Strategic Review Presentation Transcript – 30 July 2015

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In the second part of this morning's presentation, we are covering the outcomes of the strategic review which we announced with the Prelims on 19th February. Jeff and I will cover the key aspects and conclusions from the review in some depth, no doubt not enough for you, but we will cover it in some depth. This will take about an hour and 15 minutes. Mark Hanafin (Managing Director, Centrica Energy), Mark Hodges (Managing Director, British Gas) and Badar Khan (President and CEO, Direct Energy) have not left, they are over there and will then re-join us on the whole stage and the whole team will be happy to take your questions, including any outstanding from earlier.

So in February, in light of the significantly changed circumstances we experienced in 2014, particularly the significant fall in the oil and gas prices and the outcome of the first UK Capacity Market auction, the consequent affect on our cash flows and decision to rebase the dividend, we announced we were launching a Group-wide strategic review. A fundamental review was the appropriate way for us to test our strategy and its resilience in the light of such changed circumstances. We designed it to be focused around these four dimensions: firstly the outlook we see and the sources of growth; secondly the portfolio mix and its capital intensity; thirdly our operating capabilities and efficiencies; and finally the Financial Framework of the Group going forward.

Let me briefly explain what we have been doing and later on I will cover the individual aspects in more detail.

The review has been a thorough and rigorous analysis of where we are, and leading to clear conclusions about where we are going to go in the future. It has been led by the Executive Team, supported by a significant cross-section of the senior leadership, and by external strategic consultants. I am confident that the conclusions we have reached are the right ones for Centrica and the actions we will take as a result are within our capabilities to deliver.

Under outlook and sources of growth, we tested the market trends and environment and what this means for our ability to grow. Given the changes in global oil and gas markets, the continuing weakness in clean spark spreads and the changing trends in demands and customer behaviour, we have reassessed the medium term view of the fundamental trends which drive our business. Reflecting this, we believe we have identified a number of areas of potential growth as well as assessing some drivers such as energy efficiency which, all other things being equal, would obviously reduce our operating cash flows.

Secondly, against that fundamental backdrop, under portfolio mix and capital intensity, we tested the businesses we wish to be in and the desired mix and capital intensity we wish to have going forward. This led to focused areas for potential growth and associated resource and investment needs and the resultant capital intensity of the Group.

Thirdly, under our operating capability and efficiency, as we have been considering our portfolio we have assessed our capabilities in each area, both in absolute terms and relative to the competition. We have taken a hard look at the level of efficiency we are delivering as a company, relative to benchmarks in other industries and against our competition. We have identified material potential efficiency savings across the Group.

And finally we have determined a robust Financial Framework for the Group which establishes medium term expectations for growth, returns, reinvestment, distributions and the credit rating.

The headlines of our conclusions are as follows.

We have concluded that Centrica is indeed well positioned to deliver into the emerging trends in energy. And our strength lies in being a customer-facing business. This is where we are most distinctive, and this is where we can make the biggest difference and contribution going forward. Our purpose is therefore “to provide energy and services to satisfy the changing needs of our customers”. Everything must be in support of this.

We believe we can deliver increasing shareholder value in the next phase through both returns and growth. By growth we mean post-tax operating cash flow growth and not necessarily expansion of the physical parameters of the company.

We are targeting 3 to 5% post-tax operating cash flow growth per annum on average out to 2020 and believe this could be a sustainable level of growth over the longer term. This growth is at flat real oil and gas prices at $70 dollars a barrel Brent, and 50 pence per therm NBP gas price and assumes normal weather patterns and impact on demand. This includes assumed minor inorganics of say £50-100 million within the capital expenditure limits set by our Financial Framework, but excludes larger, major inorganic activity. In the near term it is also before the one-off cash costs to deliver our major efficiency programme.

Having built today’s platform, going forward we will be putting greater emphasis on the customer-facing activities of Centrica, and less relative emphasis on exploration and production and on central power generation. This will involve a shift relative to 2015 in resource allocation of £1.5 billion towards the less capital intense customer-facing businesses and away from E&P and central power generation over the next five years and obviously up to 2015 we have already made a shift in reducing the capital allocation to E&P relative to the past.

In the customer-facing businesses, we will be focused both on our traditional areas and expanding into new adjacencies and offerings, including the Connected Home and Distributed Energy. This will lead over time to a less capital intense business model and we will be limiting capital reinvestment in the Group in the next three years with the objective of underpinning the dividend and credit metrics while our plans to deliver operating cash flow growth are implemented.

As part of growing operating cash flow we will be focusing significantly on improving the efficiency and effectiveness of our organisation. With our near term growth underpinned by a major efficiency programme targeted at delivery of annual savings of £750 million per annum by 2020 relative to 2015 from our operating costs and non-commodity costs of goods. These savings are in nominal terms. After inflation we would expect the like-for-like operating cost base of the Group to reduce by about £300 million per annum by 2020 relative to the 2015 baseline.

After investments in our focus areas for growth which by 2020 we estimate could involve additional operating costs annually of about £200 million, we would therefore still expect the reported operating cost base of the Group in 2020 to be below that of 2015. This excludes any major inorganic changes to the portfolio. In other words, delivery of our efficiency target of £750 million per annum is on a like-for-like basis and

does not assume reduction of our operating cost base through asset sales, and likewise excludes any increase in operating costs if we were to make major acquisitions.

This cost efficiency programme supersedes all previous efficiency programmes planned or announced for the five calendar years of 2016 to 2020. And indeed the targets that we are announcing today supersede all other targets that we have had in place of 2016 to 2020.

Finally we will manage the Group within a clear Financial Framework.

We expect to deliver a progressive dividend with growth over time reflecting our operating cash flow growth to 3 to 5% per annum. This will not be mechanistically derived in any calendar year, but will reflect our ability to deliver sustainable levels of operating cash flow at flat real oil and gas prices and normal weather patterns.

Capital reinvestment will be limited in the near term to £1 billion per annum and in the longer term to 70% of operating cash flows, but again limited by our intention to deliver the dividend and maintain a strong investment grade credit rating. Regarding returns, we expect to deliver post-tax returns on average capital employed of 10% to 12% and would aim to improve on this over time as we lower capital intensity.

That summarises the headline messages, and I hope that when taken together, what we are announcing today gives you all confidence and clarity of the future direction of Centrica in its next phase and of its strategic evolution. It is designed to deliver an attractive total shareholder return through a combination of returns and growth. I am confident in the conclusions we have reached and our ability to deliver on the future path for Centrica which we are laying out today.

