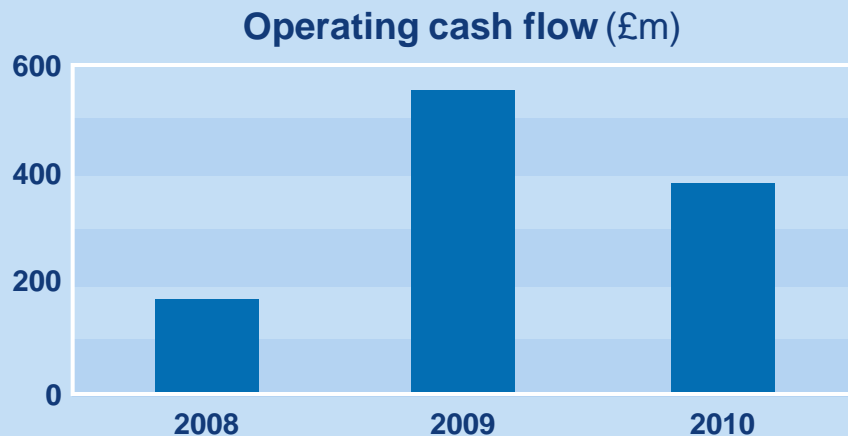
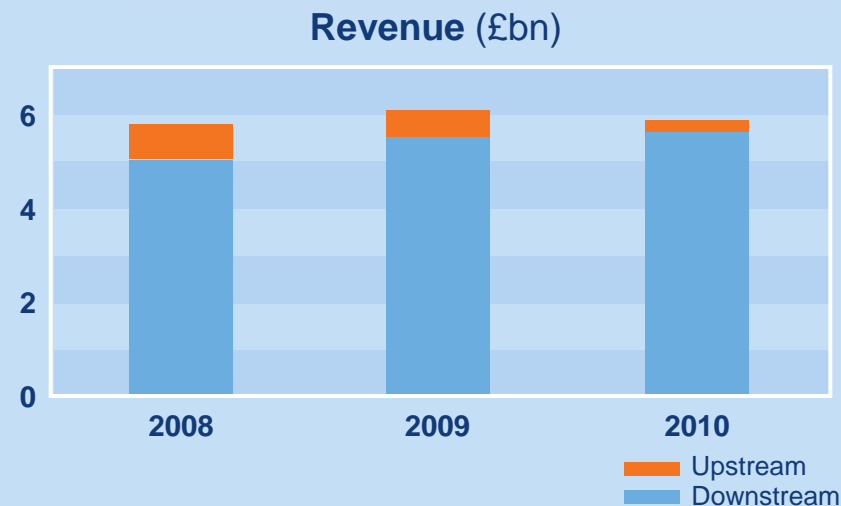
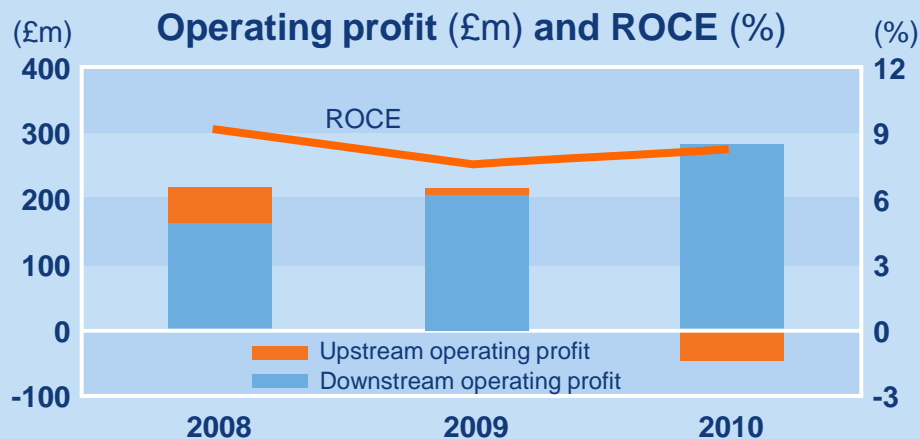


ERCOT South on-peak power price
(US\$/MWh)



Note: AECO is the Alberta gas hub price

DE Consolidated

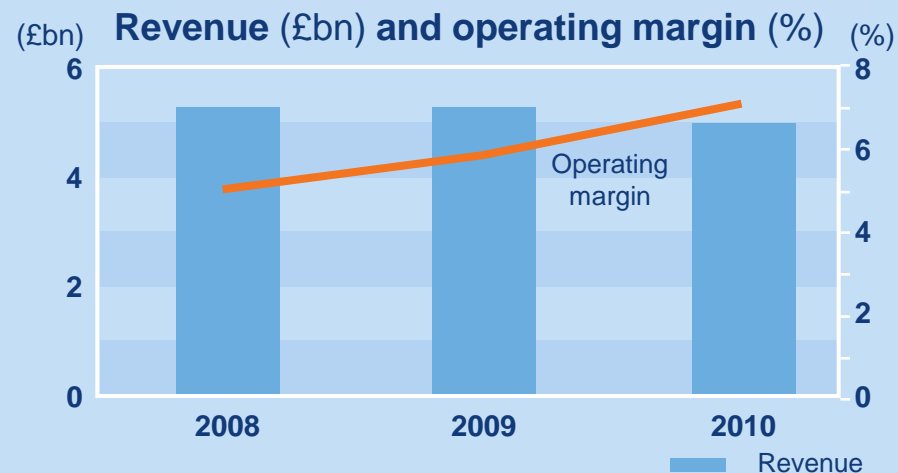
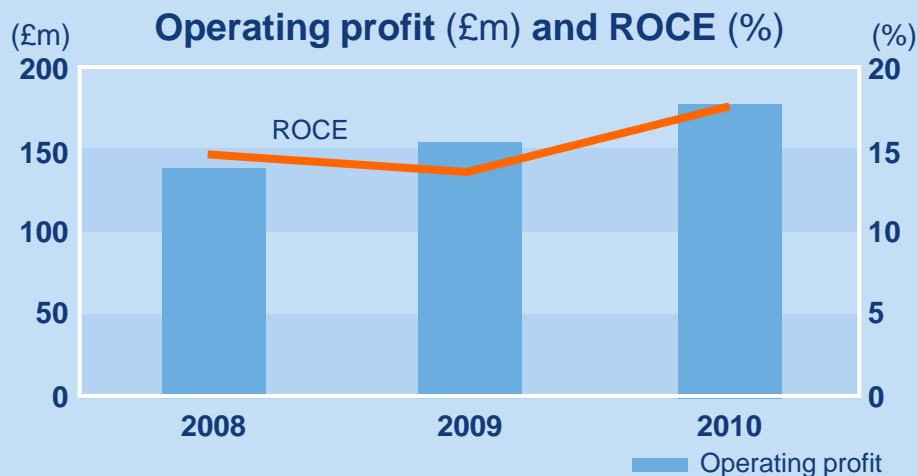


Drivers of future growth

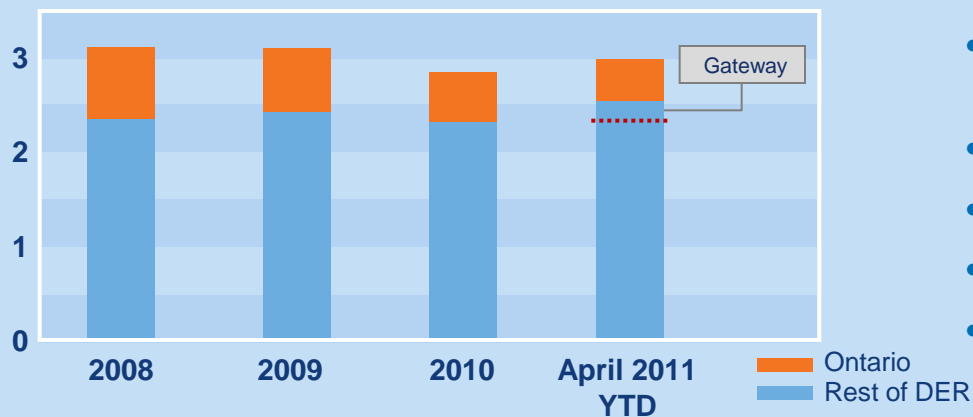
- DE Residential well positioned in key growth markets
- Continued DE Business growth
- Transformed Services platform
- Improved upstream cost structure following Wildcat Hills acquisition

Note: 2009 operating profit and ROACE are stated before £61m of one-off charges; operating cash flow excludes margin cash movements

DE Residential



Customers (m)

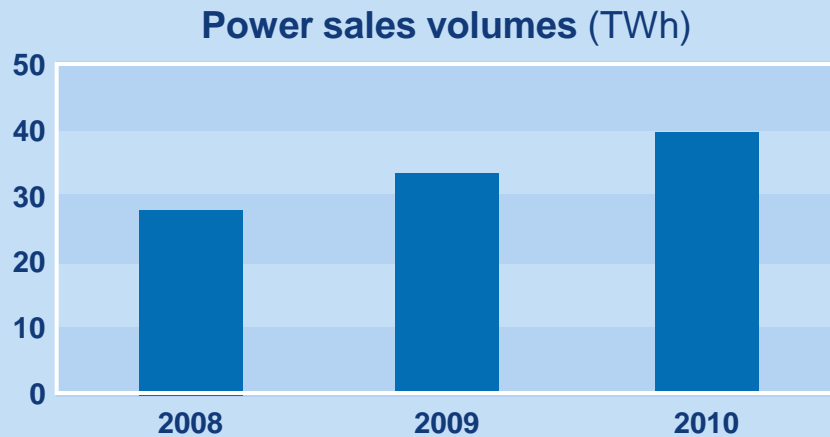
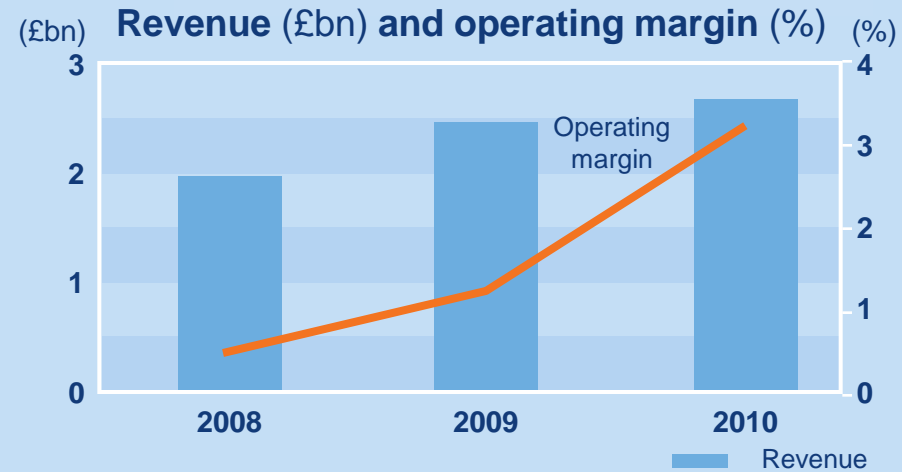
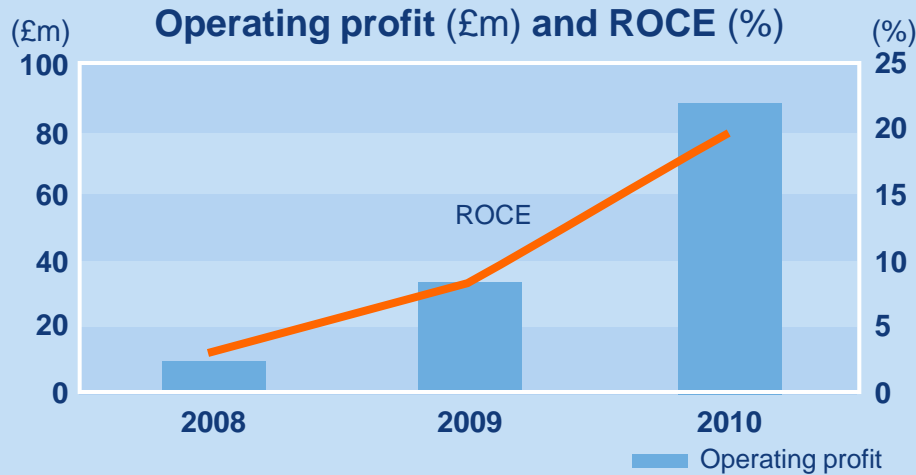


Drivers of future growth

- Texas transformation (platform consolidation)
- Improvement in cost to acquire
- Reconfigured sales channels
- Further US Northeast market penetration
- Further potential acquisitions

Note: 2009 operating profit and ROACE are stated before £61m of one-off charges

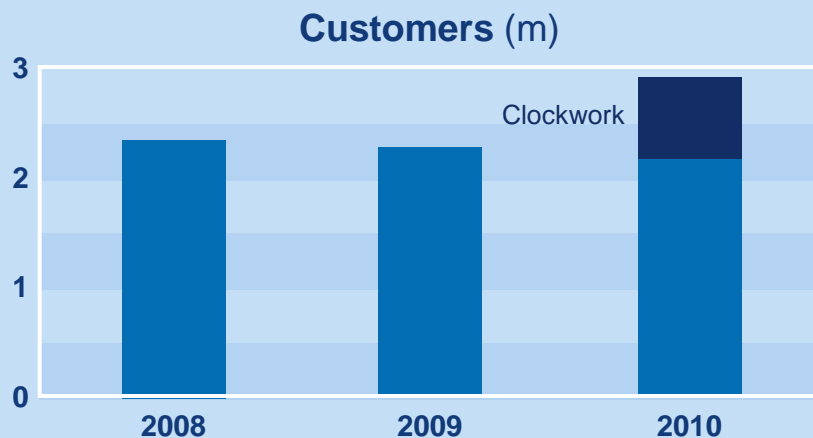
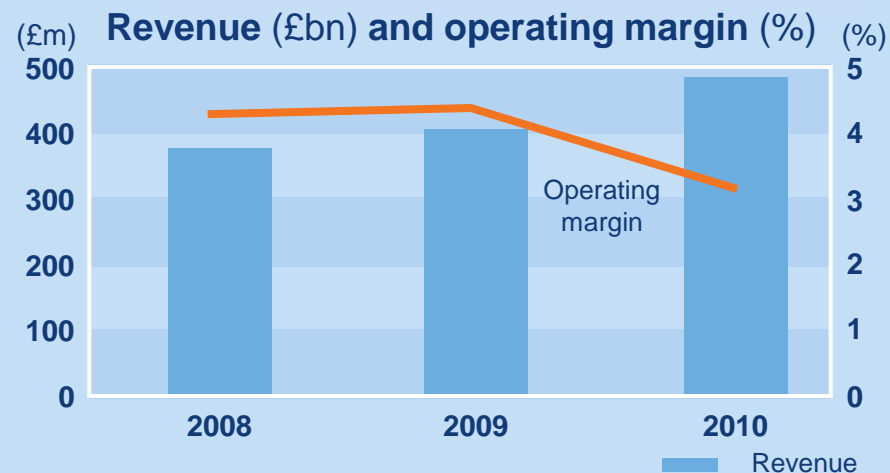
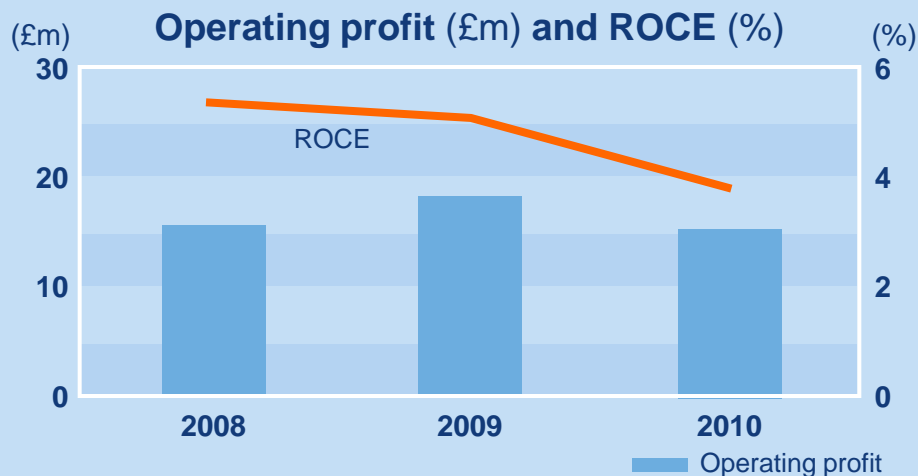
DE Business



Drivers of future growth

- Continued sales growth, with a focus on the Small Business segment
- Continued operational efficiency improvements

DE Services

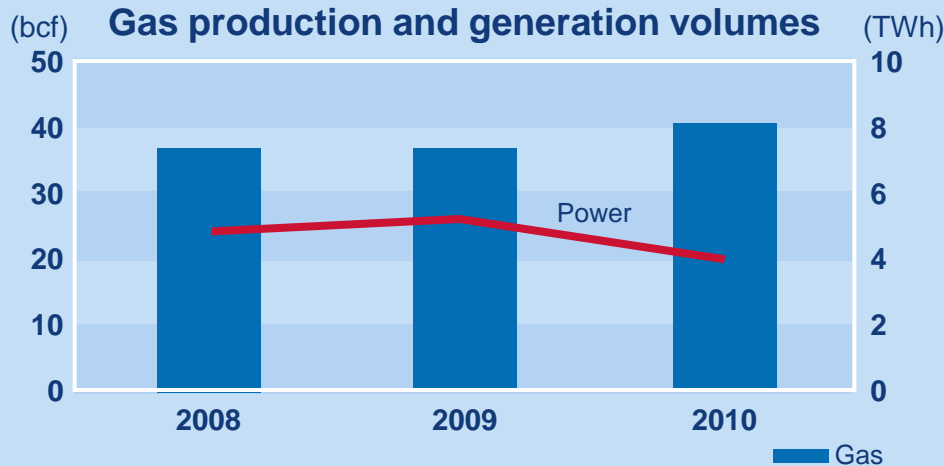
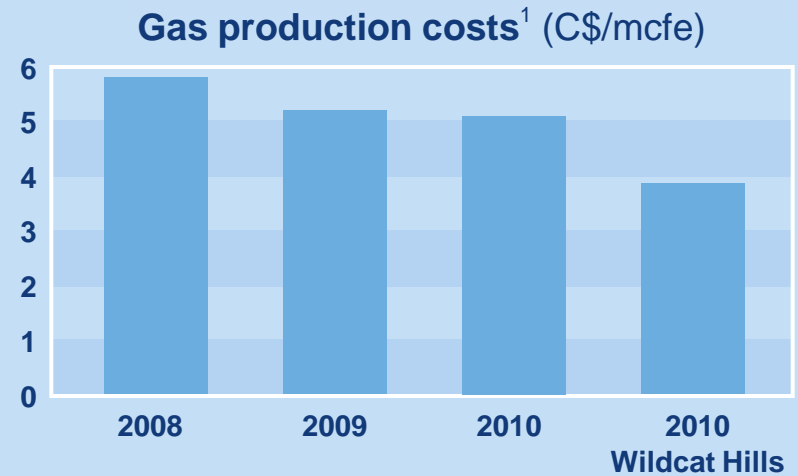
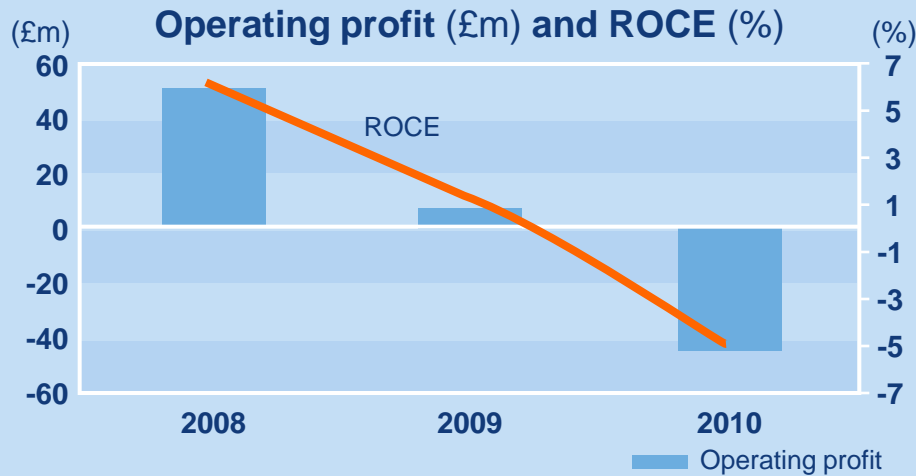


Drivers of future growth

- Clockwork provides platform for growth and further consolidation
- Cost improvements
- Protection plan growth, leveraging cross-sell opportunities

Note: Customer numbers include contract relationships and on demand jobs

DE Upstream



Drivers of future growth

- Wildcat Hills
 - lower production cost
 - leverage acquired infrastructure
- Increased focus on power generation profitability
- Commodity price upside

Note: Gas production costs include production costs, royalties, operating expenses and DD&A

History of successful acquisitions, contributing to growth

Strategic Energy

Jul 2008: US\$300m (£151m)

- Scalable platform for growth
- Doubled DE scale in C&I power: number 3 in North America
- Operating Profit growth (less than \$20m in 2008 to over \$140m in 2010)
- Value adding products



Platform to build scale for business energy

Clockwork

Jul 2010: US\$183m (£122m)

- Established brands
- Franchise model
- Expansive footprint
- Market leadership position
- Enabler for energy/ services offering



Transformed scale and footprint for services

Wildcat Hills

Oct 2010: C\$367m (£218m)

- Gas production costs of C\$3.86/mcfe, 26% lower than 2009 DE legacy costs
- Opportunity to apply horizontal-drilling and fracking technology
- Delivered gas asset cover of c.35%



*Operational efficiencies
Technical expertise*

Note: Gas production costs include production costs, royalties, operating expenses and DD&A

Build an integrated North American business ...with leading positions in deregulated markets