Now let me talk through the strategy in more detail beginning with the outlook and sources of growth and focusing first on the market fundamentals.

The world of energy is changing. Primary energy demand has been growing at around 1.5% per annum with nearly all of that growth now in the non-OECD, with OECD markets essentially flat. The trend is likely to continue.

Power demand growth is the biggest driver. Natural gas for both heat and power, nuclear and renewable will be the fastest growing contributors to satisfying primary energy demand growth. However it is not clear that returns in central thermal power generation in the OECD will be attractive, and the subsidies which currently support renewable growth are uncertain. Fossil hydrocarbons are likely still to supply over 70% of global primary energy in 2035.

Energy demand growth is diverging from GDP growth and CO_2 production is beginning to diverge from energy. The trend towards lower carbon pathways for heat and power continues to support that divergence driven by both demand and government incentives.

Given those fundamentals, supplying fossil fuels to the world through E&P should, on average, continue to be an attractive business through the cycle, but it involves significant risk and requires focus and specialisation.

On a global level, regional gas supply and demand imbalances are expected to widen, driving significant growth in LNG trade. Demand for gas in Asia Pacific is currently the

primary driver, and unless significantly unconventional resources are discovered in Asia, this trend is likely to be robust.

In addition to LNG there are growing profit pools in energy marketing and trading more generally, as the global trade in energy increases and as customers seek energy marketing and risk services.

In power, significant capacity additions are required to both replace existing capacity retirement, and also to satisfy demand growth. However, as we have seen in recent years, the key question is whether it is possible to make good returns out of satisfying such demand for capacity. Central generation in the OECD is experiencing something of a market failure, because of Government policy implementation leading to over-capacity, a price of CO_2 which is too low to drive changes in returns or mix in favour of gas-fired power and undifferentiated and inflexible marginal capacity which pegs returns at about cost of capital in the face of higher intermittency by renewable.

Distributed Energy, including distributed generation, energy efficiency solutions, smaller scale combined heat and power systems, and demand-side response applications, appears to be a significant trend in both OECD and the non-OECD. We believe this is likely to take power market share and to generate significant potential growth margin pools.

In terms of our core business of energy supply, gas and power demand in our core markets is likely at best to be flat, driven by energy efficiency and low levels of economic growth. Customer service expectations are very high. Today residential customers don't appear willing to pay materially more for excellent service in commodity energy supply, although they reward this by lower churn and higher customer loyalty, thereby reducing the cost of holding or growing market share. Energy services and potential adjacencies remain a source of differentiation and potential growth in both B2B and B2C.

The Internet of Things appears to be developing rapidly and will enable a wider range of applications, insights, efficiency and services. It is as yet unclear how much of this space can evolve into separately valued offers and businesses, and how much will be services which help to differentiate integrated offerings within the overall customer relationship. Whatever the outcome, we believe this area will become an important source of differentiation and a component of our service offering, and will underpin new margin pools in the future.

When we compare this outlook with where Centrica is today, we have reached clear conclusions about our purpose, individual sources of growth available to the Group, where we should focus and the potential outcomes we should deliver.

Let me now expand in more detail on the principle conclusions we have reached beginning with the purpose of the Group.

Centrica is an energy and services company. The purpose of Centrica is to "provide energy and services to satisfy the changing needs of our customers", so contributing to economic progress and society. We have a 200 year history anchored in such a purpose which began with the Gas Light and Coke Company in 1812. Serving customers is what we are known for and, as I said, what we are good at, where we can make the most significant difference and where we have distinctive positions.

The focus of everything we do will be to deliver for the changing needs of our customer base, including the sourcing and optimisation of energy to meet those needs. With so

much change occurring in what our customers want and expect, we must focus significant efforts on their needs both to access new strategic opportunities and to respond to competitive threats. In pursuing this purpose we intend to deliver long-term shareholder value through returns and cash flow growth which, if we can deliver it, is clearly a much better investment proposition than simply returns.

To deliver our purpose over the long-term we must be a trusted corporate citizen and employer of choice. The provision of energy and associated services is fundamental to people's lives. To have a sustainable future, we must be trusted in that delivery. The cost of lack of trust is high and will ultimately cause us to fail. We must redouble our efforts to engage constructively with all stakeholders in a meaningful way to deliver that trust. We will contribute proactively to energy policy in all our markets, in the areas of security of supply, competitiveness and affordability and climate change. We will also play our part in the improvement of the role of business in society. Being an employer of choice is necessary if we are to have access to the best talent and to win in the long-term. Without the right capabilities in such a competitive marketplace, we will fail.

So we aim to be a 21st century energy company. Our purpose is a fundamental one, and being trusted to deliver it and doing it well will result in our ability to attract the best, and potentially be the best in our sector.

Let me now turn to sources of growth. As I go through this, I will also be addressing parts of the second dimension of the strategic review, portfolio mix and capital intensity, as well as describing our level of capability in each business.

It will not be easy to grow Centrica, but we have concluded that we can grow the Group's cash flows as a whole. It will require great focus, enhanced capabilities, significant organisational change and excellence in delivery. The sources of growth will evolve between the near-term horizon and the long-term. Centrica's customer-facing businesses are a source of real competitive advantage in the face of the trends outlined earlier. Positive attributes which include strong market shares, good brands, significant customer books, deep capability in services on the ground and ability to process a high density of transactions at scale. Growth in our customer-facing businesses is key to Centrica being able to grow given the realities of E&P natural decline and the lower attractiveness of central power generation today.

We believe that growth in operating cash flow in our customer-facing businesses is absolutely possible. Given the starting point in British Gas in terms of market share, it will require excellent delivery across many dimensions, and to access all available growth in our existing markets. There is clearly evidently more ability to grow in Direct Energy given the size of the market and where we start. Bord Gáis Energy has growth potential, and it is a recent example of a successful geographic step out, but the scale of impact on the Group is limited.

In all our market geographies, growth in the near term will require close attention to our own efficiency and effectiveness. When taking with our assumed activities in the other parts of the Group, we believe we can deliver operating cash flow growth for 3 to 5% per annum until 2020 assuming flat real oil and gas prices and normal weather conditions. I will now address in more detail the main areas for long-term growth.

Our main focus for long-term growth will be on: Energy Supply, Services, Distributed Energy and Power, the Connected Home, and Energy Marketing and Trading.