Good progress to-date

- Earning returns above Group cost of capital
- Strong cash flow

Well positioned for further growth

- Profitable, organic growth across all our businesses

Building the business downstream and upstream, to achieve scale

- Making progress on vertical integration

Disciplined approach to further investment

- Strong record on acquisitions and integration

Q&A



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Market Environment

Badar Khan, President, DE Upstream



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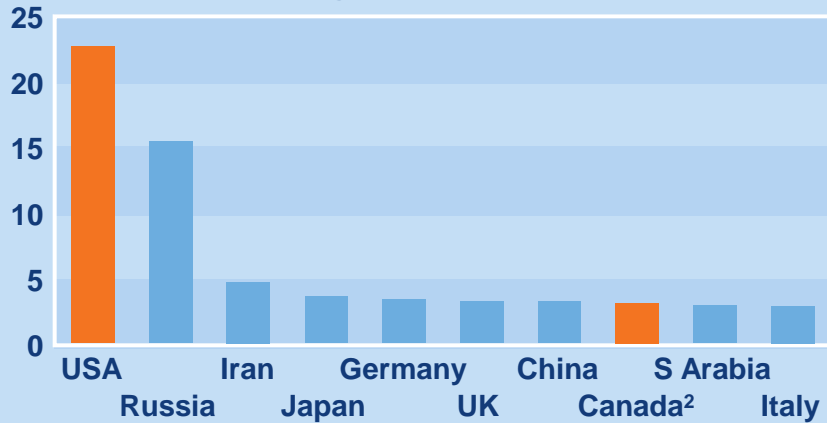
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Upstream power and natural gas: Summary

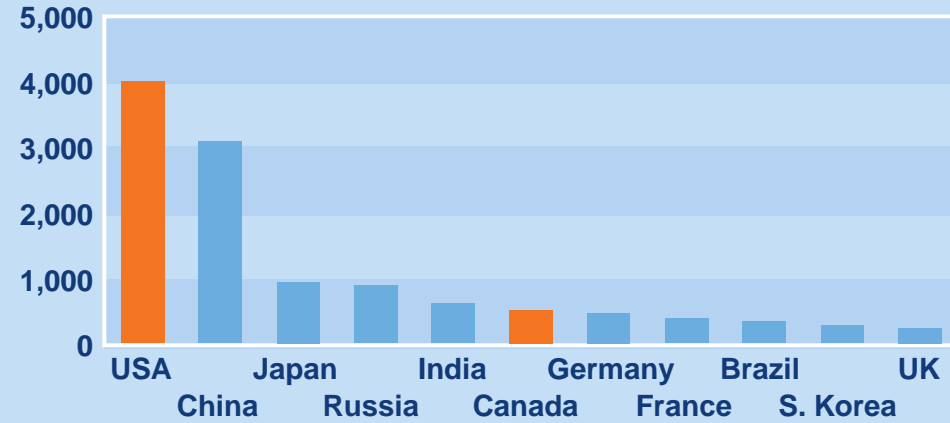
- Large domestic resource base
 - shale phenomenon driving excess supply
 - North America has disconnected from global gas prices
- Growing natural gas and electric power demand
 - gas-fired generation major driver of gas demand growth
- Diverse generation fuel mix for power generation
 - coal and natural gas will continue to be the major fuels
 - crisis in Japan has resulted in a ‘pause’ in nuclear investment
- Continental natural gas market; regional electricity markets

North America has the world's largest gas and power markets

Annual gas production¹ (Tcf)



Annual generation (TWh)

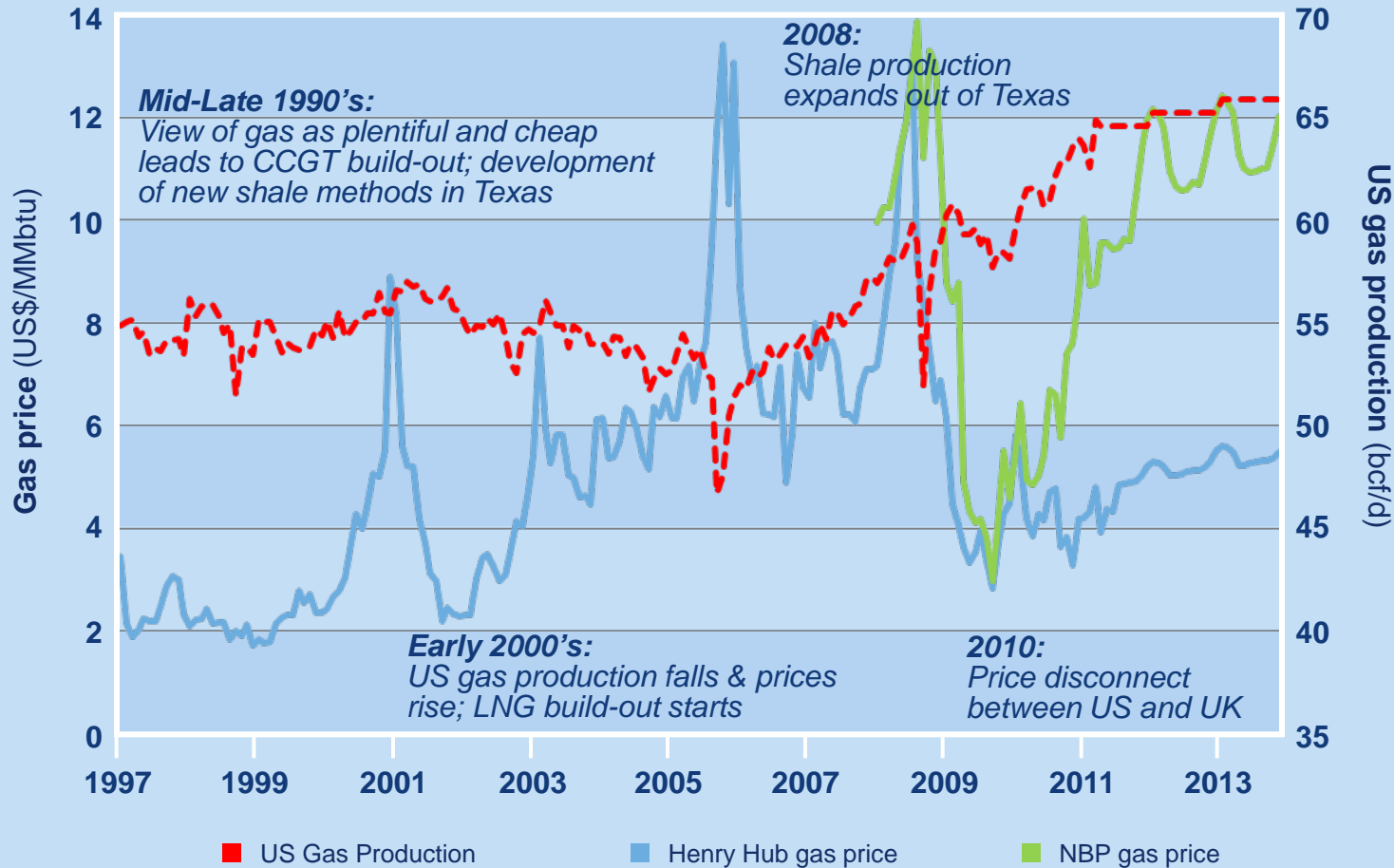


- Large domestic natural resource base – rich in natural gas and coal, with significant renewable potential in wind, solar, geothermal and hydro
- Well developed and integrated infrastructure linking supplies to markets (200,000 miles of large interstate pipelines and roughly 4 Tcf of storage)
- Interconnected energy markets – Canada exports 47% of its production to the US, representing 85% of all US gas imports; electric markets cross state and country borders

Sources: EIA.

Note: ¹ Gas production is marketed production; generation data is for 2008; ² Canada production excludes gas reinjected for oils sands production (c.2Tcf)

North America has disconnected from global gas prices

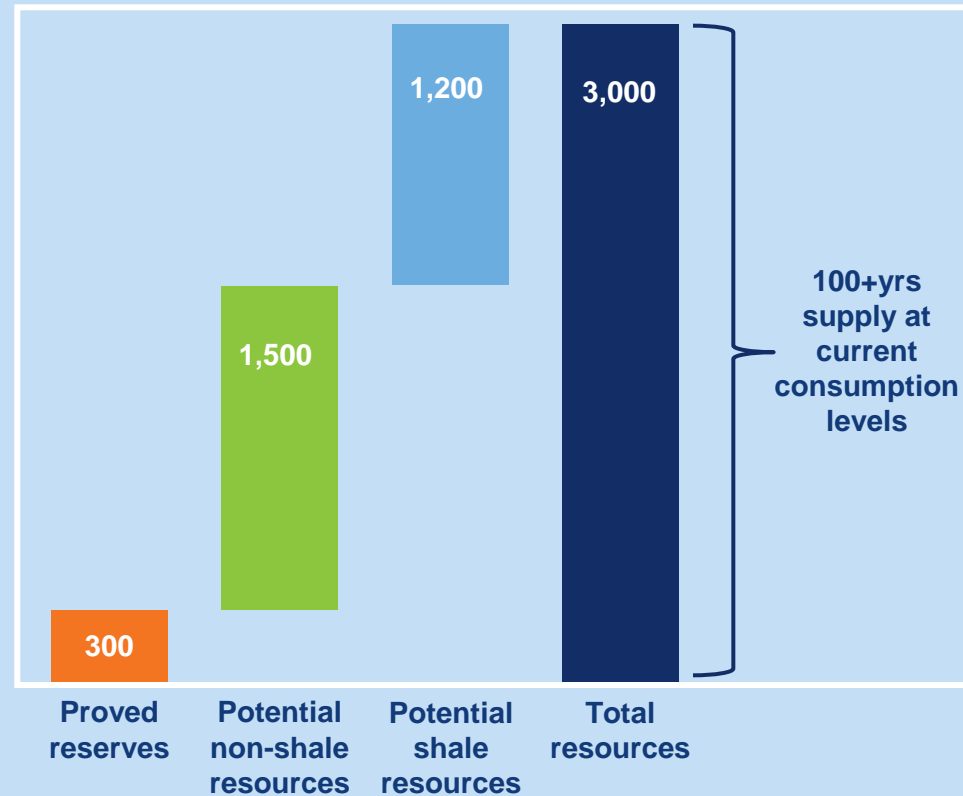


Sources: Spot prices as of 9 June 2011; forward curves are month ahead prices; gas production is marketed production

Shale has changed the game . . .

- Over one-third of natural gas resources have been identified since 2006
- North America has secure natural gas supplies for the foreseeable future
- The estimated resource base continues to climb as new shale basins are evaluated

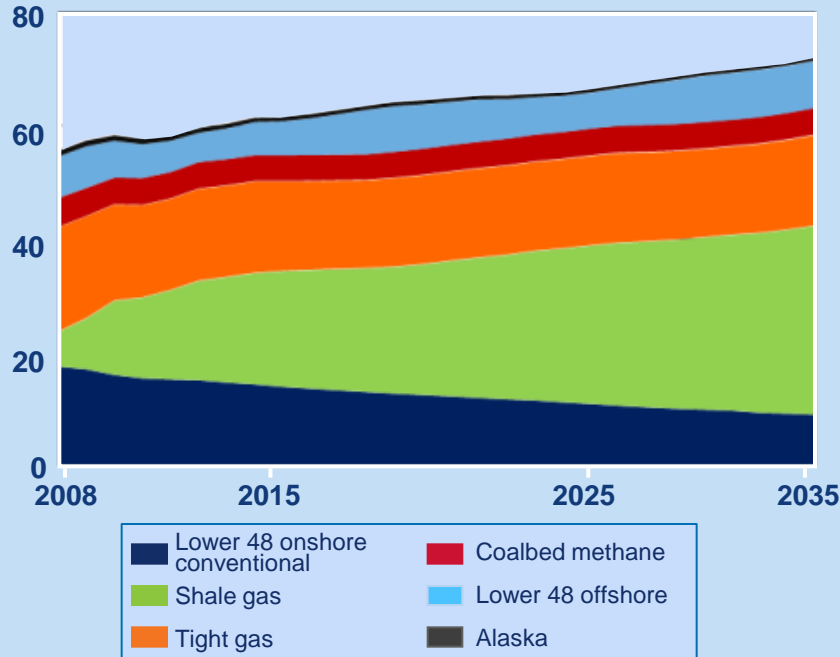
North American natural gas (Tcf)



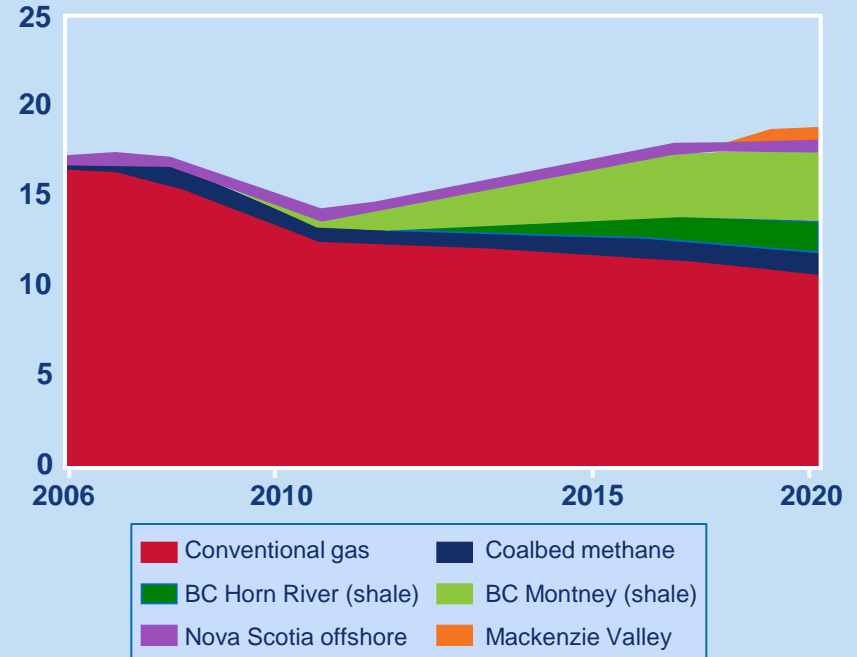
Sources: EIA's Annual Energy Outlook, World Shale Gas Resources, Canada Country Analysis Brief and Natural Gas Annual, Potential Gas Committee (Colorado School of Mines)
Note: Potential resources include technically recoverable unproved resources. Non-shale potential includes US only.

. . . and natural gas producers are increasingly turning to shale . . .

US gas production (Bcf/d)



Canada gas production (Bcf/d)



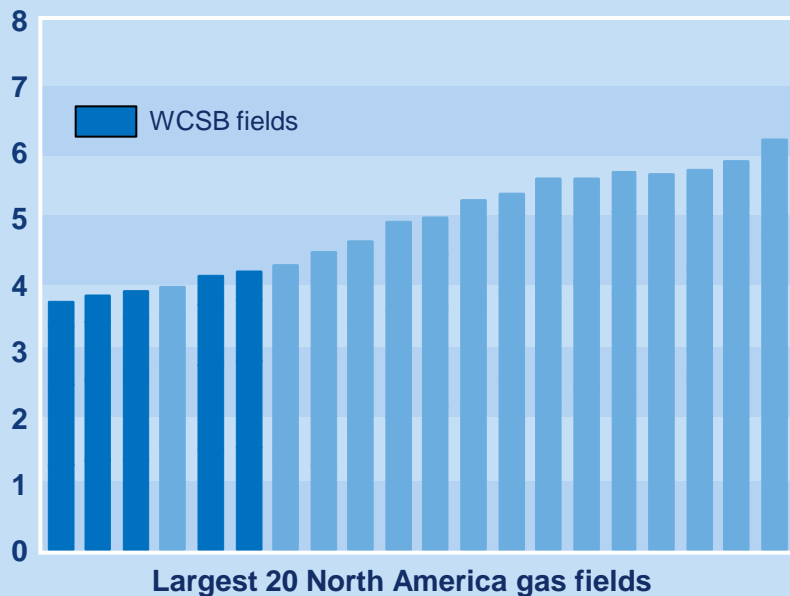
- Shale resources are located across North America
- In the US, shale accounted for 16% of production in 2009, up from 2% in 2000
- Shale is expected to provide 1/3 of production by 2016, and 45% by 2035
- Continued development will impact traditional natural gas pipeline flows, and will also impact the price differential vs. Henry Hub for many hubs

Sources: EIA, Canadian Association of Petroleum Producers

... the Western Canadian Sedimentary Basin (WCSB) continues to be attractive

WCSB is a low cost basin

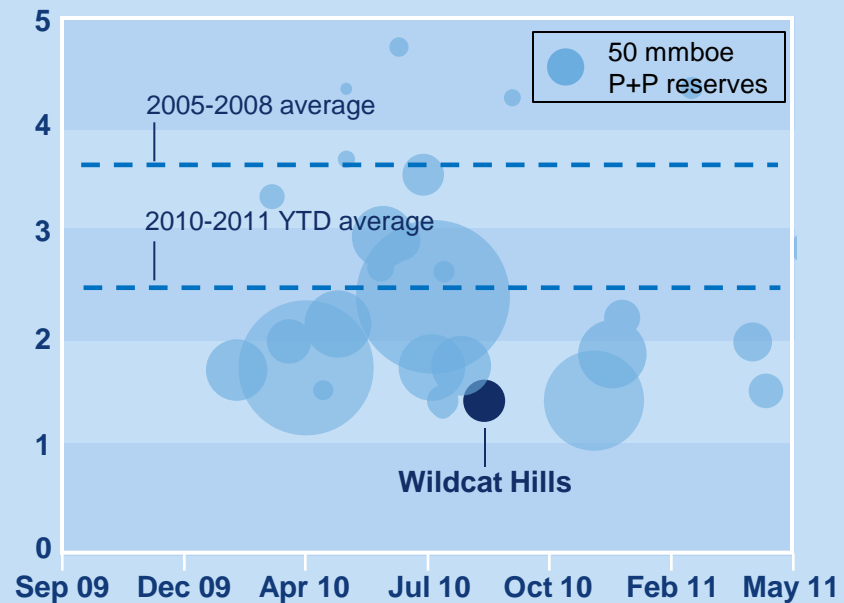
2010 per unit F&D and lifting costs (US\$/mcf)



Source: Rystad Energy 2010; internal analysis

Multiples at relative lows

WCSB reserve value metrics P+P (C\$/mcf)



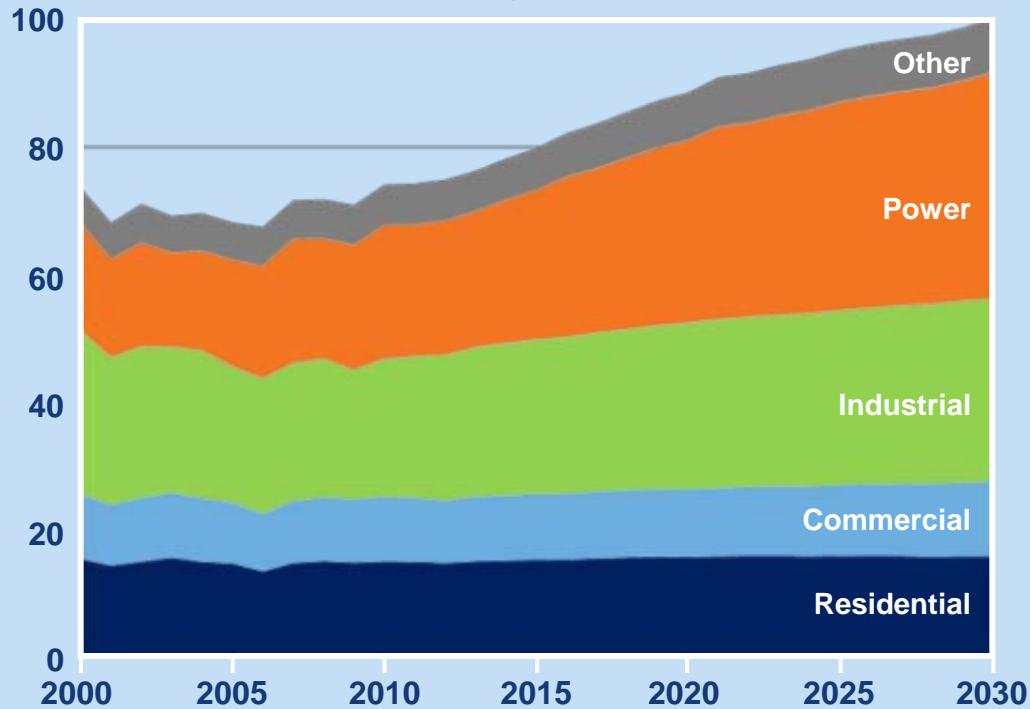
Source: TD Securities.

Attractive assets in play as E&P majors continue to reshape portfolios towards shale

Note: F&D and Lifting costs include transportation, royalties, operating expense and capital expenditures; multiples chart excludes one outlier

Power generation driving North American natural gas demand growth

North American gas demand (Bcf/d)



- Total natural gas demand projected to rise c.40% from 2009 to 2030
- Power generation demand expected to be driven by higher CCGT capacity factors and new build
- Coal plant retirements from environmental and carbon legislation expected to continue to boost gas-fired power generation

Source: Wood Mackenzie North American Gas Service

US generation mix is evolving due to a number of factors . . .

Coal

1,772 TWh (45%)

- EPA requirements mostly impact smaller and older coal plants
- Remaining coal plants will be cleaner and more efficient, with high capacity factors

Natural gas

931 TWh (23%)

- Increase in demand expected to be met largely by gas fired generation
- Gas generation favoured in near and medium term, driven by low gas prices

Nuclear

799 TWh (20%)

- There has been no new nuclear build in a generation, and none expected in the near term
- Japan crisis has stalled new investment with safety concerns

Renewables

420 TWh (11%)

- No federal carbon legislation
- EPA and state RPS¹ incenting cleaner generation
- Need for gas fired generation in absence of power storage solutions

Sources: US EIA; does not include hydroelectric and liquids fuels

Note: ¹Renewable Portfolio Standards, which mandate minimum levels of generation from renewables in select US states; generation is for 2009 with share of total in parentheses

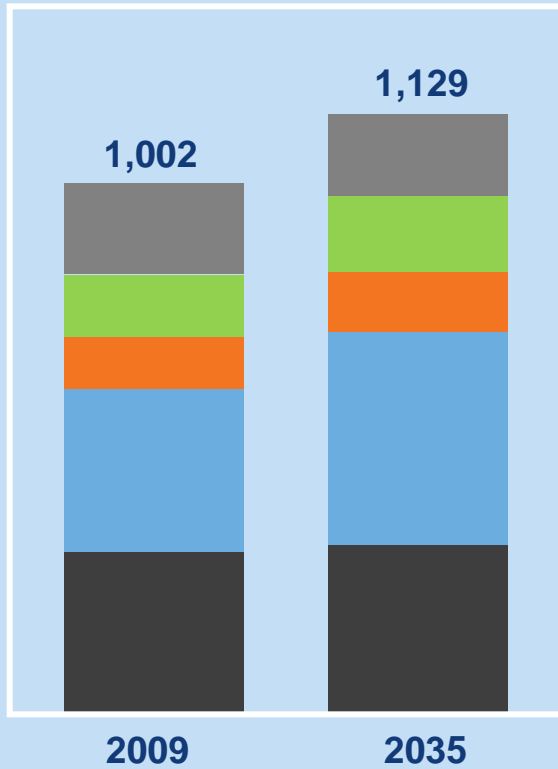


Direct
Energy
Simple. Friendly. Direct.

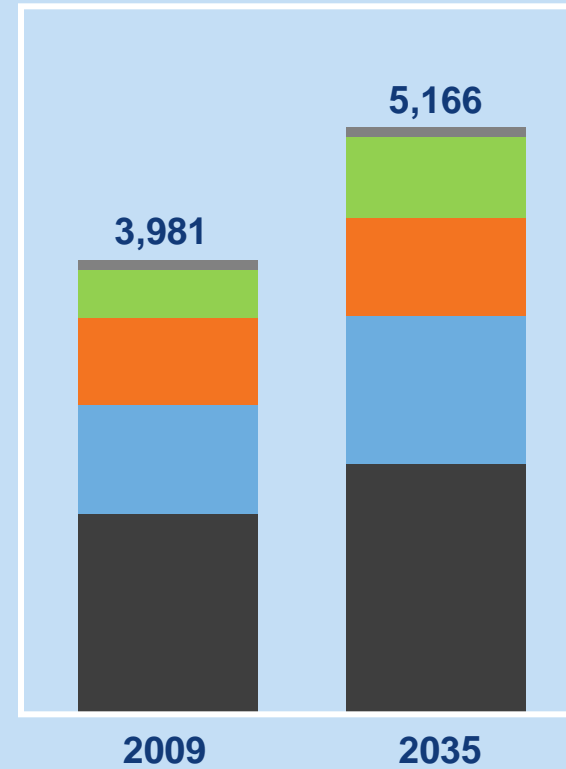
centrica

... however, both coal and gas fired generation expected to remain significant . . .

US capacity (GW)



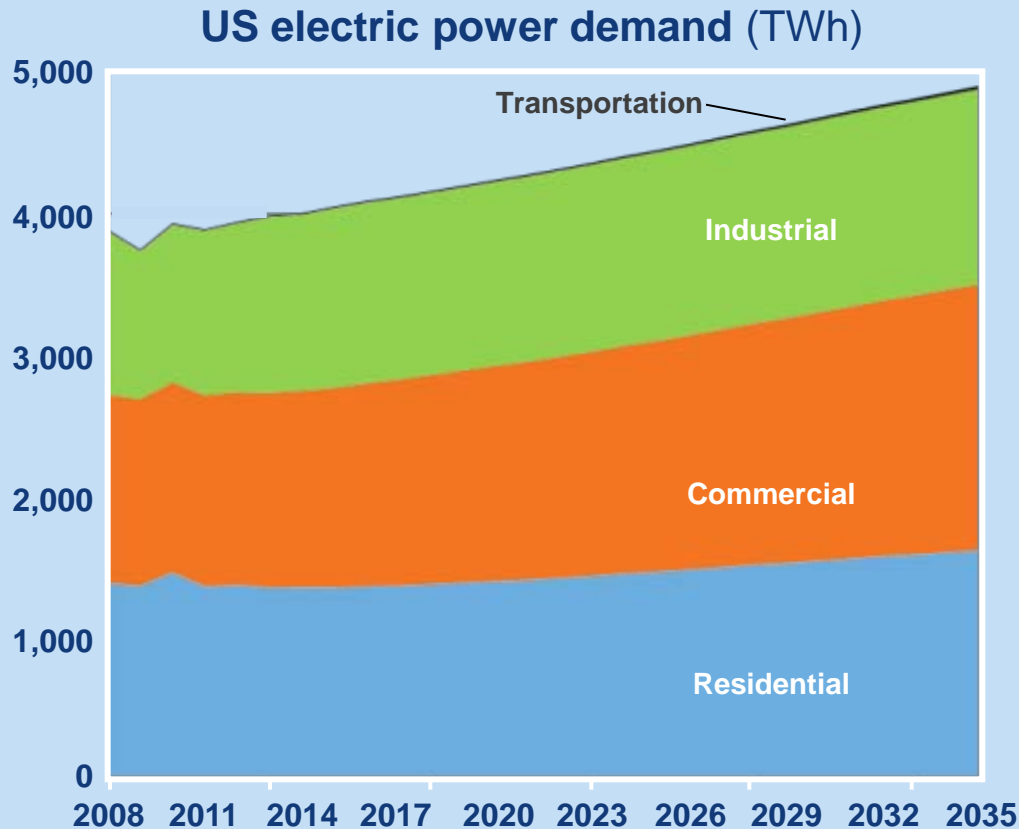
US generation (TWh)



- Other
- Renewable
- Nuclear
- Natural gas
- Coal

Sources: EIA International Energy Outlook 2010

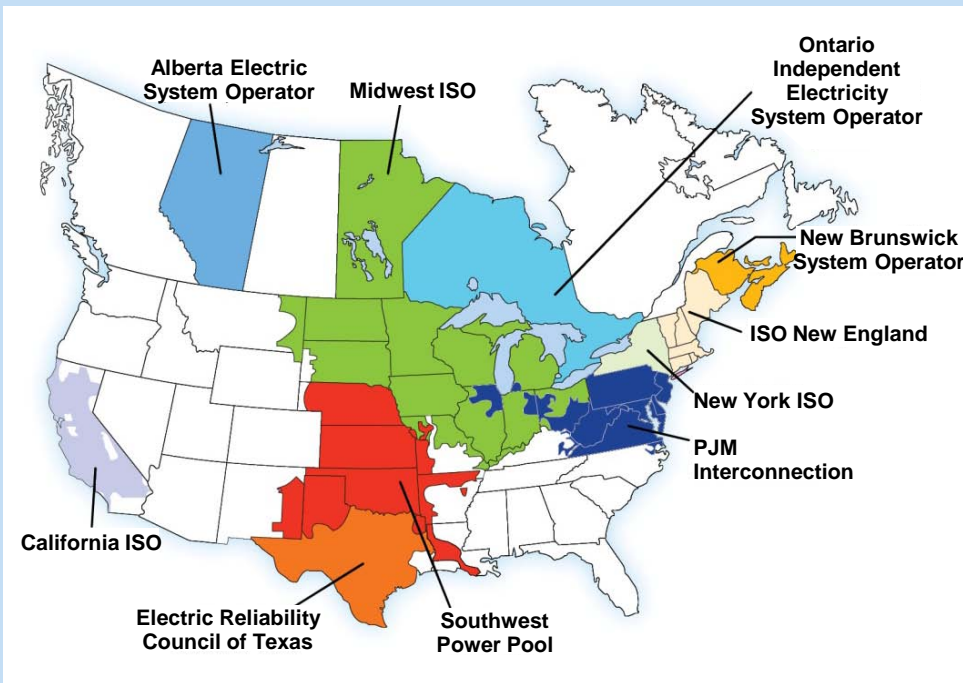
... to meet growing power demand



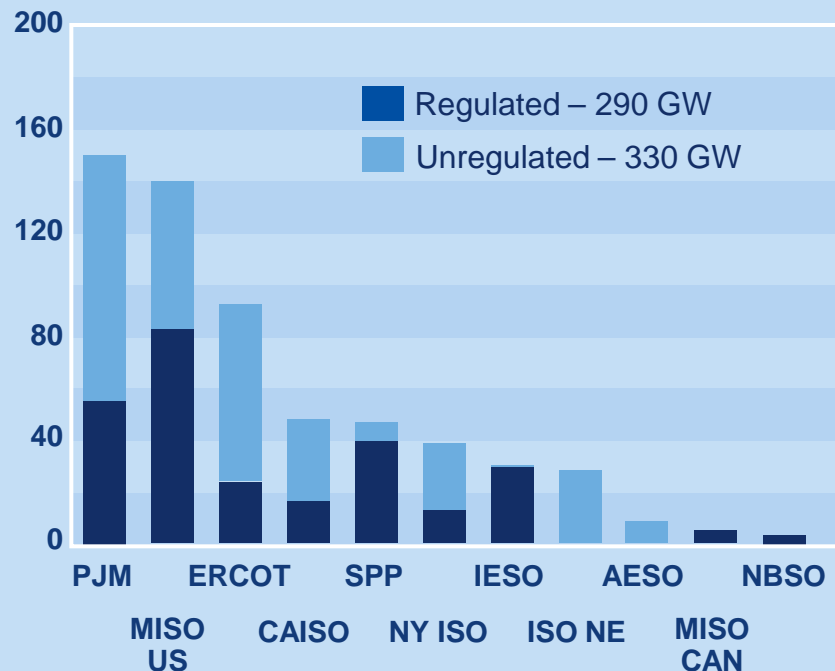
- Demand expected to increase at 1% CAGR for next 25 years
 - major drivers are population growth and transition to services economy
 - power demand from electric vehicles not expected to be a substantial driver of growth
- Energy intensity continues to decline
 - energy efficiency
 - demand response

Sources: EIA Annual Energy Outlook 2011

North American competitive power markets



Installed ISO/RTO capacity (GW)



Sources: ISO/RTO Council

Energy only vs. capacity markets

There are two approaches to ensure adequacy of generation, to maintain reserve margins and to compensate generating resources

Energy only markets

- Energy prices to send correct price signals to ensure adequate resources
- Prices reflect operating costs of the marginal generator

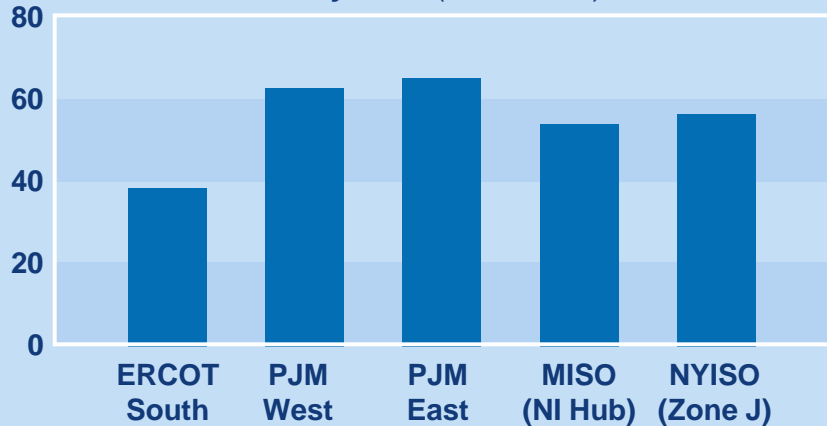
Capacity markets

- A regulatory mechanism establishing payments to generators in addition to income received from energy prices
 - places a tradable value on supply
 - encourages investment where needed
 - promotes price certainty
- Three markets have mandatory forward capacity markets, each with their own mechanism
 - PJM, NYISO, ISO NE

Regional power markets vary by price

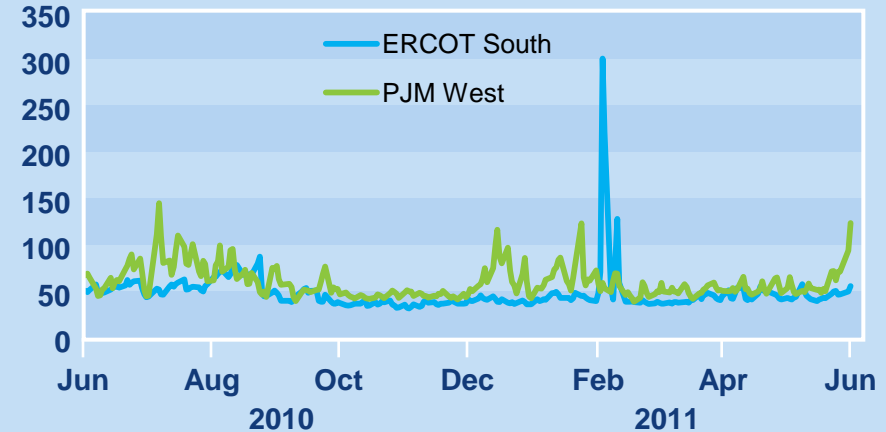
Prices are different

Average daily on-peak power prices
May 2011 (US\$/MWh)



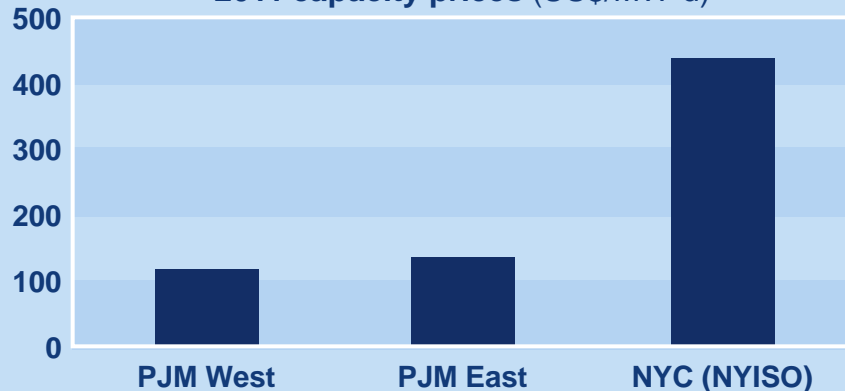
Prices have different volatilities

Average daily on-peak power prices
June 2010 – June 2011 (US\$/MWh)



Capacity prices are regional

2011 capacity prices (US\$/MW-d)

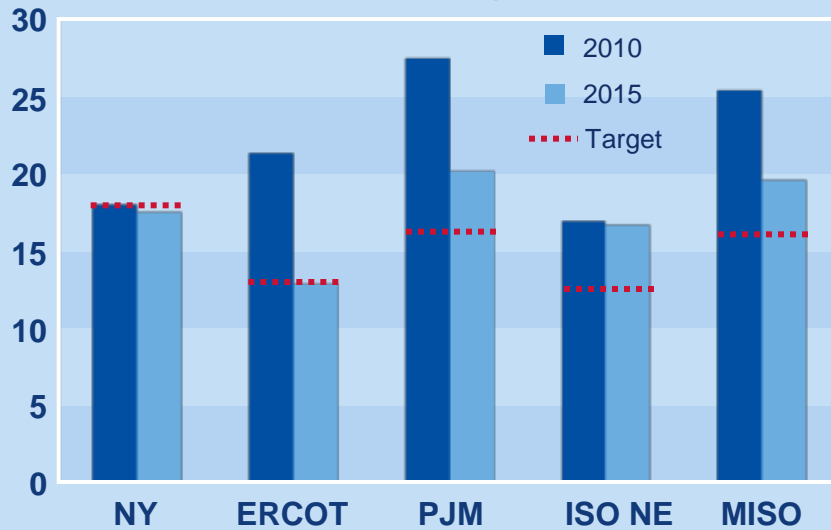


- Regional power prices attributed to a variety of factors:
 - storage/transmission constraints
 - generation mix within each region
 - varying climates and load profiles
 - regulatory mechanisms to ensure there is system reliability and sufficient resources

Sources: on-peak strip power prices as at 9 June 2011

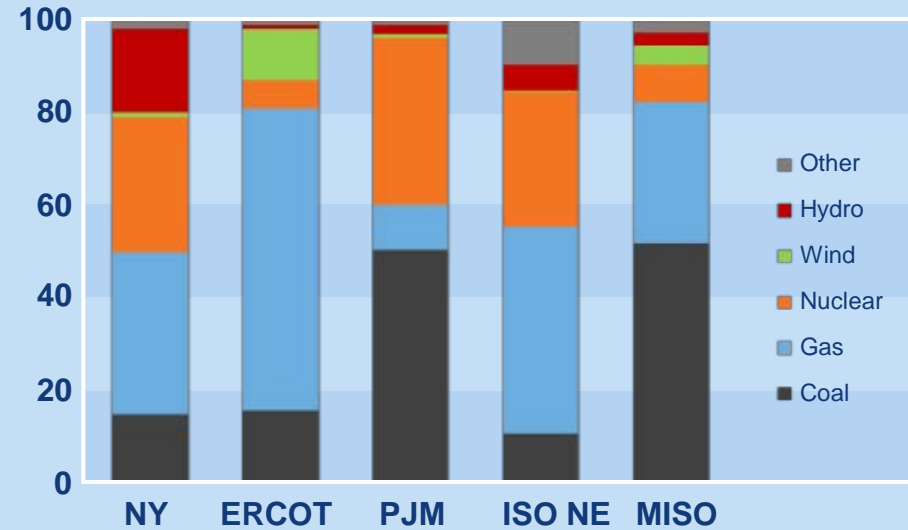
Regional power markets vary by resource adequacy and fuel mix

Reserve margins (%)



- Current reserve margins are adequate in most regions but expected to tighten
- Generation mix, combined with supply/demand factors, driving reserve margins down

Installed capacity by fuel (%)



- Fuel mix varies considerably across the ISOs
- Coal, natural gas and nuclear comprise 80-95% of capacity

Sources: NERC "2010 Summer Reliability Assessment". ERCOT defines reserve margins as 'percentage by which available capacity is expected to exceed forecasted peak demand'

Upstream power and natural gas: Summary

- Large domestic resource base
 - shale phenomenon driving excess supply
 - North America has disconnected from global gas prices
- Growing natural gas and electric power demand
 - gas-fired generation major driver of gas demand growth
- Diverse generation fuel mix for power generation
 - coal and natural gas will continue to be the major fuels
 - crisis in Japan has resulted in a ‘pause’ in nuclear investment
- Continental natural gas market; regional electricity markets

Market Environment

Maura Clark, President, DE Business



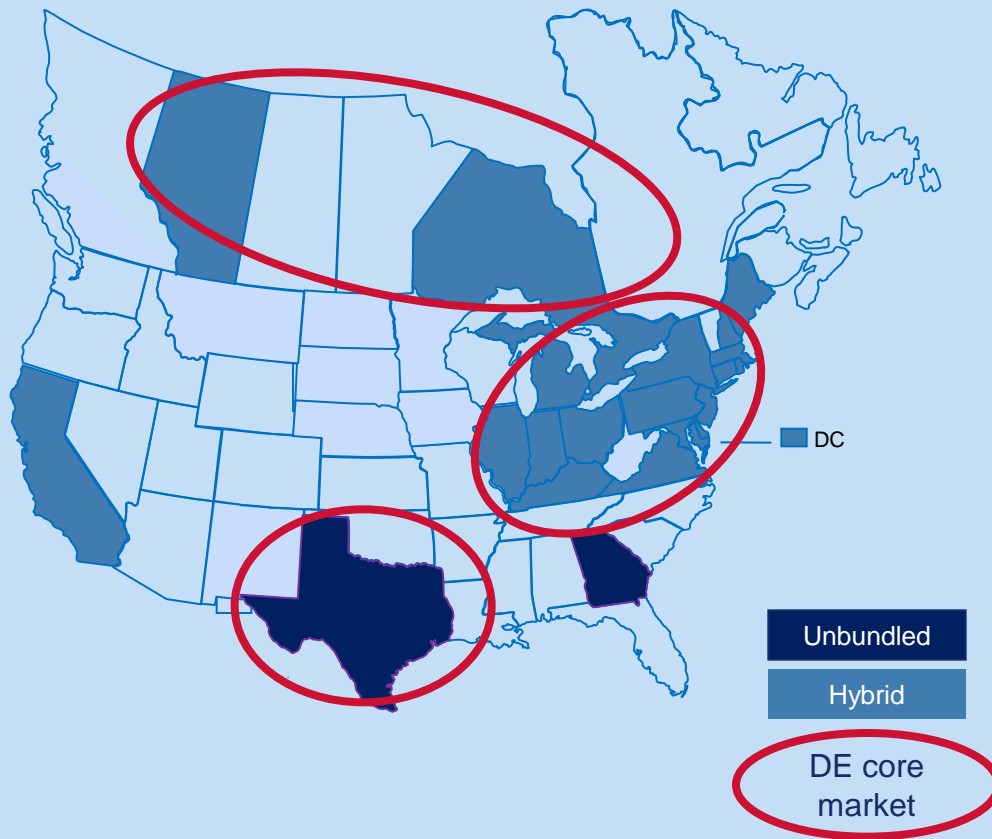
Retail: Summary

- Dynamic competitive landscape with a range of business models
 - strong competition, but no truly dominant national players
- 80m addressable residential customers across North America
- The US Northeast is a growing market with 53m customers
 - positive outlook for switching: more than double by 2016
 - retail competition intensifying
- Fragmented home services market presents a large opportunity
- Market is consolidating, driven by companies looking to
 - increase scale
 - acquire regulated businesses for earnings stability
 - increase vertical integration to balance upstream and retail

Note: Customers in areas open to competition; KEMA Retail Energy Outlook, May 2011

Large retail energy market

Restructured residential markets



- Residential energy:
 - 80m addressable customers
- Business energy:
 - largely competitive for both gas and power
 - addressable volumes: 1,000 TWh, 6 Tcf
- Home services:
 - 130m households
 - underlying demand: 1.5m housing starts per annum