These are areas where we have some or all of the characteristics of material market shares, strong product brands, competitive and/or distinctive capabilities and emerging products and offerings. We have the potential to have distinctive positions and capabilities in all of these. We will invest to be excellent in serving our customers, in technology and offers which provide the solutions they need, and in driving efficiency into our processes which support them.

In Energy Supply, Services, Distributed Energy and the Connected Home, the desires of our customers and the trends I set out earlier appear to be the same across the developed world. We should therefore aim to build or acquire capabilities which can be applied internationally across all of our existing markets, so leveraging our scale and ensuring efficient route to market and use of resources. We should also have a common approach to delivering into these opportunities. Some of the trends also apply to the growing markets outside the OECD and such capabilities may open up future pathways to new geographic markets.

I will now turn to each of these areas in turn, beginning with energy supply.

Our energy supply businesses will continue to be a key contributor to Group cash flow. As already indicated, in the UK it will be difficult to grow British Gas energy supply cash flows given underlying consumption decline and the highly competitive market for both residential and business customers. However we will look to offset these factors through significantly improved cost efficiency, reduced churn driven by improved customer service levels, new B2C and B2B offerings, in conjunction with the Connected Home and Distributed Energy and Power respectively, and tight working capital management.

In Ireland we will also look to improve efficiencies in Bord Gáis, and in a more recently deregulated market in the UK, look to increase our electricity supply and services market shares.

In North America, for residential customers we are focused on developing a more sustainable business model, with the potential to access additional market share in the United States. Two thirds of our business is in Texas and Alberta which are fully or materially deregulated and where we can compete effectively. The focus on developing a more sustainable model is therefore largely about the US North East.

This will require delivery on three dimensions – improved propositions, including adding higher retention Connected Home offerings, greater focus on customer mix, and achieving lower churn. We believe this will allow for the possibility of market share growth, targeting the 60% of customers who have not yet switched from the default supply in the US North East and also the potential of expansion into other States.

In business energy supply, the acquisition of Hess Energy Marketing in 2013 made Direct Energy the largest Industrial and Commercial gas supplier on the East Coast of the US and the second largest power supplier in competitive US retail markets. As a result we now have a market leading position in the provision of energy to business customers, and the ability to optimise around capacity and storage positions. This provides a strong base for the business to deliver sustainable returns over the long-term.

Taking all of our energy supply activities together, although we are targeting to enable growth, our prudent base-case assumption is that operating cash flows from the energy supply businesses will be broadly flat from 2015 to 2020, with competitive commodity margin pressures and energy efficiency being offset by higher retention,

improved cost and working capital efficiency, increased margins from enhanced offers and some market share growth in the US and Ireland.

Let me now turn to the Services businesses.

We also continue to see good growth potential in services. In the UK, although our contract base has been declining in recent years, we are confident we can reverse the trend and return the business to growth. We will focus on refreshing the residential Homecare offer as well as growing into new customer sub-segments such as offerings for Landlords. This segment is a particularly important area for growth, with the proportion of private tenants growing, and an increase in regulation driving the need for landlord insurance cover.

We also see growth coming from the On Demand segment in repair and service and by adding capacity to pursue share in central heating installations. Here too we will focus on driving growth through efficiency.

In North America our services business is relatively small compared to the UK, and to the US energy supply businesses. However we have been investing in capability and capacity, and are now represented in all 50 US States. We are the US national market leader, albeit with only a 1.4% national market share. The market is very fragmented, but it is very large, with revenues estimated to total $80 billion dollars per annum.

We believe there is great potential for growth from the wide range of products we are able to offer, including protection plans, potentially offering them alongside energy, solar and Connected Home products. We are seeing growth in franchise revenues and we should also benefit from recent IT consolidation projects and operational improvements which will enable us to grow scale efficiently.

We expect to commit an additional £250 million mainly in operating costs into services growth over the next five years and expect operating cash flows from services to grow over the period.

The next area to cover is Distributed Energy.

Distributed Energy is a growth market into which we intend to expand. This rapidly growing market applies to all geographies in which we operate and is focused around five offerings: energy efficiency; flexible generation; integrating new technology offerings such as battery storage energy management systems; “virtual power plant” (or VPP); and optimisation. These trends also apply to markets we are not in, and Distributed Energy could become a very material growth node for Centrica.

Because of the existence of peak rates for electricity and incentives to install renewable and back-up distributed capacity, many types of distributed generation technologies are competitive with central grid supply. Many Industrial and Commercial customers are seeking ways to drive energy efficiency, but don’t have the spare capital capacity to pursue it, and don’t have the installation capability at scale. Optimising and managing the energy system for a large customer requires real expertise. When customers seek out such integrated services; they cannot find offerings at scale. Centrica has most of the capabilities to deliver such offerings and we believe we can expand in this area materially over time. We therefore believe that Distributed Energy will be a global opportunity for us targeted at Industrial and Commercial customers and providing a full value chain offering.

Centrica already participates in Distributed Energy with Industrial and Commercial customers on both sides of the Atlantic. We are in discussions with a number of major clients at the current time in addition to our existing customer base, which in the UK includes hospitals in eight NHS Trusts and three terminals at Heathrow Airport. We have an existing Distributed Energy team, and have a range of skills which can be applied to this, including our existing power capacity and capability. This is a good starting position and we intend to build on this to make it a material growth opportunity for the company.

We intend to combine our Distributed Energy team with our power team and build capability to respond to customer needs and demand growth in this area. We would expect to dedicate about £700 million of additional operating and capital resources to this area over the next five years.

Turning now to the Connected Home.

The Connected Home is another focus area for growth in all our markets, and we have built high quality capability in this area. We already have products in the market, including the market leading Hive active heating smart thermostat, an end-to-end capability in the areas of operating platform design and operation, hardware and software development, data analytics, installation and maintenance.

The acquisition of AlertMe earlier this year has cemented this capability and we have a well advanced pipeline of other products and offerings beyond Hive. Earlier this month, we launched Hive 2.0, in addition to a new smart thermostat and smart plugs and motion sensors which can be integrated through our operating platform. We have also built impressive data analytics capability. As an example, when our data analytics capability is married to our rollout of Smart Meters, the insights and potential to help customers with their energy use expands considerably.

Let me show you a short video which demonstrates the potential.