Note: Business energy gas volumes exclude large industrial demand

Competitive landscape

Business models

Major competitors

Residential

Utility affiliate
Competitive integrated
Independent

Dominion Retail
Reliant
Just Energy

Commercial / industrial

Utility affiliate
Competitive integrated
Independent

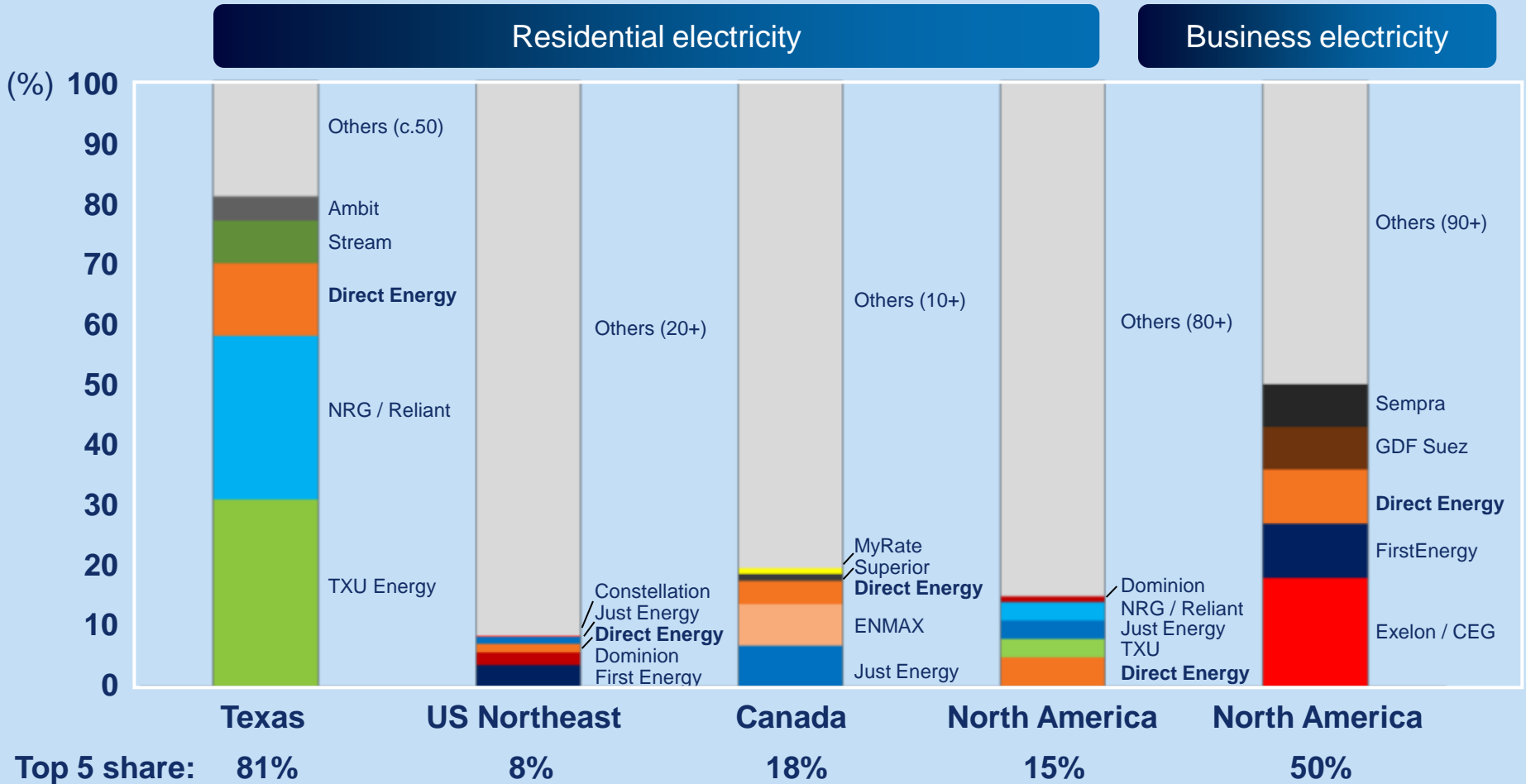
FirstEnergy
Constellation New Energy
GDF Suez

Home services (HVAC)

Major / National
Large local
Small local

Service Experts
ARS
Sears

Many market participants, however no truly dominant national players



Sources: B.Smitherman, *Retail Competition in Texas: A Success Story*, Jun 2011; KEMA Q1 2011 Retail Energy Outlook

Note: Market share refers to the percentage of eligible accounts within each region; data includes Constellation/Exelon, Direct Energy/Gateway and Constellation/MXEnergy announced mergers; "Others" includes incumbents/utilities

Texas: the largest state power market

Market overview



- Population 25m; 10m households
 - population forecast to grow at 2.3% per year compared to 0.5% for the US¹
- Texas: 37% of net job growth in US²
- Average power consumption is 3x UK
- Power demand: 400 TWh
 - expected load growth of 22% by 2020³
- Capacity: 104 GW

Regulatory and competitive landscape

- No utility default provider; fully competitive
 - gas is not open to competition
- 30+ residential competitive retailers
- Outside the top 3 players, the market is fragmented
 - TXU: 1.8m customers (31%)
 - Reliant: 1.4m customers (24%)
 - Direct Energy: 0.7m customers (12%)
 - others: c.50 other retailers (33%)
- Smart meters enabling innovation
 - largely deployed by 2013
 - enables prepaid offerings and other home energy management solutions

Note: ¹US Census population projections and Texas state data center; ²Since end of recession June 2009, based on Bureau of Labor Statistics data ³ERCOT State of the Market forecast 2011

Canada: a large market, however, with regulatory challenges

Market overview



Ontario

- Population: 13m; 5m households
- Demand: 151 TWh; 814 Bcf
- Capacity: 35 GW

Alberta

- Population: 4m; 1.3m households
- Demand: 52 TWh; 1.3 Tcf
- Capacity: 14 GW

Source: IESO market and supply overview, Government of Alberta Energy department

Regulatory landscape

Ontario - hybrid market structure

- Market structure does not encourage competition
- Utility default providers dominate

Ontario consumer protection legislation

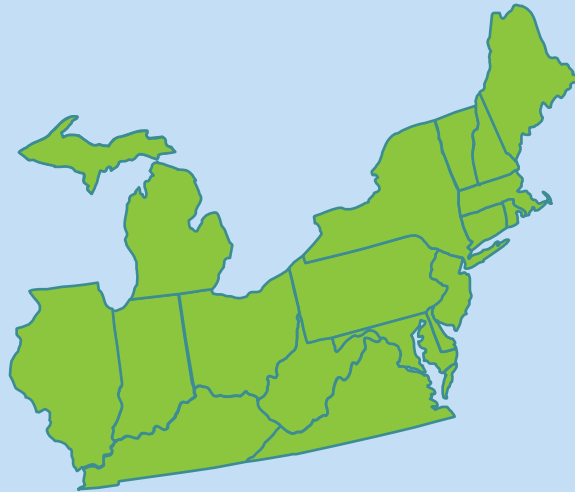
- Competition further discouraged as customer acquisition and retention now very difficult
- ECPA effective 1 January 2011

Alberta – hybrid market structure

- Hybrid market, with utility default provider
- Market rules encourage competition
- Liquid competitive wholesale market, as in Texas and in the US Northeast

US Northeast: improving regulatory environment in a densely populated area

Market overview



- Population: 115m
- 53m addressable residential gas and power customers
- GDP: 39% of 2010 total US output
 - 36% of 2010 total C&I output

Regulatory and competitive landscape

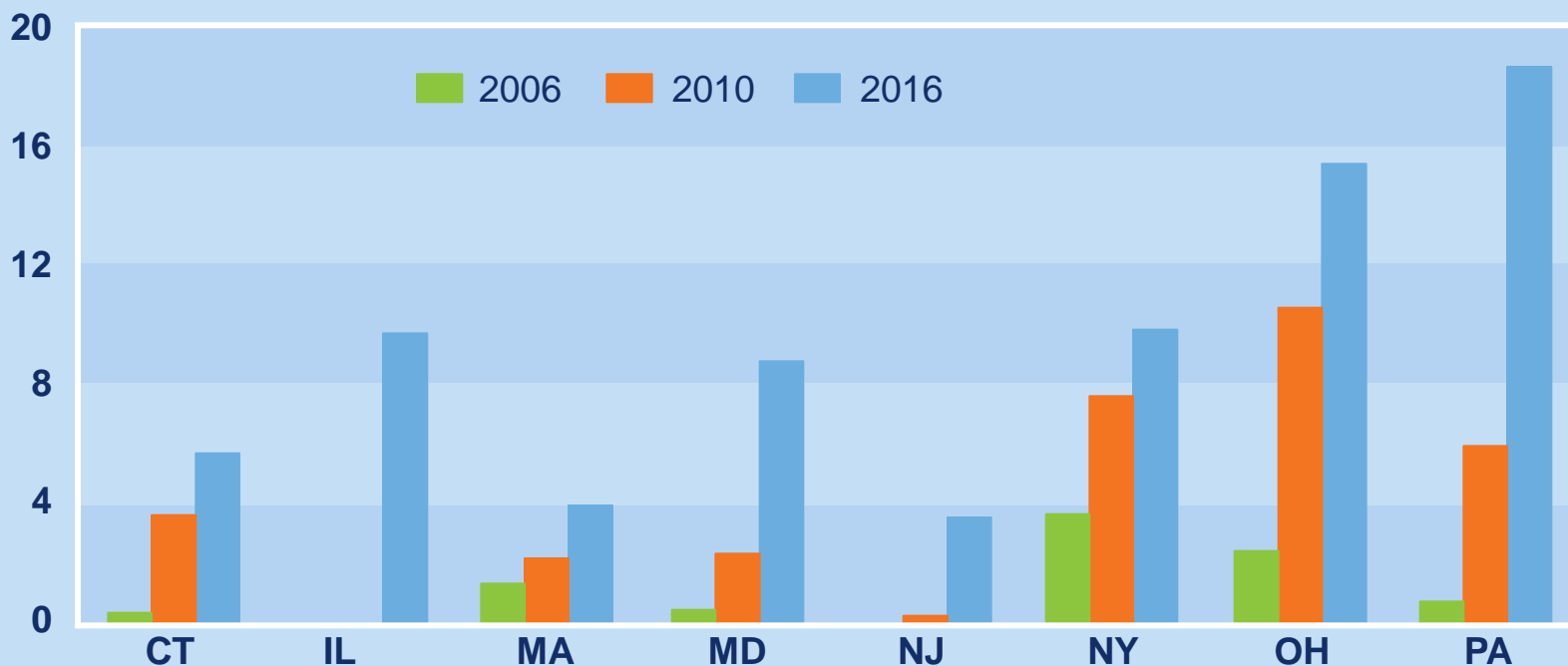
- A region open to competition, spanning 16 US states and DC
- Over 50 gas and power utilities
 - utilities are the default provider
 - utility performs the billing
- Recent rule changes have improved market opportunities, including
 - purchase of receivables
 - procurement of default supply
- Competitor activity increasing, especially in Pennsylvania and Illinois
 - Constellation, Reliant, TXU
- Smart metering roll-out started in some states

Sources: US Bureau of Economic Analysis, US Census Bureau

US Northeast: large market with increasing switching

US Northeast switching expected to increase, especially amongst residential customers (15% CAGR, 2010-16)

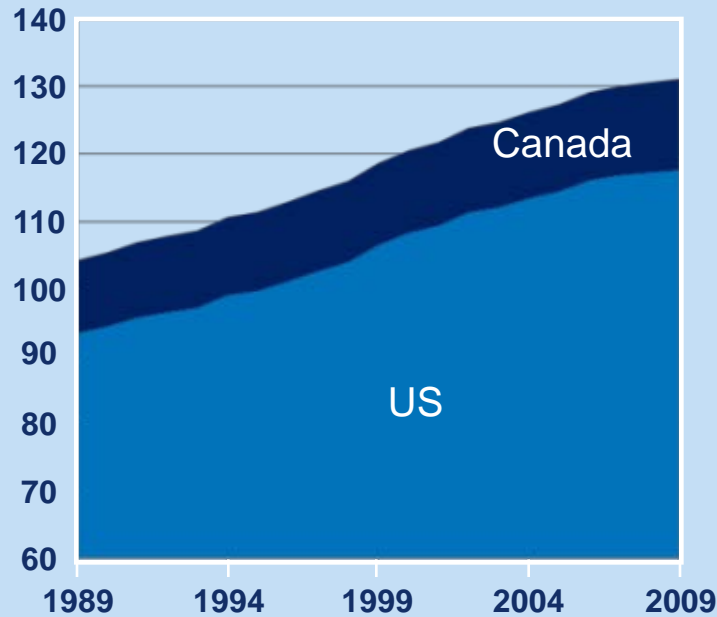
Residential volumes switched by state (TWh)



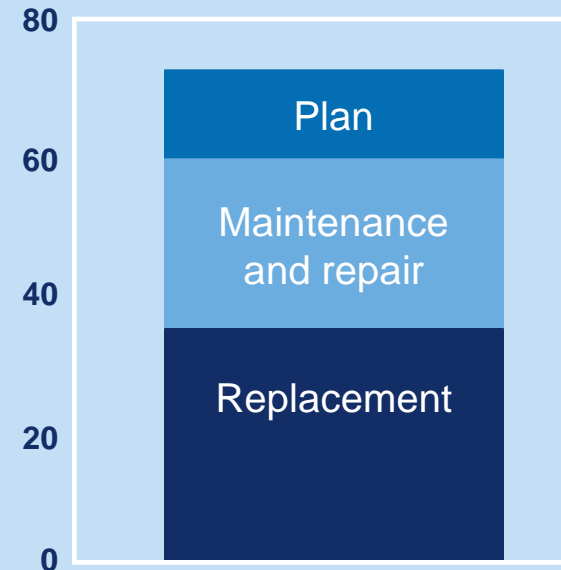
Sources: KEMA Retail Energy Outlook, May 2011

Large home services market . . .

North America households (millions)



North America home services potential market revenue* (C\$bn)



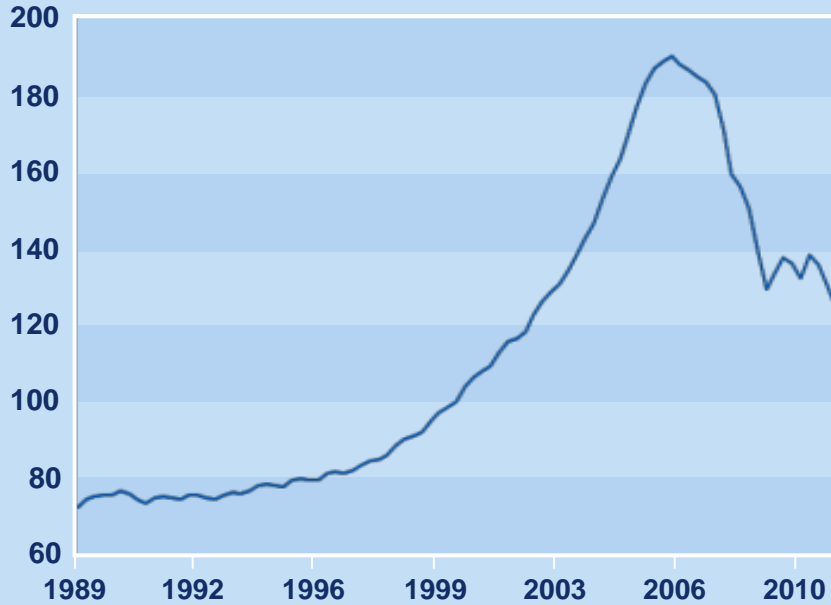
- 70-75% of market concentrated in high density metro areas
- Largely an on-demand market
- Retail energy / services opportunity

Sources: L.E.K. Research and Analysis

Note: *HVAC, Plumbing and Electrical services; based on single family dwellings

. . . although the housing market has not yet recovered

US housing prices (US\$ '000s)



US housing starts (millions)

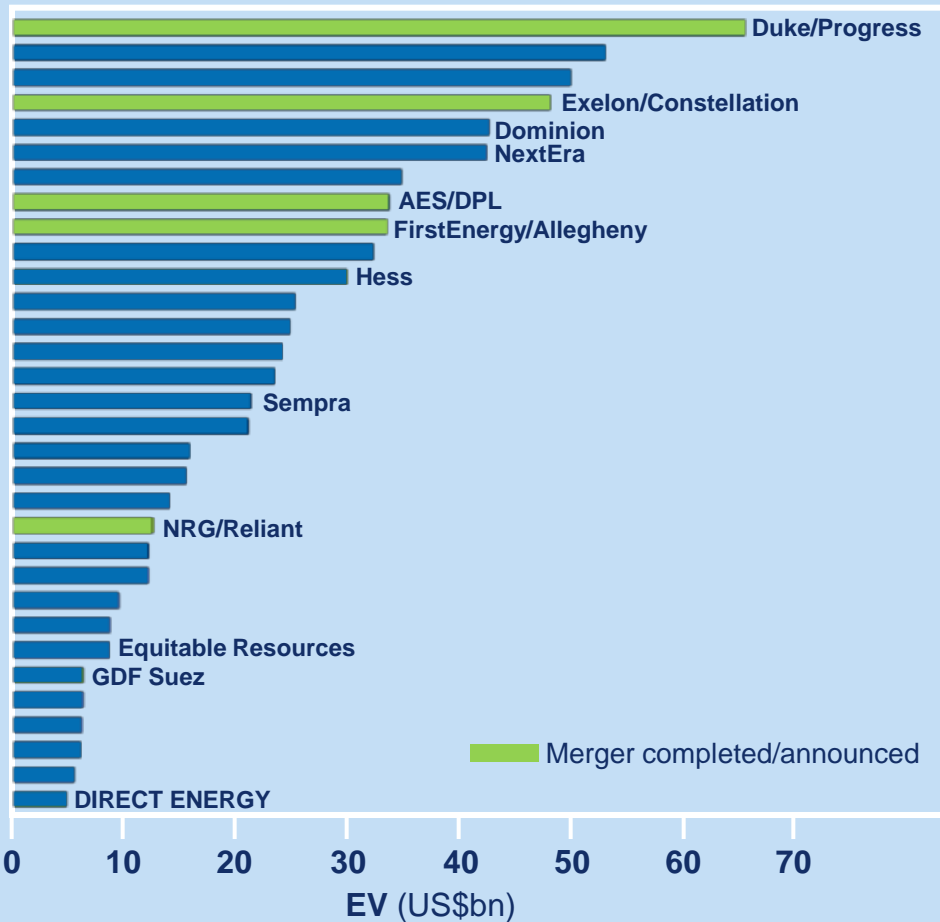


Weak housing market impacts not only the stock of homes in the market, but also the tendency of customers to spend money on their homes

Note: As of 2 June 2011

Changing landscape: consolidation continues

Top 30 NA utility and retail energy companies



Note: "Hybrid" refers to companies that have a blend of regulated and competitive assets

Consolidation for scale and earnings stability



Consolidation for vertical integration



Retail: Summary

- Market is consolidating, driven by companies looking to
 - increase scale
 - acquire of regulated businesses for earnings stability
 - increase vertical integration to balance upstream and retail
- 80m addressable residential customers across North America
- The US Northeast is a growing market with 53m customers
 - positive outlook for switching: more than double by 2016
 - retail competition intensifying
- Fragmented home services market presents a large opportunity
- Dynamic competitive landscape with a range of business models
 - strong competition, but no truly dominant national players

Note: Customers in areas open to competition; KEMA Retail Energy Outlook, May 2011

Direct Energy Residential

Steven Murray, President



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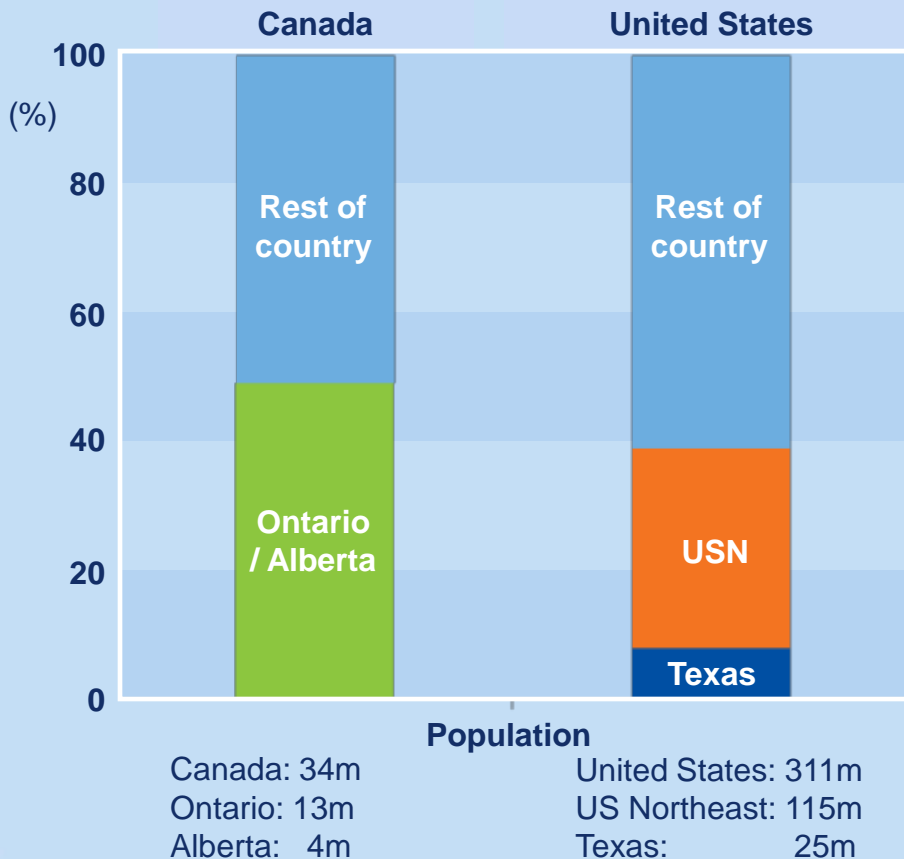
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DE Residential: summary

- **Large and growing market** with 80m addressable customers across North America
 - 67m addressable customers in DE core markets
 - 53m addressable customers in US Northeast markets
- DE is the **largest retailer** in North America, with top three positions in each chosen market
 - Ontario: manage ECPA
 - Texas: ‘build our base’
 - US Northeast: grow
- **Leveraging British Gas** capabilities and experience
- **Growth** through platform building, scale benefits, market penetration, innovation, and further acquisition opportunities

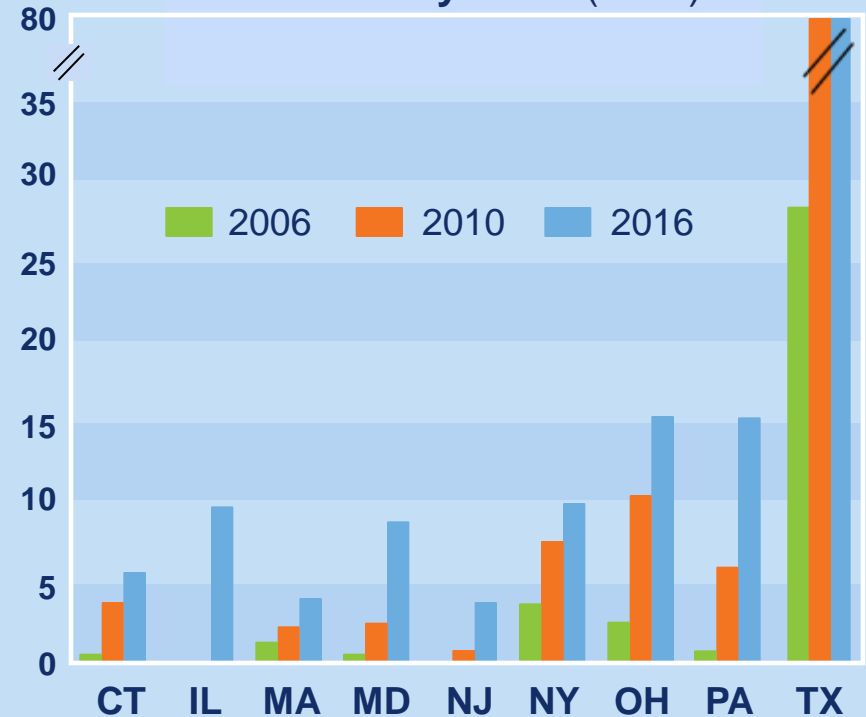
The residential energy market

Large market . . .



... and growing¹

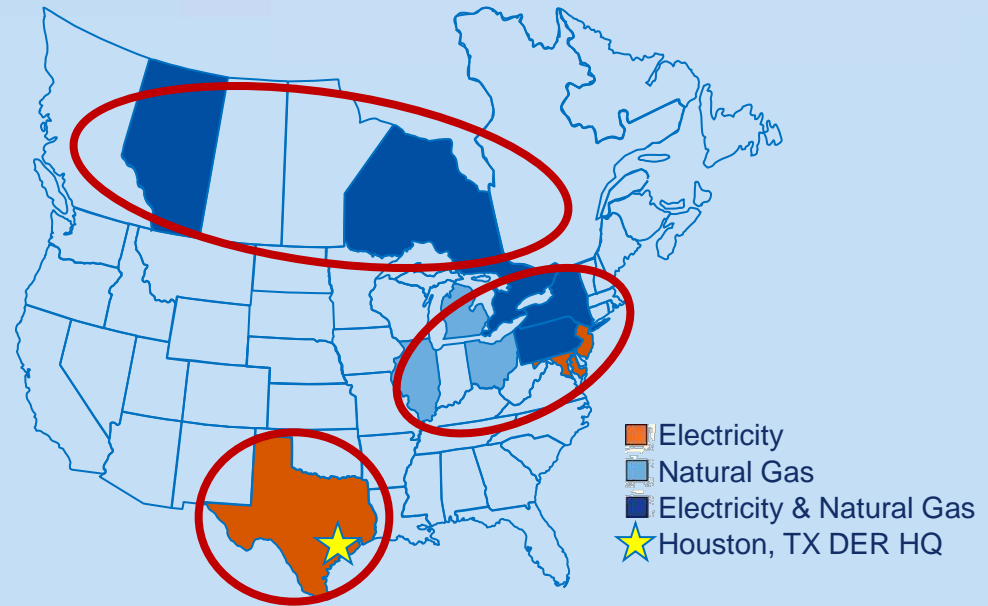
Residential power volumes switched by state (TWh)



Note: ¹KEMA Retail Energy Outlook, May 2011

DE Residential overview

- 3m gas and electricity customers in core markets in Canada, Texas, and US Northeast
- Sales through door-to-door, web, and inbound/outbound telesales
- Products include fixed and variable-priced options of varying term lengths



Market	Power	Gas
Texas	0.6m customers 7 TWh	N/A
US Northeast	0.3m customers 3 TWh	0.5m customers 50 Bcfe
Canada	0.4m customers 5 TWh	1.2m customers 187 Bcfe

Note: Data as at December 2010; includes annualised Gateway numbers in US Northeast

Leveraging British Gas, the most successful competitive energy retailer

British Gas Residential

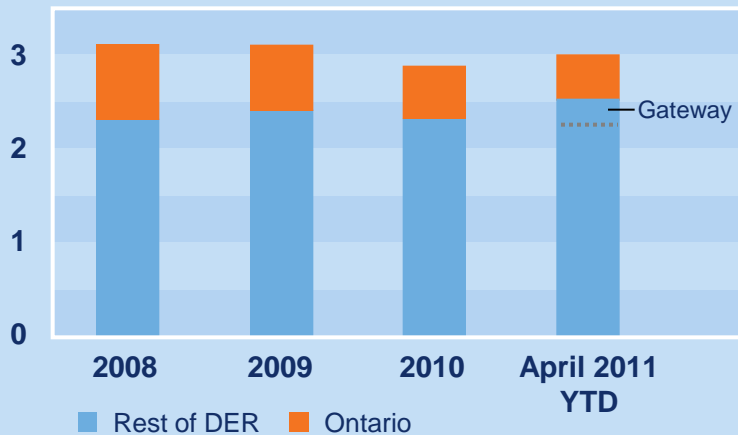
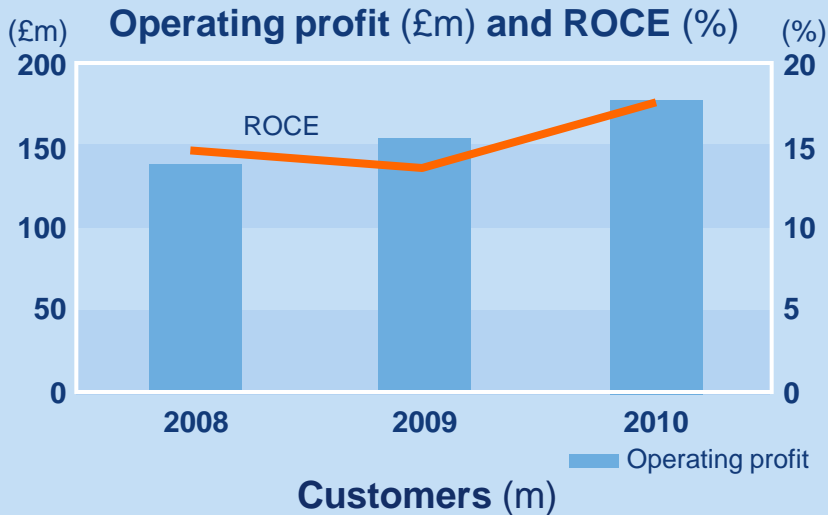
- Number 1 supplier of gas and electricity in the UK
- Operating in fully deregulated energy market with high awareness of benefits of choice
- Trusted brand
- 4m homes with service contracts
- Integrated offerings, leveraging energy / services overlap

Direct Energy Residential

- Top 3 in each core market
- Operating in world's largest gas and electricity market, though a less mature market structure
- Less awareness of choice, competing against incumbent utility brands
- Overlap with DE Services territories
- Opportunity to leverage British Gas capabilities in smart energy and integrated energy / services offerings

Leveraging our size, scale and insights across markets

Historical performance

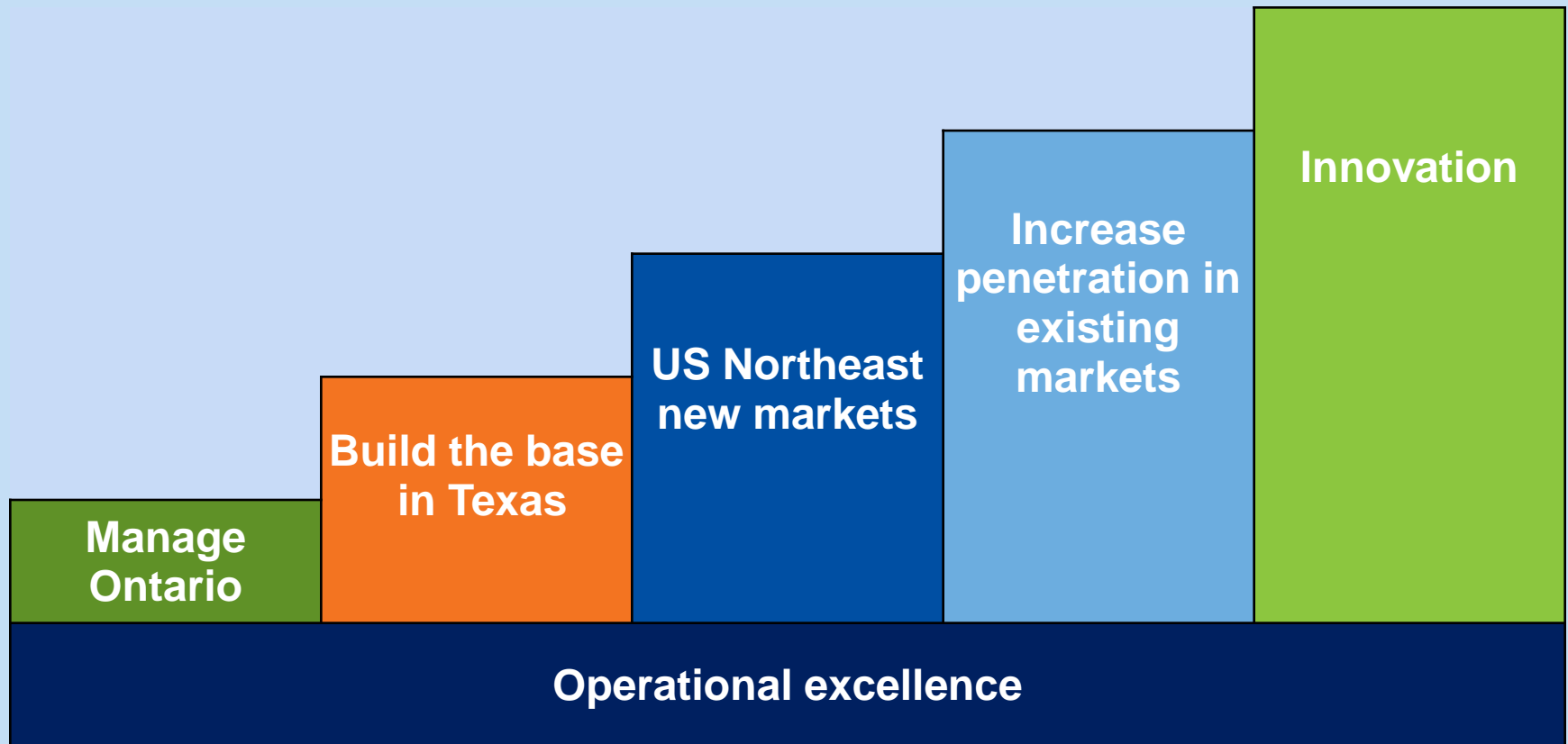


Note: 2009 operating profit and ROACE are stated before £61m of one-off charges

- Built positions in core markets
- Building the base in Texas
 - Texas platform consolidation
 - launched prepaid product
- Growing US Northeast
 - US Northeast market entries and penetration, complemented by Gateway acquisition
- Optimise operations and cost base

Vision and strategy

Our vision: to build on our leading position by being the provider of choice in our chosen markets and extending our lead over the competition



The Ontario challenge

Consumer protection

Hybrid market structure

- Market structure does not encourage competition
- Utility default providers dominate

Consumer protection legislation

- Competition further discouraged as customer acquisition and retention now very difficult
- ECPA effective 1 January 2011

Implications for Direct Energy

The impact

- Reduced customer numbers
- Lower profitability

Managing the impact

- Focus on preserving value through retention efforts
- Refocus growth efforts on Texas and US Northeast
 - offset Ontario decline over time

Delivering growth

Operational excellence

- Fully harness scale
 - full integration of operations leading to lower cost to serve
 - robust pricing engine
 - improved direct sales channel with lower cost to acquire
- Execute flawlessly
 - operations
 - sales delivery

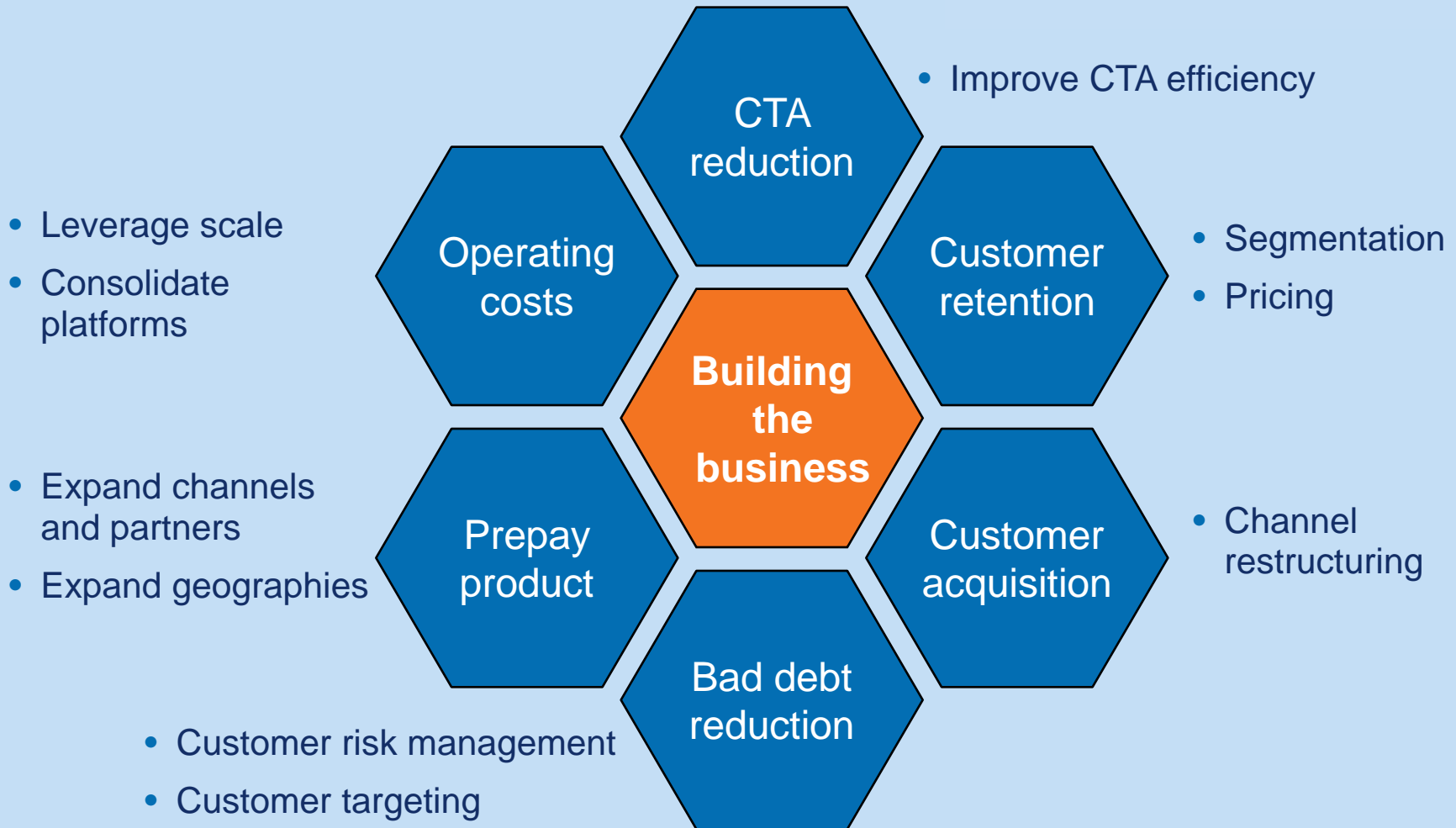
Value proposition

- Present value propositions tailored to each customer segment
- Innovate
 - Power-to-Go
 - new channels
 - cross sell with services
 - applications and services
 - smart meters

Investment and growth

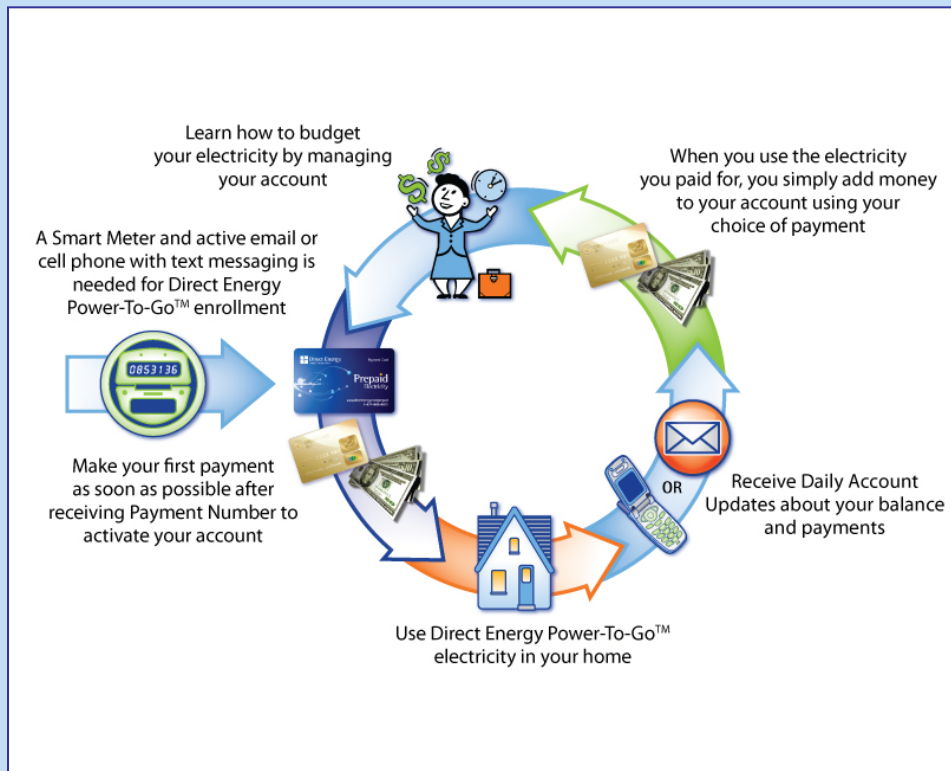
- Continue to drive value from Texas platform consolidation
- Invest in US Northeast
 - market penetration
 - direct sales channel
 - CTA management
 - further M&A opportunities
- Continue to leverage scale benefits

Texas: 'building the business'



Innovation: Texas prepaid

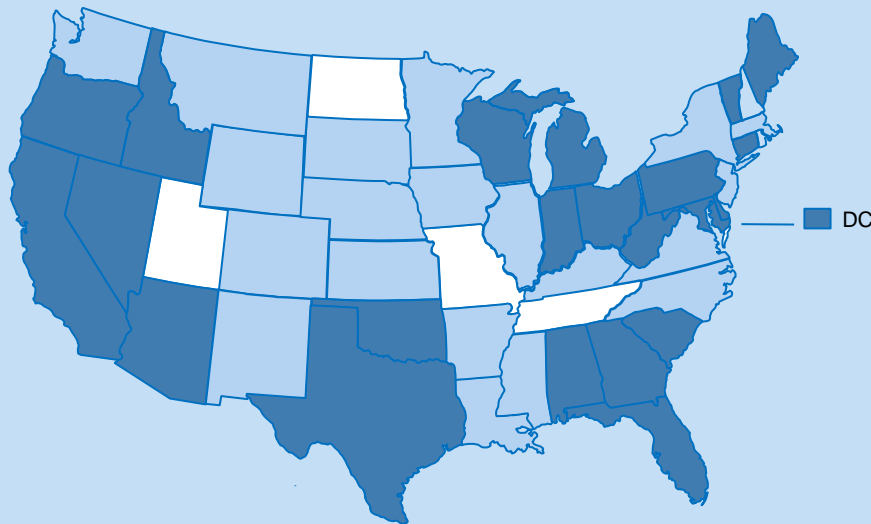
Prepaid is changing the way customers use electricity by giving them flexibility, convenience, awareness and ultimately choice



- Benefits to customers
 - no deposit, credit check, or contract term
 - updates via email or SMS
 - enables management of usage and spend
- Access to a new market segment
 - utilises the advanced meter infrastructure in Texas
 - provides differentiated proposition to meet customer needs
- Opportunity to share learnings with British Gas
 - smart meters and energy management solutions

Innovation: new energy opportunities are being enabled by smart technologies

Planned smart meter deployments by 2020



Deployment for >50% of end users

Deployment for <50% of end users

Utilities have announced plans to install 65m smart meters by 2020

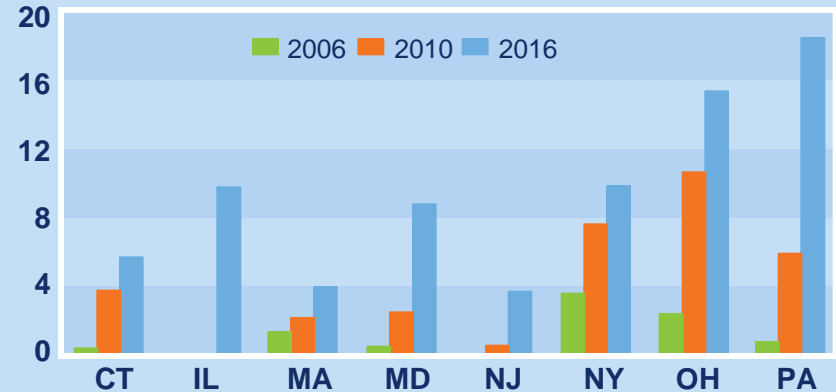
- Smart meter rollout in different stages depending on market
 - utilities own and deploy the meters
 - 25m expected to be rolled-out by end of 2011
- Smart technologies enable new products, such as prepaid
- Competitors are leveraging smart energy, piloting an array of smart enabled offerings
 - home energy management applications
 - in the C&I space, demand response products and energy management through control technology

Sources: Edison Foundation, Institute for Energy Efficiency, September 2010
Note: Deployment figures are 2020 forecasts

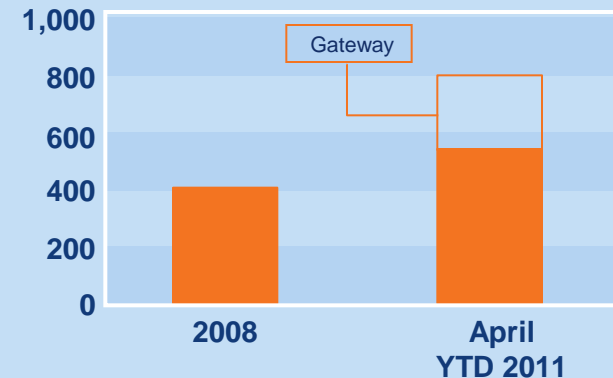
The US Northeast opportunity

- Size of opportunity: 53m power and gas customers
- Increased switching
- Competitive activity
 - low commodity prices and improved regulatory conditions
 - markets are attracting new players
- DE is well positioned
 - existing customer position
 - direct sales force
 - Gateway acquisition integration
 - further acquisition opportunities

Residential volumes switched by state (TWh)



US Northeast residential customers (000s)