[Viewing Video clip]

You may wonder what you are looking at. This is London waking up and this represents London's energy use as the day progresses. We have tied the data from the 150,000 Smart Meters we have installed in London through our operating platform and built a model to show the energy use pattern over a typical day. We can see the highs at breakfast time, at the end of the school day and into the evening. We can see London going to sleep again at the end of the day. We could do this real time. We can do similar things at the individual property level. While the generation of the data is relatively straightforward, it is the insight you can get from the data and the ability to combine it with offerings and services, which generates new business models. For example, combined with additional sensors in people's homes, we are able to provide insight into their energy use and provide the tools to manage it more effectively. We can add sensors to the operating platform so that people can manage other aspects of their lives including home security and monitoring. All of this differentiates Centrica's businesses and makes us more valuable to our customers, becoming a partner with them in their home.

Our starting position in this area is not insignificant. From the vantage point of millions of energy and service accounts, strong brands and having engineers and technicians on the ground in all our markets who are increasingly being trained to install digitally-enabled equipment, with the addition of our Connected Home capability, we have the potential to integrate physical with digital and participate in end-to-end offerings.

We have already developed offerings to protect and enhance the core energy and services businesses through bundling of Connected Homes products. We are already retailing offers associated with energy management for standalone sale and installation. Our capabilities already offer the possibility of expanding our use of data analytics and insight, while over time we will be able to provide complete home management solutions. Some of these could ultimately be sold internationally into new markets.

While we recognise that there is a lot of uncertainty as to how the markets will evolve around the Internet of Things, we believe we have a very good starting position. We have plans to invest £500 million of opex and capex in this area out to 2020. Our plans indicate Connected Homes could become material to the Group in 2020 and beyond.

The fifth focus area for growth is in Energy Marketing and Trading and we have a good benchmark capability to pursue this ambition, in LNG, marketing and risk management services for customers, and in trading and optimisation of our portfolio.

We have been expanding our presence and capabilities in LNG recently and at the end of June the Cheniere fifth train achieved final investment decision, cementing our 20 year LNG contract. Our US export contract with Cheniere for 2 million tonnes per annum is due for its first commercial delivery by 2019. Coupled with our Qatari volumes, Isle of Grain commitments, together with an increasing presence in traded LNG, we expect to grow the contribution from LNG trading over the next ten years.

We will also look to expand our route-to-market services in Europe, helping customers to manage risk and their participation with the energy markets, and we will continue to utilise our knowledge of the European energy markets to benefit from trading and optimisation activity.

Together with our optimisation and risk-management activity in the US, we plan to build an international energy marketing and trading capability based on our physical requirements and risk-management services for our customers.

Energy Marketing and Trading obviously utilises working capital and involves long-term contractual commitments for energy supply and sales contracts. It may involve some small capital participations with some of our customers. In terms of opex and capex, we would expect to commit a further £150 million out to 2020.

I have now covered in some detail the areas of increased emphasis in our customer-facing business activities. As I have outlined, these areas will receive additional resources as we look to grow operating cash flows from the customer-facing activities as a whole.

The total incremental allocation of operating in capital resources to deliver growth in Services, Distributed Energy, the Connected Home and Energy Marketing and Trading over the next five years is estimated at about £1.5 billion, or an average of about £300 million per annum. This will be approximately half capital investment and half into operating costs.

When combined with the reduction in resource allocation to E&P and central power generation, also at £1.5 billion over the next five years relative to 2015, most of which is capital, and the reasons for which I will cover in a moment, this represents a material shift in the resource allocation pattern and we will deliver a less capital intensive business mix over time.

Before leaving the customer-facing businesses, let me make one comment about our North American portfolio. I have spent a lot of time looking at our businesses in North America and I am convinced we have the capabilities to evolve the business model so that Direct Energy can be a material source for future growth for Centrica.

Through the customer-facing lens I have addressed both the sources of growth and also by describing our emphasis on these areas, I have begun to describe the implications for portfolio mix and capital intensity which is the second dimension of the strategic review.

Let me now complete the picture in terms of both outlook and sources of growth and portfolio mix and capital intensity by turning to the upstream parts of the Group – Exploration and Production, Central Power Generation and Centrica Storage.

A fundamental part of the strategic review was to consider the role of E&P in Centrica's portfolio.

As outlined going forward, Centrica will be placing significant emphasis on growth of the customer-facing businesses. On a standalone basis, in what are volatile energy commodity markets, this carries risk exposure and volatility of earnings and cash flows. To service such significant commitments to our customers, Centrica must have the balance sheet strength to take on long-term supply commitments and to manage the margin calls and other working capital commitment requirements associated with risk-managing this exposure.

One way to manage these risks is to hold diversified material sources of cash flows, ideally rooted in largely non-correlated energy activities. One such activity which fulfils this role is Exploration and Production, and we have this today in our portfolio. Through the commodity cycle the E&P business provides such diversification of cash flows and the materiality of presence which contributes to Centrica's balance sheet strength and credit rating, provided of course that it returns to profitability and cash flow delivery.

Theoretically a number of asset-types in energy could provide such a role, but having considered what would be expensive investments in buying regulated assets, and unattractive alternatives such as increasing our exposure to central power generation, we have concluded that continuing to hold an appropriately scaled position in E&P is right for the Group. We have sufficient capability in E&P to allow us to participate effectively and deliver enduring returns above the cost of capital.

We have therefore concluded that in the next phase of Centrica the role of E&P in the portfolio is to provide material diversity of cash flows and the balance sheet strength which goes with this. However, given the changed competitive dynamics and the liquid open commodity markets, the role has evolved away from that of security of supply and any material form of integration.

We have also concluded that to provide sufficient materiality of cash flow diversity, we do not need to be as large in E&P as we are today. We have also concluded that we are stretched very thinly and will need to focus our activities geographically. We will never be a global E&P player.

We have therefore taken the decision to reduce the scale and diversity of our E&P business which will lead to lower capital intensity across the Group. We will transition over the next few years to a smaller E&P business focused on the North Sea and East

Irish Sea. We will also aim to evolve our participation over time to rebalance the portfolio in favour of more non-operated activities.

As a result we will refocus the business and limit its size to that necessary to fulfil its role in the portfolio, which we have concluded is annual production of about 40 to 50 million barrels of oil equivalent per annum, with an annual capital requirement of between £400 million and £600 million. This compares to recent levels of between 75 to 80 million barrels of oil equivalent production and around £1.1 billion per annum of capex as we sought to grow E&P.

We have looked at the scale issue of E&P in a number of ways, including portfolio earnings volatility mitigation, what we can afford to invest within our Financial Framework, and credit rating agency considerations. All three lenses point to a size of about 40 to 50 million barrels of oil equivalent per annum.