Note: ¹KEMA Retailer Outlook, May, 2011

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Direct Energy Business

Maura Clark, President



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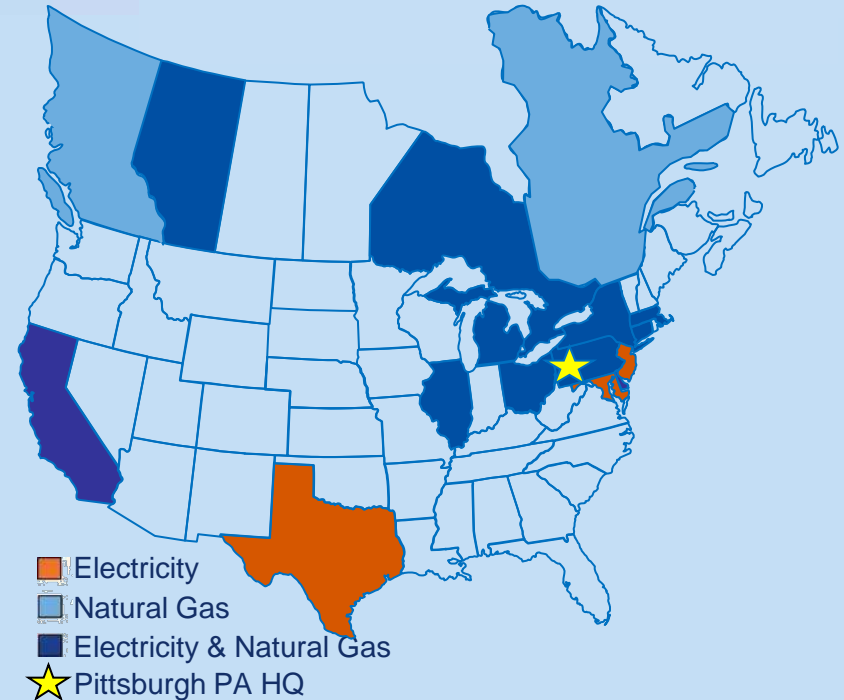
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DE Business: Summary

- **Top three** in a large and growing, but highly competitive market across North America
- **Strong organic growth** trajectory with good profit fundamentals
- **Leveraging best practice** between DE Business and British Gas Business
- **Continued growth** driven by
 - segmentation
 - sales productivity
 - operational efficiencies
 - financial discipline
- **Further growth** opportunities in small business segment, non-commodity offers

DE Business overview

- Top three supplier to small, medium and large businesses/governments
- Dual commodity offering across all competitive markets
- Direct sales force and brokers
 - industry leading sales productivity
- Leading supplier to National Accounts
- NPS score of 24 in 2010
- Non-commodity offer gaining momentum
 - 360Direct (demand response etc)
 - PowerBuy auction platform
- Small business segment expected to be a key driver of future growth

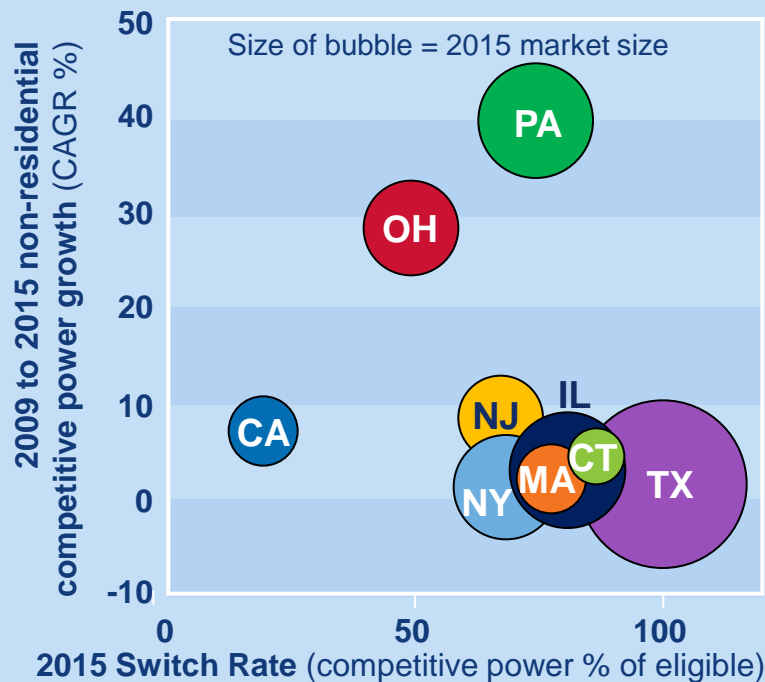


2010 sales volumes	Power (TWh)	Gas (Bcf)
US	36	26
Canada	4	37
Total	40	63

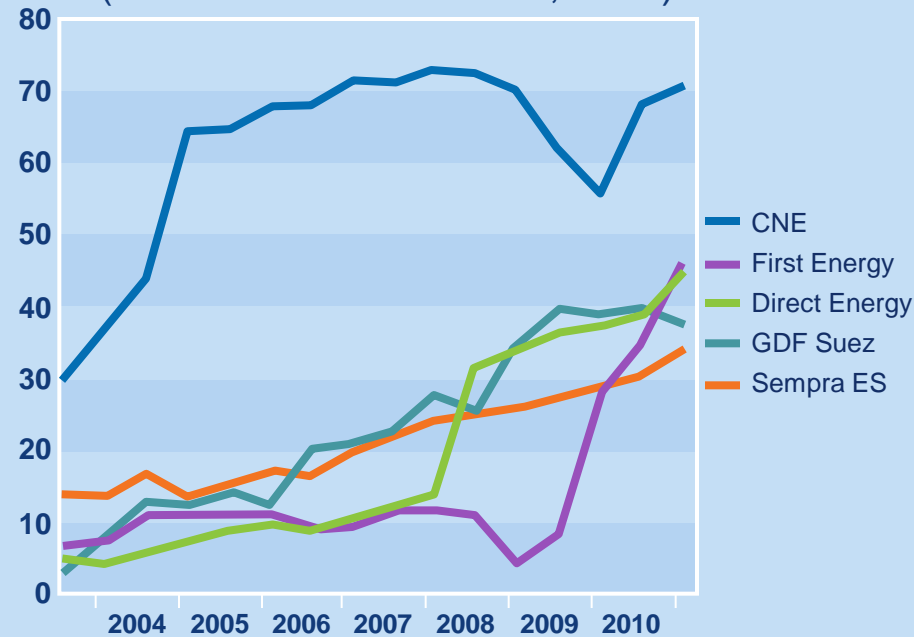
Strong market fundamentals support growth

- Stable commodity and policy environments in the US
- US C&I power market expected to grow at 6% CAGR to 2015
- Sector reporting healthy levels of profitability; competitive intensity returning

Market opportunity



Top 5 US C&I electricity retailers (estimated annual sales, TWh)



Sources: KEMA Retailer Energy Outlook, March 2011; KEMA Retailer Landscape, March 2011
 Note: Switch rate refers to volumes switched to a competitive retailer, as a percentage of total eligible load in each market

British Gas comparison

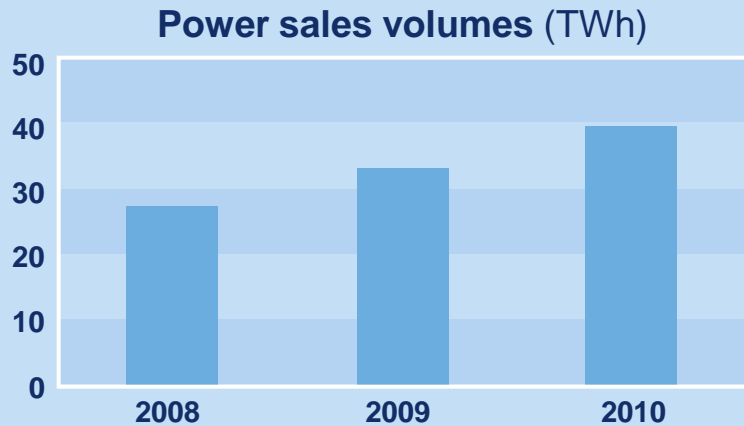
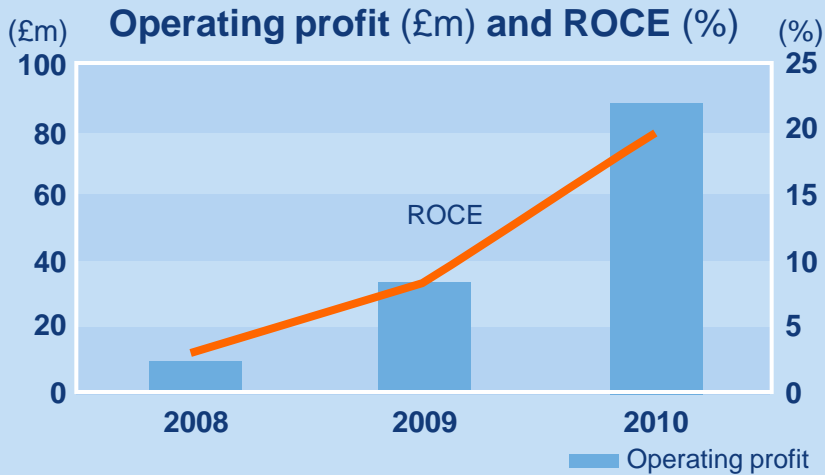
British Gas Business

- A leading player – 19 TWh
 - strength in SME segment
- Strong brand awareness at all levels
- Customer value segmentation approach
- Effective use of broker channel

Direct Energy Business

- Third largest player – 40 TWh
 - strength with larger C&I customer segment
- Good brand awareness
- Implementing customer value segmentation
- Effective use of broker channel
- Exchange program with British Gas Business

Historical performance



- The journey
 - 2007: sub-scale
 - 2008: acquired Strategic Energy
 - 2009-2010: integration and optimisation
- Strategic Energy provided opportunity to achieve scale
 - operating profit up significantly from 2008
- Performance also driven by operational efficiencies
 - pricing accuracy and velocity
 - bad debt
 - working capital management
 - customer experience and NPS

Vision and strategy

Our vision: to be a leading provider of energy and services to business customers

Our strategy

- **Profitable growth** by delivering the right product, to the right customer, at the right price
 - improve sales productivity of direct and indirect sales channels
 - targeted focus on small business customers
 - develop leading non-commodity offerings to strengthen relationships
 - commercial discipline
- **Simplify and streamline** operating infrastructure
 - improve automation and web presence
 - leverage scale and establish a low cost delivery model
 - differentiate through customer experience
- Develop **'best in the business'** team

A range of growth opportunities

Markets

- Customer segments
 - small business segment under-served
 - further leverage national accounts
 - further align customer experience by segment
- Geographies
 - largest opportunity in US Northeast

Sales

- Sales productivity
- Improved channels
 - field sales, telesales, web

Innovation

- Broker portal
 - PowerChannel
- 360Direct
 - demand response
 - power procurement auction platform
 - integrated energy management
 - exploring distributed generation

The Small Business opportunity

- Small businesses are very focused on low price and good performance on the basics
- Competitors are mainly regional players, extending their residential and/or C&I strategies to small businesses
- A few competitors have begun to build the capabilities to meaningfully target the small business segment
- There is little new thinking; competitors all tend to compete the same way

Key competitors



ENERGY PLUS 

At over 6m customers, the North American small business market is substantial; none of our competitors are yet configured to win

The Small Business vision and strategy

Vision: to be the leading small business retailer in NA

Strategy

1. Profitably grow our customer portfolio

2. Increase the lifetime value of our existing customers

3. Achieve a low-cost delivery model

Management agenda

- Continue to build and increase yield of sales channels
 - Launch product suite (fixed, variable, flex)
 - Build on-line sales channel
- Focus on saving high-value customers and expanding renewal margins
 - Continue to improve customer experience
- Build high-performance operating model
 - Build low-cost platform for small business customer portfolio

The 360Direct opportunity



ENERGY WORKING FOR YOU



- Non-commodity product and service offerings
 - facilitate energy management
 - improve stickiness and value of energy customers
 - provide a non-capital intensive source of growth
- Developing a robust product suite
 - including demand response, integrated energy planning and distributed generation
- Uniquely positioned to capture this market
 - combination of retail and wholesale expertise, coupled with a strong balance sheet

DE Business: Summary

- **Top three** in a large and growing, but highly competitive market across North America
- **Strong organic growth** trajectory with good profit fundamentals
- **Leveraging best practices** between DE Business and British Gas Business
- **Continued growth** driven by
 - segmentation
 - sales productivity
 - operational efficiencies
 - financial discipline
- **Further growth** opportunities in small business segment, non-commodity offers

Direct Energy Services

Eddy Collier, President



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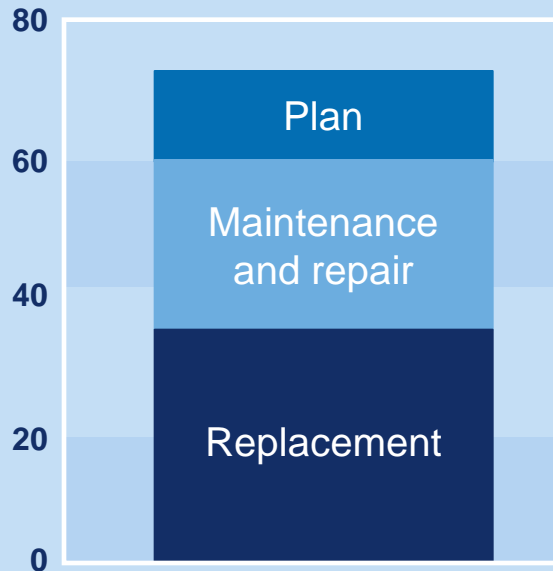
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DE Services: Summary

- **Large and growing** home services market
 - 90% of market served by local contractors
- **Acquisition of Clockwork** makes DE **the largest national** home services provider
 - in 74 of the top 100 US metro regions
- **Significant potential to grow franchise** presence
- Material opportunity to become **a major service & repair plan provider**, emulating British Gas Services in UK
- Opportunity to **leverage energy customer base** in deregulated markets
- Opportunity to **improve efficiency** through common central processes

Home services market is very large, despite unprecedented lows in new home starts

North America home services potential market revenue (C\$bn)



US housing starts (millions)



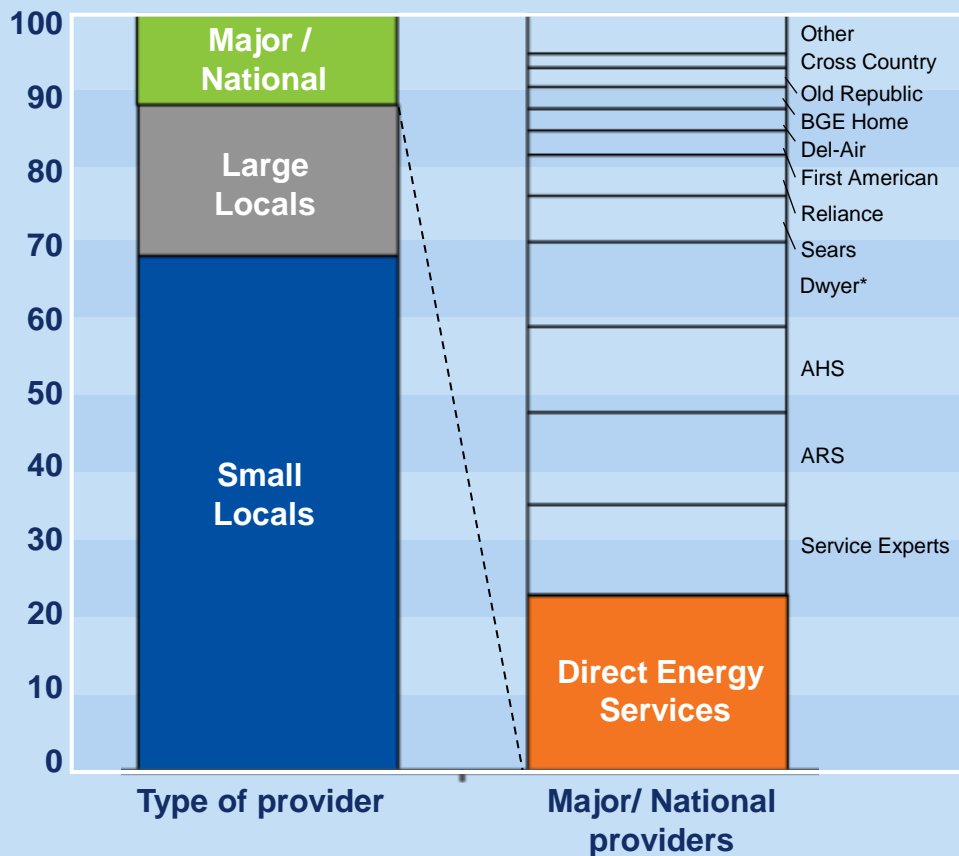
70-75% of market is concentrated in metropolitan statistical areas

Housing starts still at 20 year lows; opportunity is in the underlying new build volumes c. 1.5m homes per annum required to meet underlying demand

Sources: L.E.K. Research and Analysis, DES Research, Congressional Budget Office report;
Note: potential market revenue: HVAC, Plumbing and Electrical services, based on single family dwellings; potential market revenue based on 2010 data

Home services market is highly fragmented, with majors capturing only 12% share

North America home service providers (%)



	Number of technicians	States / provinces
Major / National	150+	2+
Large Local	10 – 150	1-2
Small Local	<10	1
DE Services	3,850	45 states + DC, 10 provinces

Sources: Annual reports, L.E.K. research, interviews and analysis

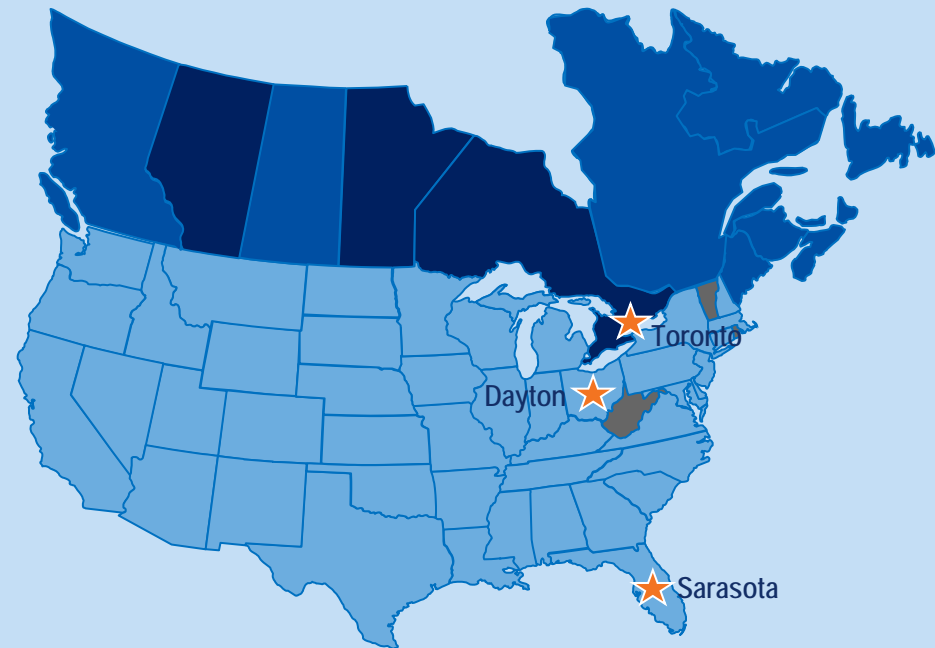
Note: Services include HVAC, plumbing and electrical services; *Includes franchisee revenues

DE Services is the largest home services provider in North America

- Operates in 45 US states plus DC, and all 10 Canadian provinces
- Product offerings
 - on demand service and repair:
 - heating, ventilation and air conditioning
 - plumbing
 - electrical
 - protection and maintenance plans
 - waterheater rentals
- 550+ franchises across 3 national brands plus DE Services brand in Canada



- National brands rising in recognition, according to Entrepreneur Magazine's 2011 Franchisee 500®
- Continued presence in Business Services and New Construction



- Home Services
- Business Services
- Both
- ★ DES Main Offices

We have a presence in 74 of the top 100 high density US metropolitan regions

- 1) *Increase scale in current regions*
- 2) *Expand into new regions*
- 3) *Expand service breadth*



Opportunity to export relevant UK experience to spearhead the North American model

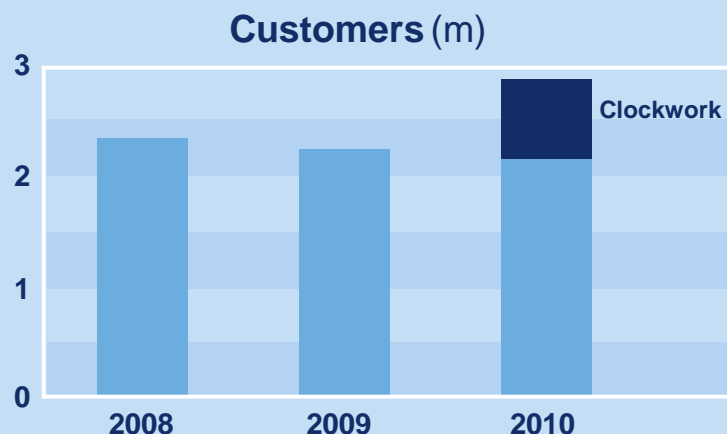
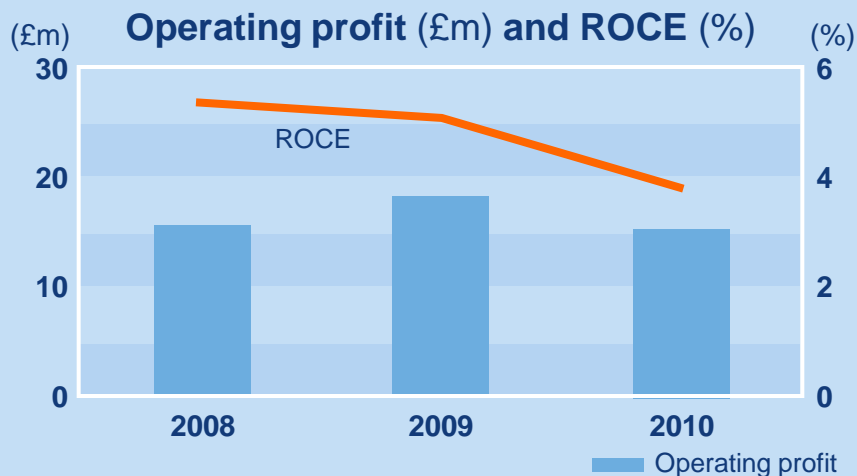
British Gas Services

- Proven leadership talent in the services industry
- Well developed Service Plan business, now including insurance backed products
- Consumer database marketing expertise developed over many years
- NPS experience, leading to radically improved service
- Franchise experience through Dyno; now learning from the North American franchise model

Direct Energy Services

- Transferred several leaders to key roles in North America
- Nascent market in US, but proven latent demand; currently building capability to capture this market
- Exporting UK expertise and approaches to reinforce local experience
- Applying NPS-based customer service processes across North America
- Leading franchise experience through Clockwork

2010: a turning point through the acquisition of a platform for growth – Clockwork



Note: Customer numbers include contract relationships and on demand jobs

2010

- Acquired Clockwork Home Services as a platform for growth in a fragmented market

2011

- Leverage best practices
- Build a One Services organisation for North America

Our vision: to be the pre-eminent home services company in North America

To be the safest place to work



Have the lowest injury rates in the industry

To redefine the customer experience in our industry



Become the most recommended service provider

To be the leading brands, nationally and in our local markets



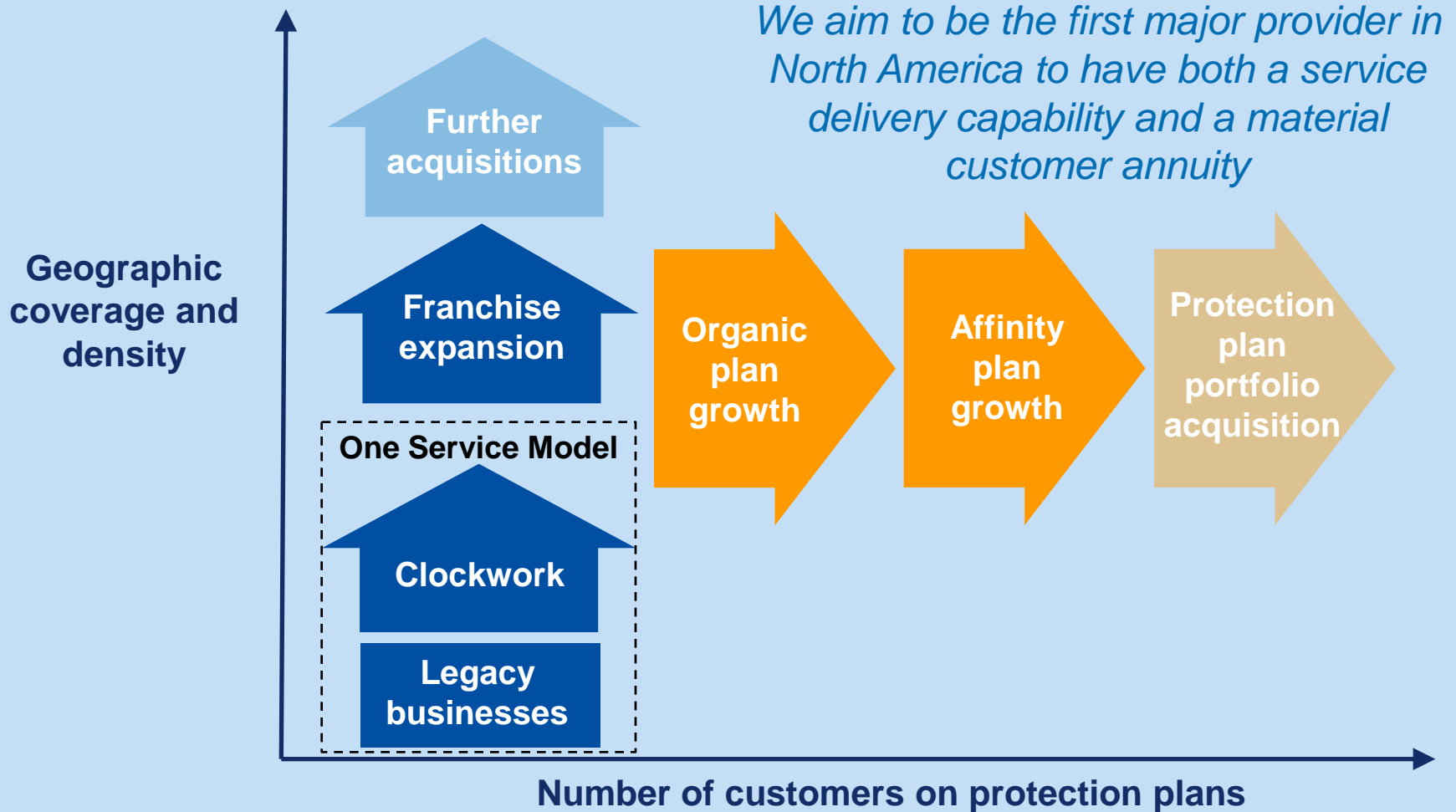
Further build positions in existing territories and expand into new areas

To extract value through the services / energy proposition



Capitalise on our positions in energy markets through cross-selling, bundling and joint propositions

Strategy: to build a plan portfolio to enhance the economics of our services business



We are building a 'One Services' operating model across the whole of North America

2010

Positioning
for success

- Developed growth strategy
- Acquired Clockwork as a platform for growth
- Began safety programme within Clockwork
- Rolled out NPS across Clockwork
- Strengthened management team

2011

Transformation

- Installed Centrica leadership into Clockwork business
- Begin centralising core scalable operations
- Launch pan-North American protection plan business
- New Construction unit remains separate
 - option to leverage market rebound

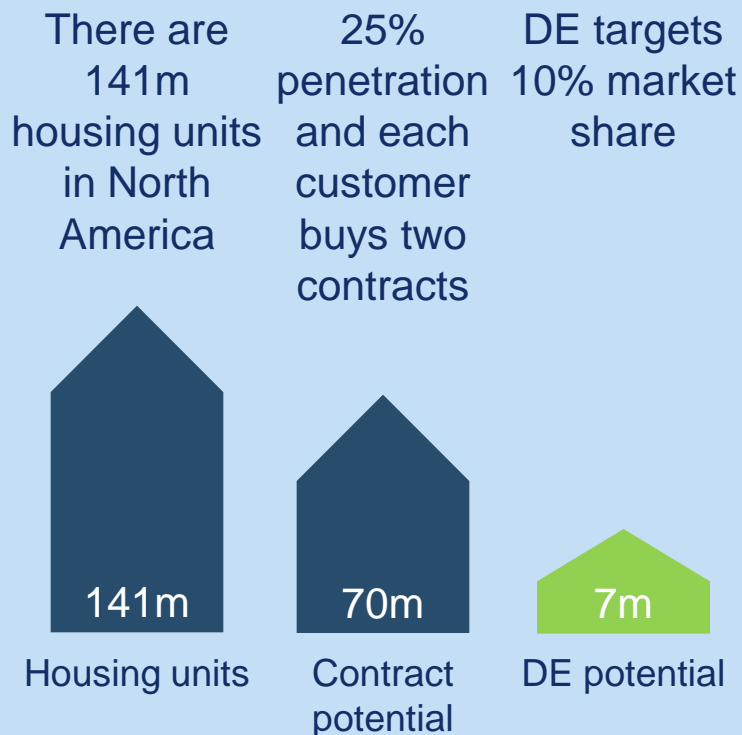
2012

One Services

- **Pan-North American Home Services**
 - with common platform and practices
- **Pan-North American Protection Plan**
 - to enable cross-sell and enhance the franchise value proposition

NA Protection Plan potential is 8x the UK

Plan market potential



Indicative market penetration

	UK	Can	US
Housing units (m)	26	13	128
Plans in force ¹ (m)	16	1	14
Penetration of contracts ²	31%	4%	6%
Housing units without a plan (m)	18	12.5	121

Note: ¹Indicative number of product holdings; UK figure based on British Gas and HomeServe figures (2010 annual reports), and North American figures based on Direct Energy actuals and management estimates
²Estimated penetration, assuming two contracts/policies per household, based on British Gas Services base

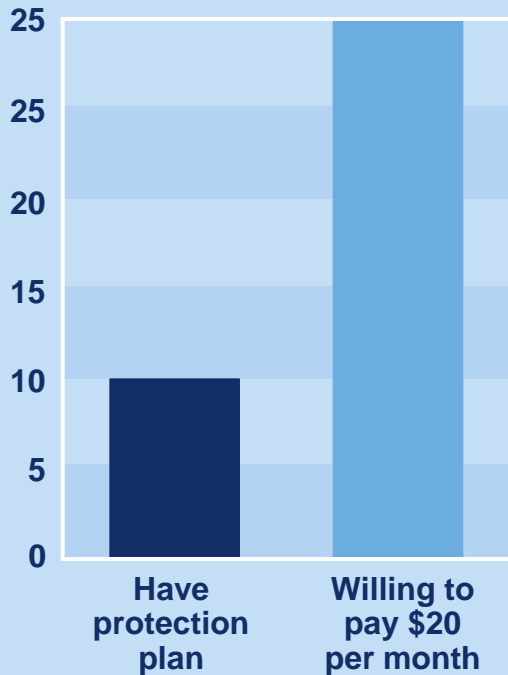
Protection plans present a further opportunity to augment on-demand business

More homeowners want protection plans than have them . . .

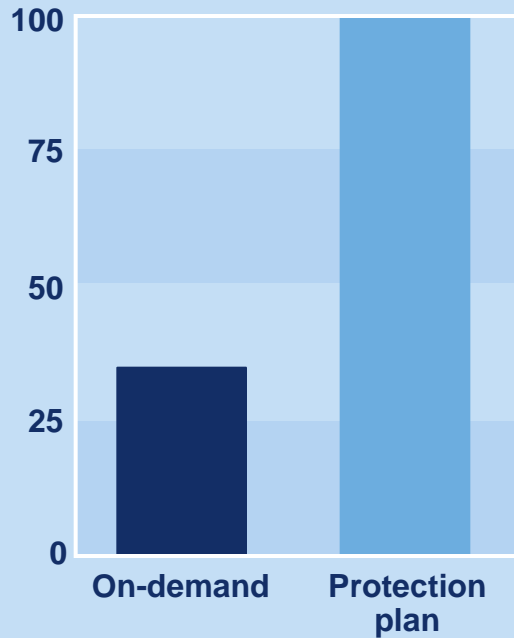
. . . customers with protection plans are more profitable . . .

. . . and few competitors offer them.

% of homeowners across NA



Customer lifetime value (index)



% of service providers



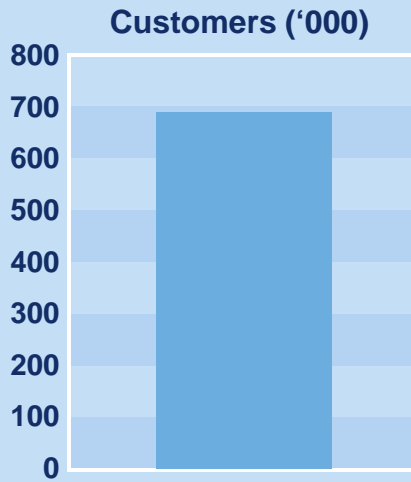
Sources: North American LEK research, 2010

Longer term, upside potential through integration of energy and services

Cross-sell

- Technicians to sell energy
- Market protection plan to energy customer base

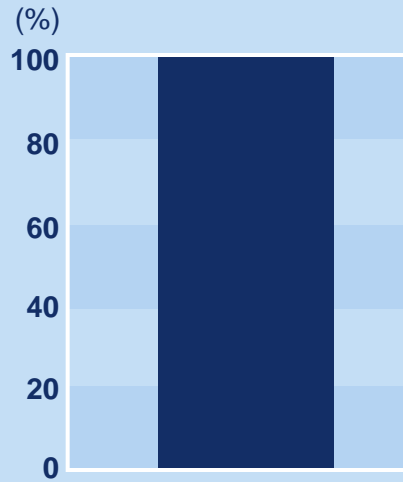
700k DE Services customers in DE Energy markets



Bundling

- Reduce energy customer churn with protection plans
- Attract with integrated Energy / Services package

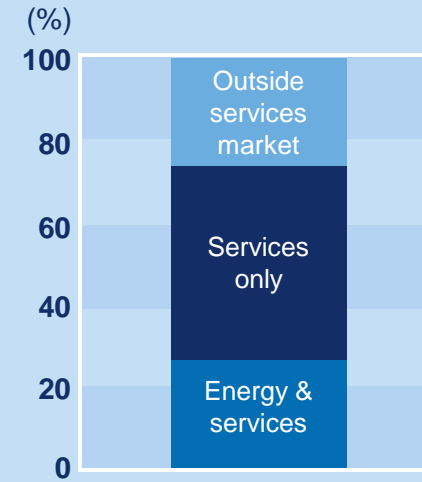
Over 1.2m DE Energy customers in DE Services markets



Brand building

- Increase overall brand recognition through co-branding

Over 25% of home services market in DE Energy and Services coverage area*



Note: *Service coverage defined as 50-mile radius from service location; includes Gateway

DE Services: Summary

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A growth engine for Direct Energy

Direct Energy Upstream

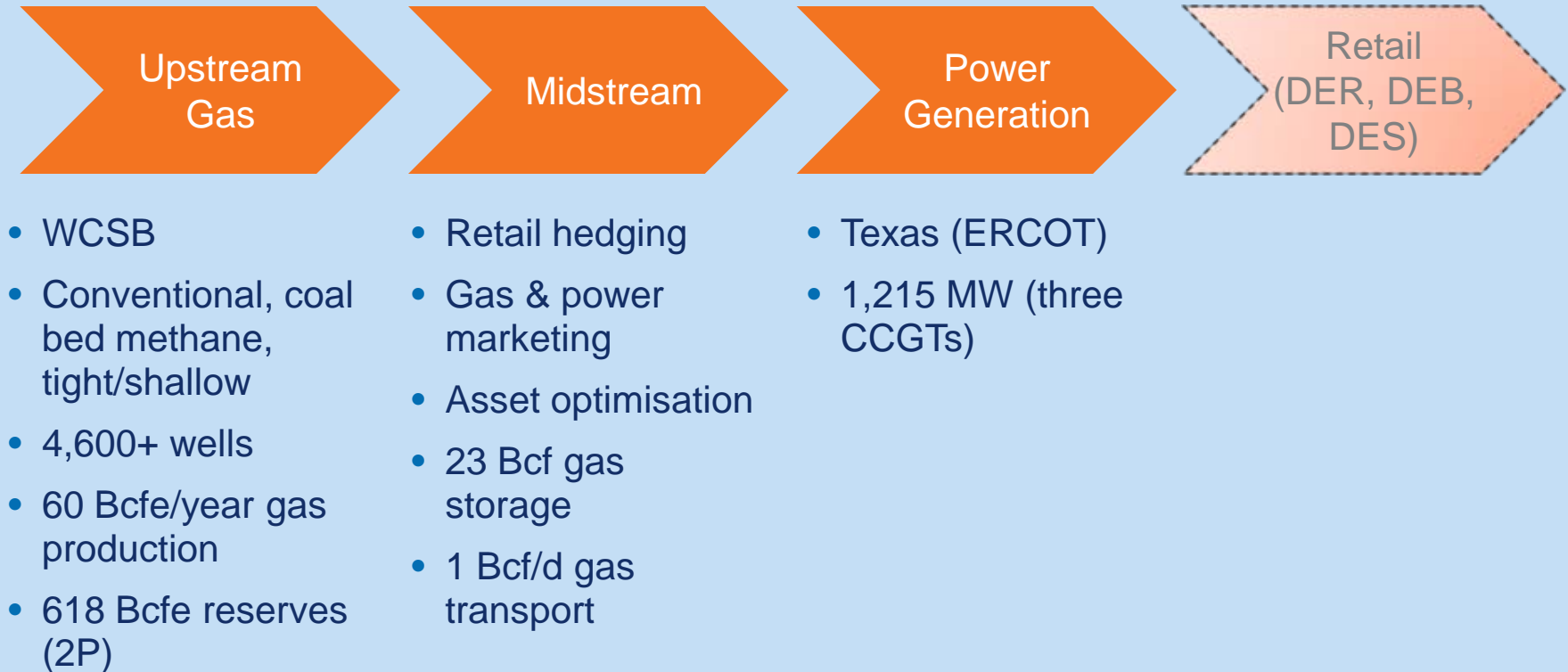
Badar Khan, President



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DE Upstream overview



Note: includes 2011 acquisition of further Wildcat Hills assets;

DE Upstream: Summary

- North America is world's largest gas and power market
 - plentiful opportunities to increase vertical integration
- Doubled upstream gas reserves since 2007, while maintaining top-quartile costs
 - Wildcat Hills acquisitions adding low-cost production, reserves, and ability to leverage new technologies
- Power assets acquired well and well positioned, but challenged by current low spark spreads
- Growth driven by:
 - further investments in gas and power assets
 - commodity price upside supported by fundamentals
 - leveraging new technologies in upstream gas
 - customer-focused, integrated midstream business

Market recap

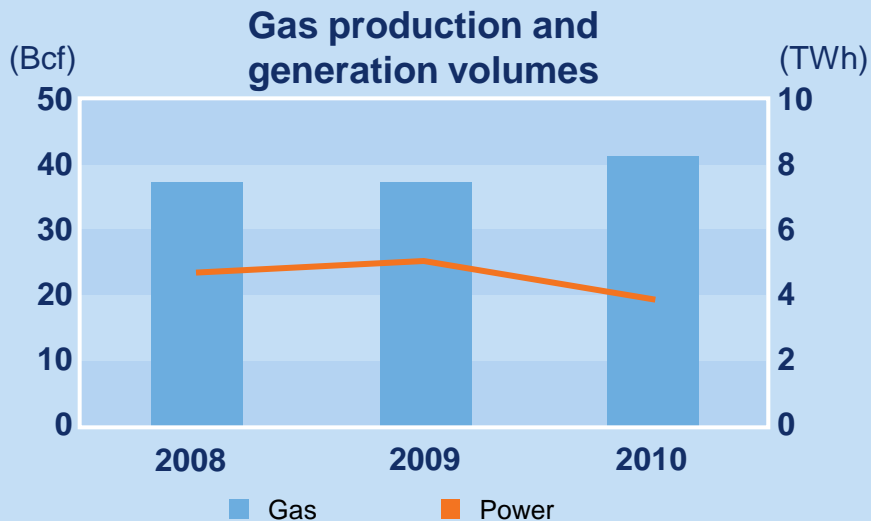
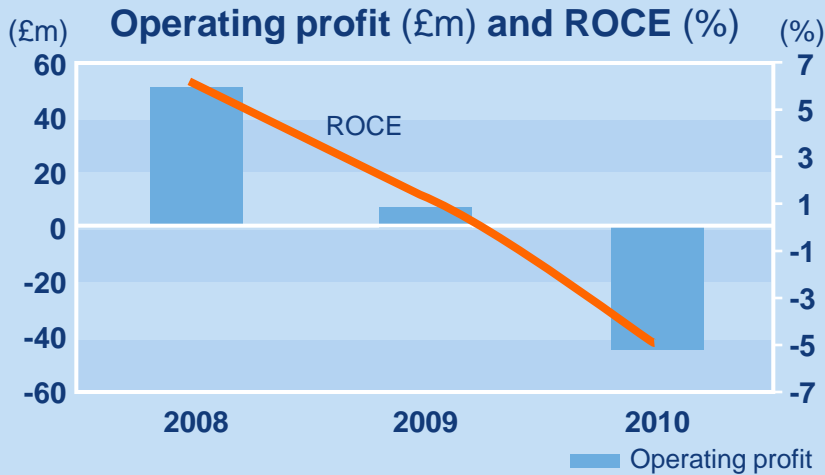
Upstream gas

- WCSB is a large and low cost basin
- Portfolio reshaping towards unconventional gas
- Underexploited conventional assets at relative low multiples
- Large infrastructure projects providing gas supply routes out of WCSB

Power generation

- Ageing generation fleet: 1/3 of non-renewable US generation is 40+ years old
- Load growth driven by population and economy, offsetting energy efficiency
- Declining reserve margins
- Gas-fired generation favoured, but coal remains significant
- Power markets are regional

Historical performance



Drivers of performance

- Upstream gas
 - natural gas prices
 - low cost acquisitions
 - hybrid and oil development
- Power generation
 - spark spreads
 - asset optimisation
- Midstream
 - growth in business

Vision and strategy

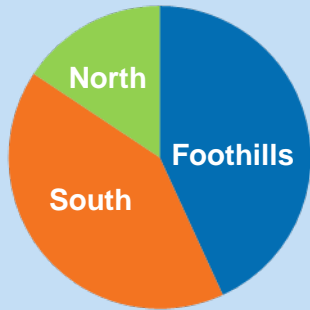
Our vision: To build a leading vertically integrated energy business with low cost assets

Strategy

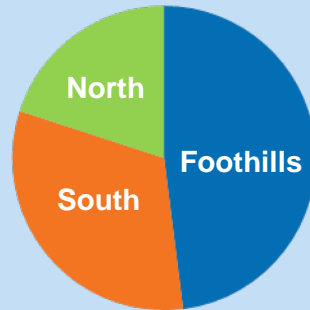
- **Maximise returns in the low price environment**
 - optimise power assets
 - low cost gas producer
- **Increase generation asset cover**
 - geographic diversification matching downstream load growth
 - fuel mix in line with market trends
- **Continue upstream gas investments**
 - acquire assets with large gas/oil-in-place, owned infrastructure, and undeveloped land to add optionality
 - leverage technology to increase production and reserves
- **Grow integrated midstream business**
 - customer-led, asset-backed