In the period beyond 2017, to stay in production in this range, we may also look to supplement our reserves with small inorganic, non-operated additions to the portfolio. However, we will focus on quality not quantity, and we would obviously only do this if the additions were of high quality and represented good shareholder value. The total capital investment in E&P of £400 to £600 million per annum includes these small inorganic acquisition assumptions, although we cannot exactly predict inorganic activity and when it falls in any future calendar year.

Although our Financial Framework and cash flow projections are based on flat real oil and gas prices, clearly from where we start today, restoration of margins and cash flows in E&P as the supply chain adjusts is also a near-term source of cash flow growth.

We have concluded we can deliver a strong E&P business within the boundaries we have set. We can deliver the diversity of cash flows, balance sheet strength and additional shareholder value through focusing on E&P and setting appropriate scale and resource boundaries.

Today Centrica's E&P business is stretched across five countries and four basin types. This to too diverse and too stretching for our capabilities, we need to focus.

We have therefore decided that despite the challenges, the North Sea and East Irish Sea will form the focus of our E&P business going forward. It is a high cost region and relatively mature, but its gas production can still compete on a landed basis into the UK market relative to other international sources of gas and we have sufficient capability to be able to deliver effectively. We will aim to add strength to the portfolio and improve efficiencies in the UK Continental Shelf and the Netherlands as we manage natural decline rates, while we will continue to develop our less mature Norwegian portfolio. We are also likely to increase the proportion of non-operated assets over time, although we will need to retain some operating capability to help manage decline and abandonment of some of the more mature assets.

We are material enough to play a major part in the UK and Netherlands and have the capability, presence and reputation in Norway to allow us to access material value. We have previously signalled our intention to release capital from our Trinidad and Tobago positions, and given the fundamental realities and competitive dynamic in North America, we now consider our Canadian E&P business to be non-core. However, we have a very important partner in Qatar Petroleum, and we will look to manage the future of our Canadian business together. As a non-core asset, we will not seek to grow Canada and will seek ways to maximise value from our existing position.

Let me now turn to Power generation.

We will also have a more focused central power generation business going forward. We will not have a strong emphasis on central thermal power generation, preferring to seek opportunities in peaking units and distributed generation offerings linked to serving our B2B customers, as I have already outlined. Central gas-fired generation in the OECD does not appear attractive today. Given current trends, even in the future it may always play at the margin. New scale capacity may fare better than legacy given higher efficiencies and the capacity market, but returns may not be sufficiently attractive.

We will maintain a watching brief on the UK market as the capacity market evolves, and we will retain sufficient capability in central power generation to enable us to manage power assets in the future. As such, we will continue operating our small CCGT fleet considering each station on a plant by plant basis, but linking it to our optimisation activities. We will seek opportunities to make improvements – such as we have recently done at Brigg in terms of capacity re-positioning and potentially a re-plant at Kings Lynn.

We have good power capabilities and we will transition our capabilities towards Distributed Energy over time. We will establish a new unit, Distributed Energy and Power, to effect this.

Turning to Nuclear power generation.

Our Nuclear participation has been important for Centrica and is an attractive investment. Like E&P, this position also provides diversity of cash flows and balance sheet strength as well as providing a useful source of baseload power.

The acquisition of 20% of British Energy gave Centrica zero-carbon power generation, influence and participation with the joint venture with EDF, and the option to access future Nuclear growth in the UK. However, having decided to exit UK Nuclear new build, a decision we are very comfortable with, we are left with a non-operated minority investment with limited or no strategic optionality for the Group.

The future value of the Nuclear business depends on excellent uptime and safe execution in operations, securing life extensions for the existing fleet, managing costs effectively and the future outcomes of the Capacity Market. While we are capable of contributing in all of these areas, the reality is that this is a non-operated position with limited optionality for Centrica.

Moving forward we will therefore consider our shareholding in the existing Nuclear fleet to be largely financial in nature. As such, we will assess its merits in the portfolio on that basis.

Moving to Wind, we intend to complete the exit of our direct investments in Wind, participating instead to a limited degree through Power Purchase Agreements. The Wind portfolio has delivered attractive returns for Centrica, delivering an IRR of 12%. However Centrica's net generating capacity in Wind is only 245 megawatts. It is not material today and prospects are uncertain with the potentially increasing risk profile.

Therefore we believe this is the right time to exit. We built a number of Wind projects, generating good returns. But we have also spent significant funds chasing additional projects, only to find that the incentives to develop them were not sufficient or we were

set back by the Planning and Consenting process. New offshore Wind is expensive and we currently have no future potential projects. We hope to complete exit from Wind by 2017.

Achieving the reduced scale in both Wind and E&P, we expect to release between £500 million and £1 billion of divestment proceeds by the end of 2017.

The changed dimensions of E&P and central power generation will result in reduced capital and operating costs of at least £1.5 billion over the next five years relative to 2015. This allows us to make a material shift in our resource allocation and to redirect these resources towards the customer-facing businesses.

Lastly, with regards to Centrica Storage, we intend to hold the Rough gas storage asset, although we do not see it as a growth option in the current environment, given the relatively low seasonal spreads. We will focus on completing the assessment of the operating integrity and storage capability of the asset, implementing the necessary plans arising from that assessment, and continue to work with the UK Government on any changes necessary to ensure the asset fulfils its role as the main strategic storage asset for the UK.

I have now outlined our conclusions regarding the various components of our business portfolio, and have addressed the components of both outlook and sources of growth and also portfolio mix and capital intensity. Centrica's relative focus will result in a less capital intense business model, and I hope I have given you sufficient detail on the rationale for the relative emphasis on the respective parts of the portfolio going forward. I have also addressed our operating capability as we have been going along.

I would therefore now like to complete the dimension of operating capability and efficiency by addressing the final major source of near-term cash flow growth, cost efficiency, before handing over to Jeff to bring it all together as he addresses the fourth dimension around the Financial Framework.

Transforming our cost base and the efficiency with which we go to market is a major strategic opportunity. Centrica has become an international energy company, but we have not yet capitalised on the potential efficiency and effectiveness which our scale enables. We see a significant cost efficiency opportunity over the next five years which will allow us to more than offset inflation on our current cost base which totals just over £4.5 billion per annum including both operating costs and our controllable cost of goods sold.

As I outlined earlier, the gross efficiency prize we are seeking to deliver from our end 2015 like-for-like cost base, before inflation and investment to achieve it, is £750 million per annum by 2020.

This excludes the cost of investment in Smart Meters in the UK, which is an offsetting revenue stream, and any major acquisitions and disposals. It is also before the estimated additional £200 million per annum of opex investment in Services, Connected Homes, Distributed Energy and Power, and Energy Marketing and Trading by 2020.

Net of inflation this will see our like-for-like 2015 opex reduce by an estimated £300 million per annum. With the expected growth in opex associated with our growth areas, we would therefore still expect our reported opex in 2020 to be below that of 2015, again excluding the cost of Smart Meters and any organic portfolio changes. In

addition to the cash flow arising from this net cost reduction, this would allow all additional gross margin generation from our growth nodes to fall to the bottom line. We will deliver this without compromising improvement plans to safety and compliance, and customer service.

Our current plans indicate that about two-thirds, or £500 million per annum, of the efficiency savings will be delivered by the end of 2018. We expect full delivery of these cost savings to require investments of £500 to £600 million over the next five years.

To underpin the delivery of the £750 million cost reduction, the activities will be pursued in four main areas: Firstly in the customer-facing businesses, where we have not been leveraging our scale across the markets we are in and not driven cost efficiency into our routes to market. Areas to focus will be back and front office simplification and automation, the establishment of shared marketing, sales and network services across all geographies, call centre optimisation and shifting the organisational model within downstream.

The second area is simplification of Centrica Energy and delivery of efficiency in E&P. Here we will be focusing on rationalisation of layers, functional simplification, the supply chain and field lifting costs.

The third area is transformation of the Group Corporate Centre, the relationship to the business units and changes to the Group's functional model including in finance, HR and Information Systems. In HR, we currently operate 18 separate HR applications across the Group. Consolidation and enhancement of IS platforms will also be a focus including rationalising out data centres, adopting common technologies and making better use of Cloud based systems. In Finance, our existing structure is highly decentralised with teams embedded in each sub-division of our business units.

Finally we will be pursuing major procurement efficiencies in all aspects of third party costs and costs of goods sold. As an example, we currently have 30,000 vendors and seven separate procurement teams. We are not leveraging our scale in either supplier or category management.

Over these four areas we expect the savings to be split roughly equally between first and second party costs, and third party costs.

Regarding the customer-facing businesses, given that the trends are similar in all of our markets, a major enabler and driver of efficiency will be a decision to move to a common operating model and philosophy across the customer-facing regions. This will simplify and drive efficiency in the way we go to market, allow us to share functional resource and enable supporting systems and processes to be streamlined. It will also allow us to report performance in a common way across the customer-facing businesses.

In terms of impact on headcount, this programme will involve a reduction in like-for-like headcount by 2020 of about 6,000 roles. Given the growth in some of the areas I described earlier we would estimate that the net result would be a reduction in some 4,000 roles, again before the workforce necessary to deliver the rollout of Smart Meters in the UK. Of the reduction of 6,000 roles, we estimate about half would come from natural attrition and about half from redundancies with most of the redundancies occurring before the end of 2017.

Safety, compliance and customer service are fundamental priorities and will not be compromised. Therefore front-line services and sales and field operations personnel

involved in direct interaction with customers are not our focus. We are investing in customer service. Although changes to service demand levels, as for example Smart Meters, result in the elimination of estimated bills and the associated activity will have an impact over time and require consolidation of services agents, we believe reductions can be managed through natural turnover and attrition.

This completes the strategic and operational aspects of this strategic review and I have covered the first three dimensions of the review.

At the beginning I talked briefly about the fourth dimension, the Group Financial Framework. I would now like to hand over to Jeff to talk you through how all this comes together in financial terms and the boundaries and expectations for our financial performance in the future.

Jeff Bell – Chief Financial Officer
Thank you Iain and good morning again everyone. I would like now to describe in some detail the Financial Framework, including the elements of operating cash flow, credit rating, reinvestment rate, sources and uses of cash and the dividend policy.

However, before beginning I would like to make clear the overarching purpose of the Financial Framework – namely to provide a set of financial parameters that the Group will operate under, linking cash flow generation and reinvestment in the business with the desired outputs of a progressive dividend and strong investment grade credit rating – while making clear how conflicting outcomes would be managed.

We expect this Financial Framework to be 'good for all seasons'. Only in the most extreme scenarios, such as a further major downward movement in commodity prices, would we expect to move away from the Financial Framework premise.

Let me now move to the Financial Framework itself.

Iain outlined earlier, we expect to deliver a progressive dividend over time reflecting operating cash flow growth of 3% to 5% per annum. This will not be mechanistically derived in any calendar year, but will reflect our ability to deliver sustainable levels of operating cash flow at flat real oil and gas prices and normal weather conditions. Continuous cost improvement will help underpin our operating cash flow growth. In the longer-term by limiting both our controllable costs to less than inflation, and in the short term, through the £750 million cost efficiency programme we have announced today.

To deliver the dividend and maintain strong investment grade credit rating, capital reinvestment will be limited in the near term to £1 billion per annum, and in the longer term, to 70% of operating cash flows. With improving cash flows and reduced capital investment, we would expect to deliver post-tax returns on average capital employed well in excess of our weighted average cost of capital, 10% to 12% initially, and potentially higher longer term as the mix of the businesses change.

These are the key financial outcomes and boundary conditions of the strategic review and form the Financial Framework in which we will manage the business going forward.

I will discuss each of these areas in more detail, starting first with operating cash flow.

We consider operating cash flow as the most appropriate measure of the Group's performance through the cycle – it provides the foundation for our dividend policy and credit rating financial metrics, and is the best indicator of long-term shareholder value.

Assuming roughly £2 billion of operating cash flow in 2015 as a starting point, a 3% to 5% growth rate range would deliver £300 to 600 million of additional operating cash flow by 2020. This forecast is based on flat real commodity price curves – oil at $70 dollars Brent and gas at 50 pence per therm NBP and normal weather. The £500 to £600 million of cost to achieve the efficiency programme, which is made up of capital investment, in such areas as new systems and cash realisation expenditure, is excluded from operating cash flows and we would expect to disclose these separately.

Let me take each of the main contributors to operating cash flow in turn.

First Energy Supply, residential and commercial, will have an operating cash flow profile, as you heard from Iain, that will be broadly flat over the forecast period, with continuing consumption decline and competitive pressures in the UK and Ireland being largely offset by cost efficiencies, and by continued growth in North America, particularly in the commercial energy supply.

Secondly E&P will also continue to be a significant contributor to operating cash flow focusing the business in the North Sea and East Irish Sea, realising new production from our investment in the Valemon and Cygnus gas fields and lower costs through efficiency programmes already underway, will mean that operating cash flow will be broadly flat over the five year period despite a reduction in the scale of the overall business.