Upstream Gas overview

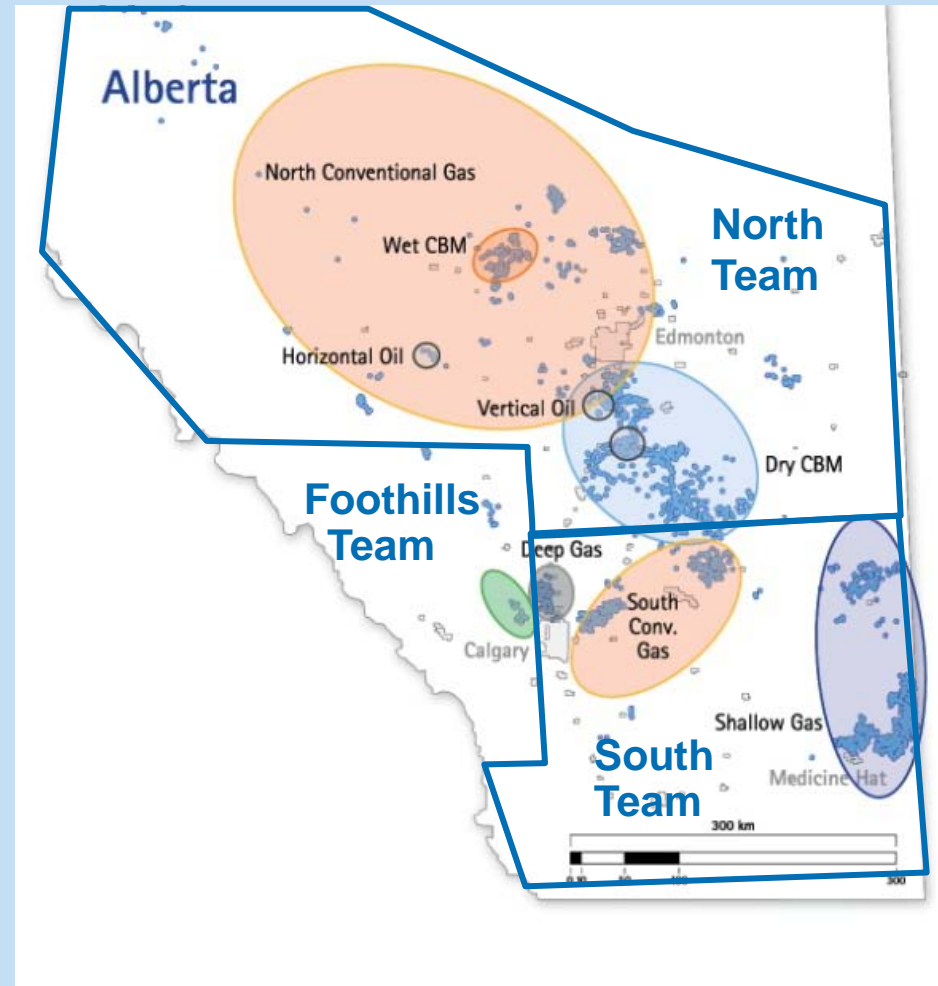
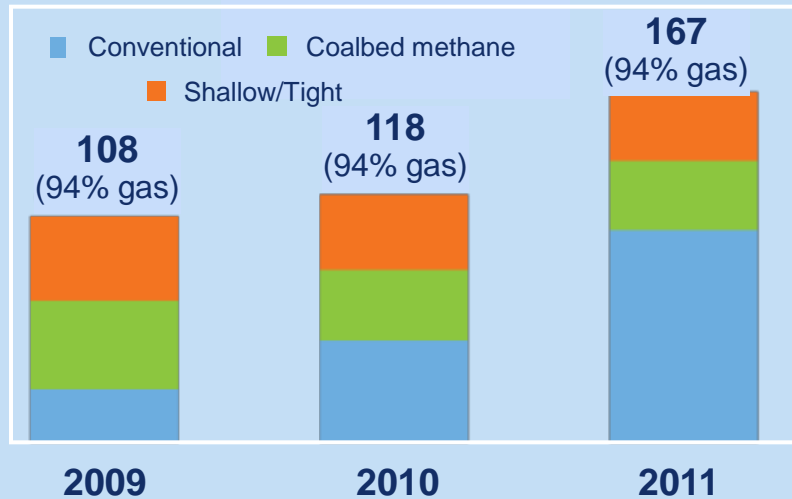
Total 2P reserves:
618 Bcfe



Current production:
167 mmcfe/d



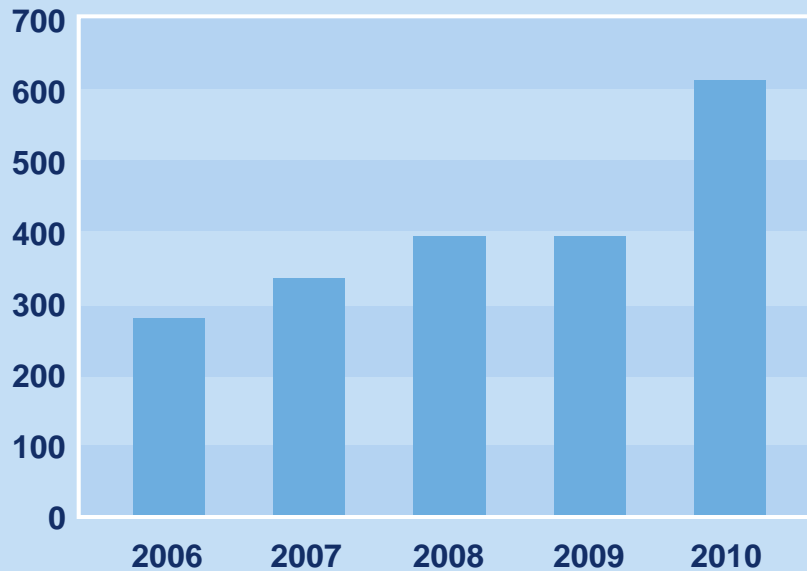
DE production (mmcfe/day)



Upstream Gas performance

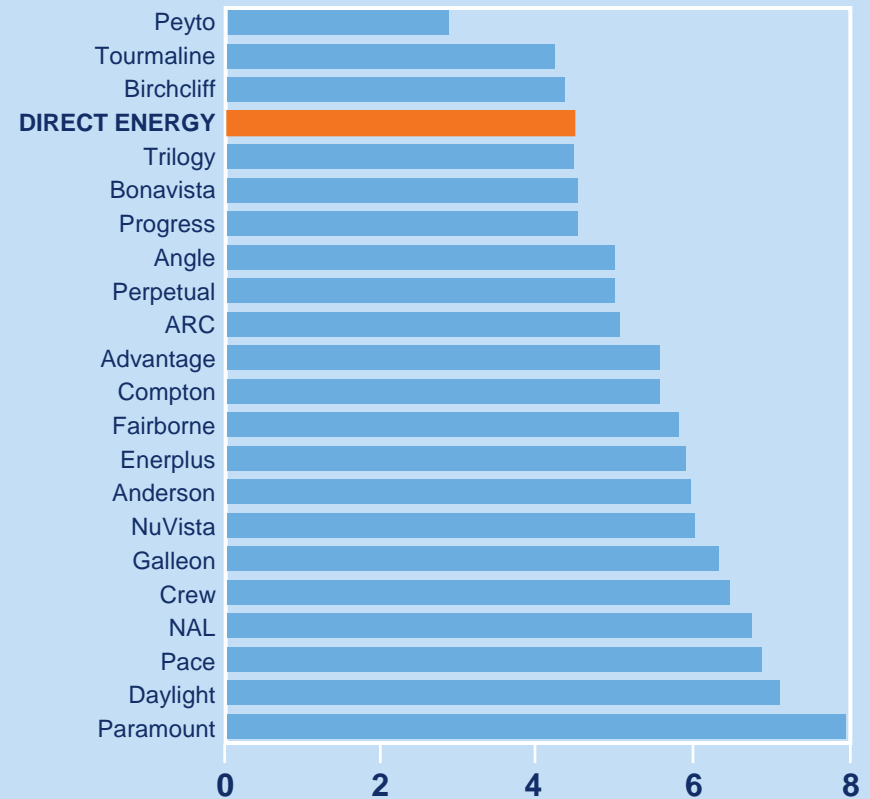
We have doubled our business . . .

Reserves (Bcfe)



. . . and we are low cost

WCSB gas production costs (C\$/mcf)

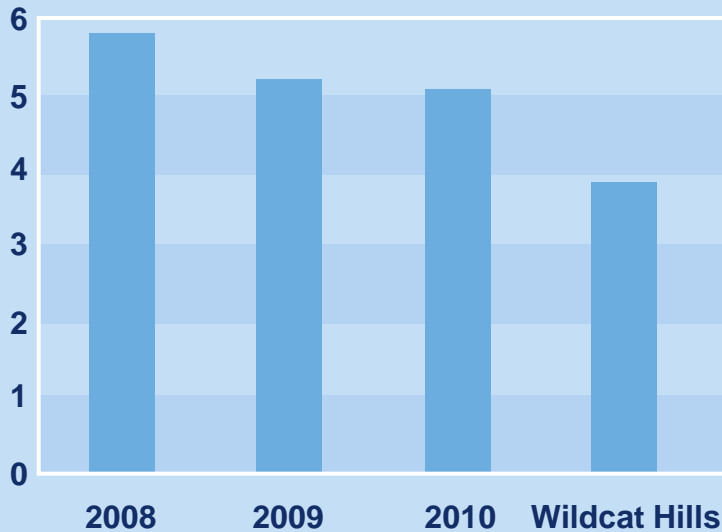


Sources: Cost data from most recent public quarterly reports (Q1 2011); costs include royalties, production costs, G&A and DD&A

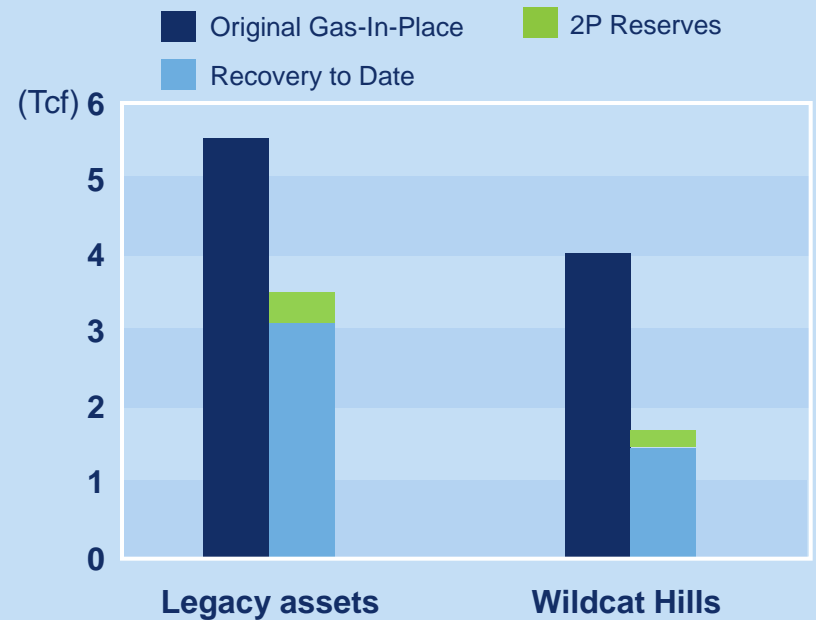
The gas opportunity

Recent deals have lowered costs

Gas production costs (C\$/mcf)



Upside given large gas-in-place



Recovery factor: 64% (Legacy assets) vs 41% (Wildcat Hills)

F&D Costs: c. \$3.00 (Legacy assets, 2007-09) vs <\$1.50 (Wildcat Hills, 2010-13)

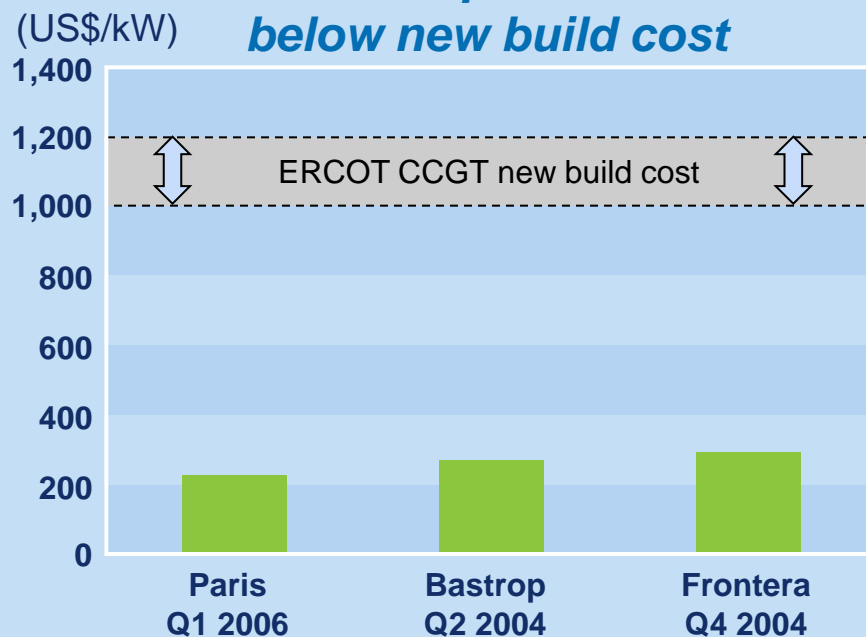
Note: Gas production costs include production costs, royalties, operating expenses and DD&A

Power generation assets

ERCOT assets	Start date	Date acquired	Capacity (MW)	Heat-rate (BTU/kWh)	Capacity factor
Bastrop	2002	2004	525	7,035	44%
Frontera	2000	2004	450	7,053	49%
Paris	1990	2006	240	8,305	20%



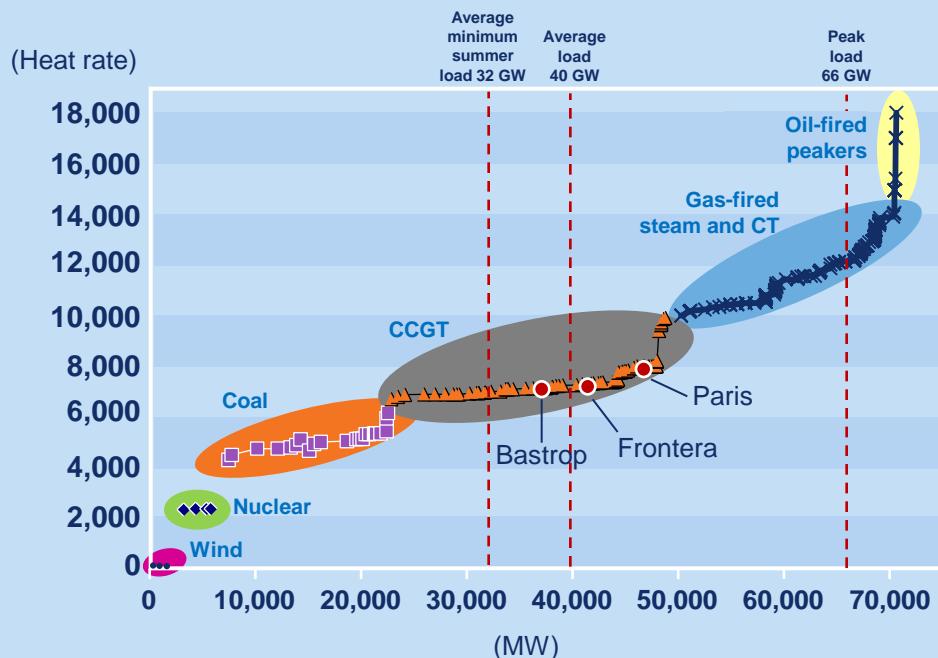
Assets acquired at well below new build cost



Power generation competitive positioning

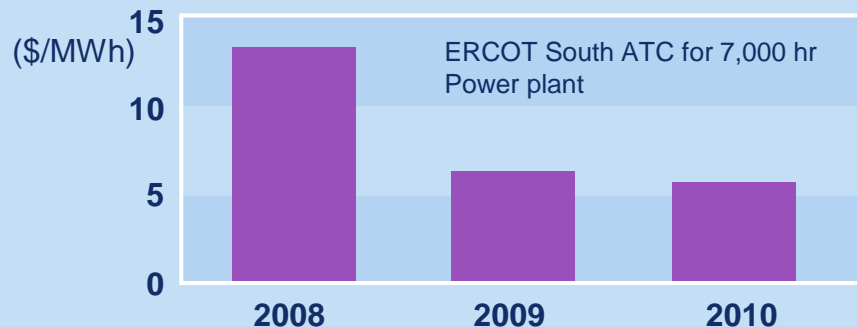
Competitively positioned on the stack

ERCOT supply stack at US\$4.50/MMBtu

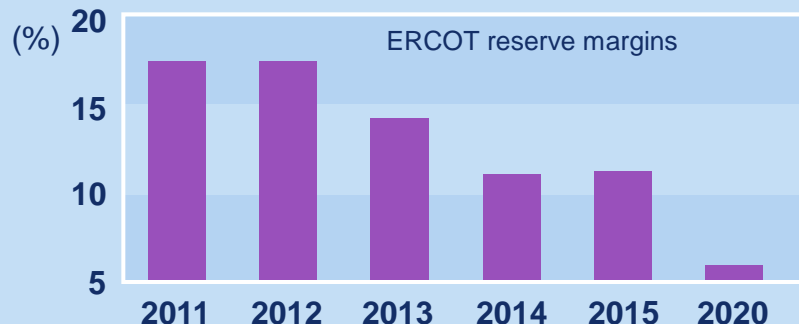


Sources: Ventyx and ERCOT CDR report Dec 2010; Navigant Benchmarking Study Aug - Dec 2010
 Note: 9,000 MWs of wind in operation (30% capacity factor at best); 800 MWs of hydro; the units at the far left of the bid stack are nuclear, coal and lignite units - their equivalent heat rates are based on a \$4.50/MMBTU gas price; wind can shift the bid stack from 4 to 6 GWs; peak load = demand peak, not net of Load Serving as a Resource

Spark-spreads have fallen recently



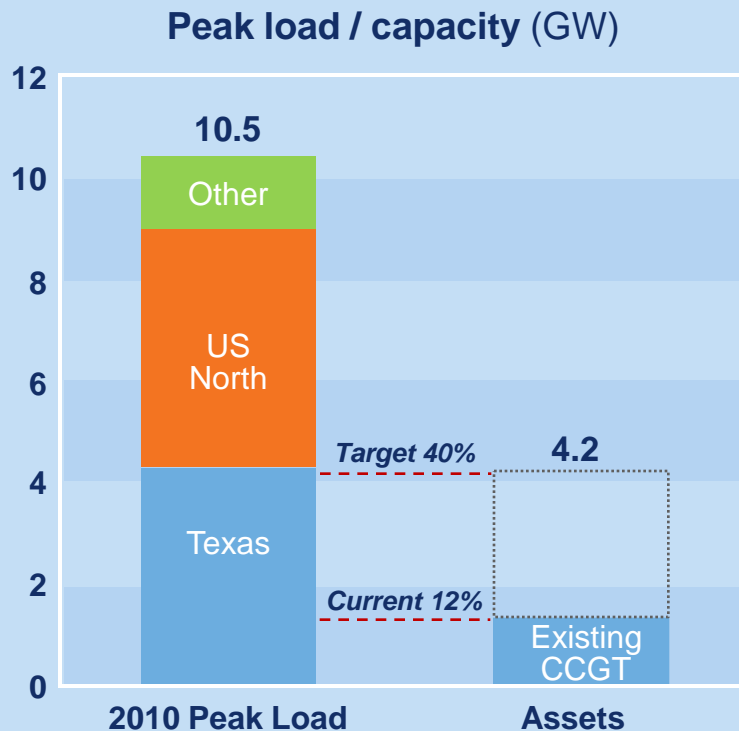
But reserve margins are under pressure



Source: ERCOT May 2011 Capacity Demand Reserves Report

The power generation opportunity

Targeting increased asset cover

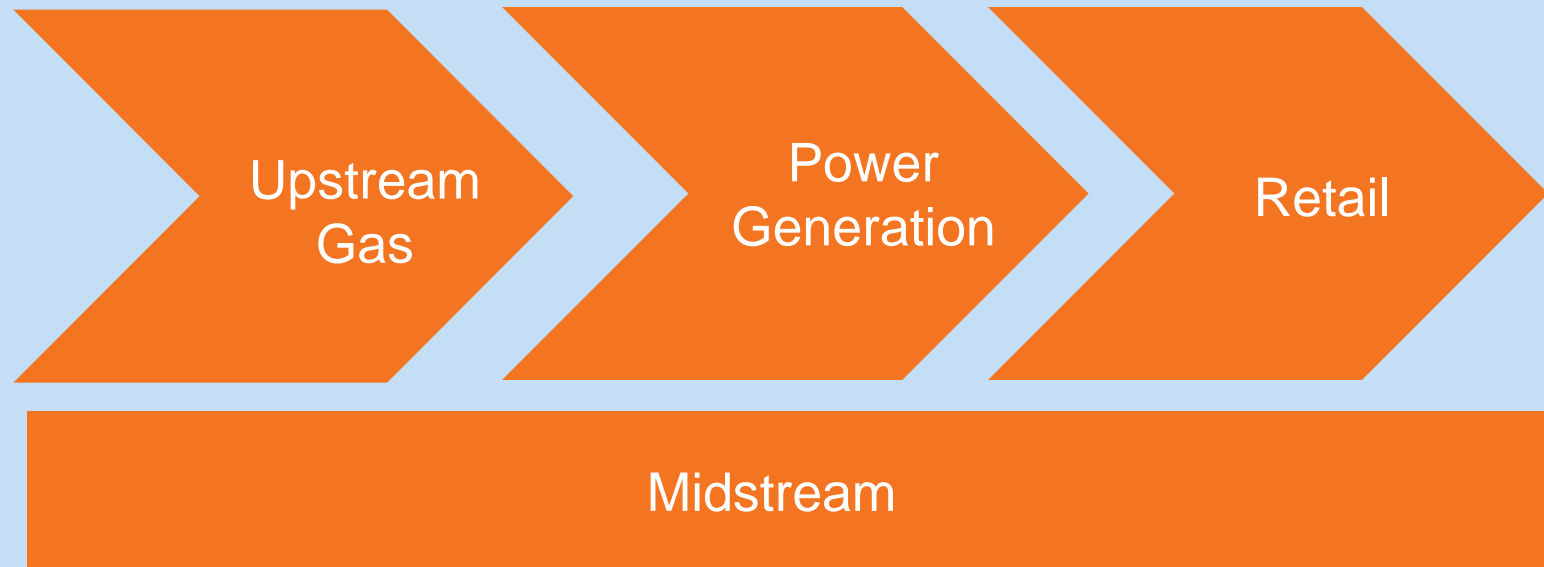


Integration benefits

- Earnings stability and growth, during periods of volatile commodity prices
- Reduced transaction costs
- Enhanced portfolio optimisation
- Reduced collateral requirements
- Enhanced market knowledge
- Participation in adjacent value-creating opportunities

Customer-focused midstream opportunity

Leveraging capabilities to develop customer-focused business



- Generation optimisation, marketing gas production and retail procurement
- Optimising 23 Bcf of natural gas storage agreements and 1 Bcf/d natural gas transportation
- Building customer focused business in each segment of the value chain

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Direct Energy Investor Day

28 June 2011



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