However, the shape of the cash flows will be lower in the near term until the full benefit of the cost efficiencies and additional production from Cygnus are realised. The result will be a smaller but more profitable E&P business, with a materially better return on capital.

And third, the focus areas for growth – with higher operating cash flows driven initially in the Services businesses in North America and in the UK, through new segments and products, and longer term, in Distributed Energy, Connected Homes and Energy Marketing and Trading.

Underlying and underpinning the operating cash flows of energy supply, E&P and the focus areas for growth will be improved efficiency through the £750 million operating efficiency programme and improved working capital management. Most of the benefit of the operating efficiency programme will help offset demand, margin and competitive pressures in Energy Supply and E&P. However, again as Iain outlined, a portion of the cost efficiencies will also contribute to the focus areas for growth, reducing risk of deliverability in the forecast period.

And in a success scenario, the above actions might drive operating cash flow beyond the 3% to 5% range we are looking to achieve.

Before I outline how we will utilise these forecasted operating cash flows, let me just expand on what are the key parameters of the Financial Framework – maintaining a strong investment grade credit rating.

As we have talked about previously, a strong investment grade credit rating is important for Centrica. The Group is a large user of collateral both in the UK and North America, and this credit rating supports the efficient procurement of the significant energy volumes needed to serve our downstream customers. It also supports our ability to access cost effective short term sources of liquidity to manage the impact that material changes in commodity prices can have on our business.

We therefore believe that to operate a business sustainably, we will need to achieve financial metrics that are consistent with strong investment grade credit ratings – at least Baa1 for Moody's and at least BBB+ for S&P.

As a result, the cash reinvestment rate in the business will be bounded not only to deliver a progressive dividend, but also to ensure we meet these credit rating targets.

In the long-term, we will limit the cash reinvestment rate to no more than 70% of our operating cash flow, as a way of ensuring protection of the dividend and returns to shareholders. However, to also ensure that we underpin the financial metrics required for a strong investment grade credit rating, before 2018 we will invest no more than £1 billion per annum, equivalent to a reinvestment rate of around 50%. This will result in lower net debt, and protect both our credit ratings and the dividend.

Organic capital expenditure to support the business will be £600 to £900 million per year. This will include £400 to £600 million of E&P as already indicated, enough to maintain our assets and bring sufficient reserves into production to sustain the target of 40 to 50 million barrels of oil equivalent per annum range. It also includes £200 to £300 million of organic capital expenditure across the rest of the Group, enough to maintain and improve our downstream IT systems and keep our power and storage assets safe and efficient.

This leaves up to approximately £200 million per annum for investment in growth, the majority of which would be invested in Distributed Energy and Connected Homes to build capability, primarily through small acquisitions, but also through the associated operating costs as we build capacity. Our acquisition of AlertMe earlier this year is a recent example of executing on this strategy.

The lower reinvestment rate will be supplemented by targeting £500 million to £1 billion of disposable proceeds, primarily from the planned exit from our Wind Farm Joint Ventures and rationalising the E&P business to achieve its new scale and focus. We expect it will take until 2017 to fully realise all of the proceeds of these disposals.

In 2018 we expect to have more flexibility in the balance sheet with the culmination of higher operating cash flows and lower capital expenditure. We will assess at that point whether allowing additional investment in our growth areas above the £1 billion, but clearly below a long-term 70% threshold of operating cash flow, would create additional value for shareholders.

Conversely, were operating cash flows to fall rather than grow, and the safety of our dividend or strong investment grade credit rating was threatened, additional reductions in capital expenditure would be the first action taken. This is clearly not our expectation, but rather an example of how we would see the Financial Framework working in action.

As you can see on the next slide, the actions we took earlier this year to reduce capital expenditure and rebase the dividend have put the business on a more solid financial footing, with respect to both sources and uses of cash. The cash dividend level in 2015 reflects the high scrip take up of the 2014 final dividend.

The combination of operating cash flow growth and a lower cash flow reinvestment rate in our Financial Framework means that the Group will generate positive net cash flow in the coming years, initially building financial resilience and balance sheet strength through lower net debt, and longer term providing optionality to fund additional

investment opportunities that would drive cash flow growth and deliver greater shareholder value.

Another outcome of the Financial Framework is that return on average capital employed will be in the range of 10% to 12% in the near term, well in excess of the Group's weighted average cost of capital, but in the longer term, it is expected to rise as growth in operating cash flow and investment is deployed in areas that have comparatively lower levels of asset intensity. Incremental investment will continue to be subject to rigorous investment hurdles to ensure that expected returns are consistent with the overall Group portfolio.

Finally, deploying the Financial Framework we believe will result in attractive returns to investors. We indicated back in February that we would link the dividend to sustainable growth in future operating cash flows, as opposed to the previous policy of delivering dividend growth in excess of inflation.

With Group operating cash flow expected to grow by 3% to 5% a year, this allows for a progressive dividend policy, although it will not, as we heard, be mechanistic. Having just launched a scrip dividend alternative for the first time earlier this year, we will continue to offer this option to our investors near term as a way of assessing the value investors place on it. However we are aware of the longer term dilutive effect it has for shareholders and therefore will keep it under review.

We will also need to measure our progress against a number of the parameters set out in the strategic review and the Financial Framework and communicate these on a regular and consistent basis. We expect to finalise in the second half of the year how we will report the results of the Group in the future, potentially refining our reporting segments for the year end results to be published in February 2016. We will be transparent with any reporting changes we might make to allow a bridge from the business segments we currently report against to those in the future. In addition we will be carefully considering key performance indicators for the different businesses and will provide an update at the end of the year as well.

These KPIs will include any useful rules of thumb to understand sensitivities like changes in commodity price compared to our modelled flat real price curves. Additionally, as we assume normal weather conditions in our forecast of operating cash flow, we will outline the impact of actual weather compared to normal weather in any reporting period.

In summary we believe this Financial Framework provides transparency to investors on the expected cash flow generation of the business, how those cash flows will be utilised, the parameters in which the business will operate, make trade-offs, and be measured against, and the returns that can be expected.

With that I will hand back to Iain.

Iain Conn
Well thanks Jeff. I know it is a bit warm in here, we are nearly done. I am not sure we can do anything about the air conditioning yet.

The Financial Framework completes the final part of the strategic review conclusions and forms the basis for tracking our progress for the portfolio overall.

Let me now summarise. The strategic review has involved a fundamental look at the portfolio of our company and its individual business activities. We are now clear about

Centrica's purpose. We are an energy and services Company. The focus of everything we do will be "to provide energy and services to satisfy the changing needs of our customers". We are very well positioned and relative to the trends that we see both in energy and in terms of customer needs.

We have established a company with the skills and capabilities to build material new positions on the back of these trends, and we have the international scale to allow us to do it efficiently.

The conclusion of our strategic review provides a clear direction for the business.

We will aim to deliver shareholder value through returns and growth, with the focus on our customer-facing businesses. We will reduce the scale of our E&P and power businesses and launch a material Group-wide efficiency programme.

In financial terms, as Jeff has outlined, this can be summarised in five points. Firstly, overall we expect to deliver 3 to 5% growth in operating cash flow per annum out to 2020. Secondly, this will underpin progressive dividend policy linked to sustainable delivery of operating cash flow. Thirdly, this growth will be underpinned in the short-term by a substantial £750 million per annum efficiency programme, and longer-term by growth from the customer-facing businesses. Fourthly, to achieve this growth in the customer-facing activities, the strategy involves a material shift of cash resources, about £1.5 billion per annum over the next five years, from the pursuit of growing the E&P business, something we no longer set out to achieve, and from central power generation. This will reduce the capital intensity of the business mix over time.

And finally, while maintaining the attractive returns we will limit overall capital reinvestment in the near term to underpin the dividend and ensure that the Group's balance sheet and credit rating are strong.

I hope by now it will be apparent to you that this has not just been a cursory review of our company, but a fundamental analysis and reshaping of where we will take the Group in the next phase.

It has been a team effort and I am very pleased with the rigour of the analysis and the quality and clarity of the conclusions and decisions we have reached. I am very committed to delivering on them.

We are already in action on implementation, with work being planned across 12 organisational areas and a significant number of cross-cutting efficiency initiatives. We will be building this into our operating plans for 2016 to 2018 which we will present to the Board in October.

To conclude, as an energy and services company, Centrica has an excellent mix of businesses, brands, skills and capabilities with which to pursue these goals and deliver for our customers over the medium to long-term. Very few companies can claim the same. We have excellent people and the passion and commitment with which to shape the next phase of our future. We have built the platform with which to implement this strategy, delivery of which will create material shareholder value as we pursue both returns and growth.

On behalf of the Centrica Team, I know I can say that we very much look forward to updating you on our progress. Thanks for listening and we will now be very happy to take your questions.

Mark, Mark and Badar are going to join us up here again and if you could identify yourselves before you ask a question.

Questions and Answers

Q1. Fred Barasi, Goldman Sachs
Three questions for me please. Your operating cash flow growth 3% to 5% you say corresponds to around £60 to £100 million of post-tax cash flow. Can you help us understand what the growth could be in net income corresponding to that please?

Secondly on the balance sheet, the £500 to £600 million one off costs you talk about, presumably they are excluded from your cash flow movements. Are they cash costs, 100% cash and could you also confirm the potential disposals are excluded when thinking about how net debt will evolve?

And finally, thinking at the Prelims you talked a bit about the tensions, particularly within the E&P business about retaining the capabilities and excellent staff on a significantly reduced scale. Can you talk a little bit about how you have addressed that challenge? Clearly the E&P business is going to be a lot smaller going forwards so how are you looking to maintain the focus on cost efficiency and retain the talent in that business? Thank you.

Answer: Iain Conn
Thank you Fred, I would like to address the growth question and I would like Jeff to touch on the other points you made and Mark Hanafin to address the E&P capability costs.

So on operating cash flow, I think it might be helpful if I just, I know a number of you are going to be saying, how on earth we get at this operating cash flow 3% to 5% number. And I am no analyst, but we had disclosed that £2 billion is the base line and obviously if you do the maths you are looking at something in the region of £400 to £800 million per annum pre-tax in 2020. I think you can all do that maths. And the question is how you get there. And just to help you with the components. No I am not going to give you a breakdown of it.

You have clearly first of all got the £300 million of cost savings net of inflation. And that assumes of course that inflation does not somehow also go into the top line. But you have £300 million savings. We then have the returns on the additional resources going into the customer-facing businesses and we have talked about it being about 50:50 capital and operating costs. With the operating costs being £200 million a year in 2020. Now you can draw your own conclusions on return on capital that will have been put in by 2020 and obviously the gross margin to cost ratio for customer-facing businesses that gives you a pretty significant chunk. We are already into the range that I outlined.

And then we have got a number of things like the capacity market which is going to generate cash flows for us in the future that we have not got in 2015. And then lastly, as Mark outlined, Mark Hanafin, we started 2015 in a slow way in our energy marketing and trading business and so that increases the delta between 2015 and 2020. When you add all that together you clearly can get easily to the upper end of that range.

And I think the question then is, well what are the risks around it? Clearly there is a risk around, first of all growth, sorry, a positive risk around maybe we can exceed these targets as Jeff outlined if we are successful in these business models. And there is also the possibility that inflation does apply to some of the top line in some of our businesses. So those are the upsides around it. And the downsides around it are clearly competitive intensity in the customer-facing businesses, and we have assumed in the projections for the energy supply business significant competitive intensity as I outlined which is why it is not seen to net grow. So that gives you a bit of a sense as to why we believe we can do 3% to 5% per annum consistently and clearly it is underpinned in the front end by a cost efficiency and then this growth will pick up as we go through the period.

Now you asked Fred the question, so that is cash flow and sorry for the digression, but I think there will be lots of people wanting that, how do you do this, so I thought I would run through that briefly,

Broadly speaking since cash flow and income all derive from EBITDA obviously you have got working capital movements in operating cash flow. You have got slightly dilutive effect of scrip dividends in terms of per share metrics. We would assume broadly that earnings would grow at about the same rate as operating cash flow. Now it is not going to be precise in any particular year and you will have movements of operating cash flow, sorry working capital in some years, but broadly we would expect earnings and operating cash flow to be as you might expect to be growing at about the same rate on a like-for-like basis.

Now the balance sheet, Jeff, there were two points there and then pass to Mark on E&P.

Answer: Jeff Bell
So in terms of the £500 to £600 million, there is a reasonable component of that, of capital expenditure as I think I said in my outline, it will go into systems changes and system improvement in order to support the more common operating model we talked about. And there will obviously be some level of cash redundancy costs in there as well.

With respect to disposals, they will clearly affect net debt. They are effectively, the operating cash flow impact from those businesses are included in the cash flow profile that you saw.

Answer: Mark Hanafin
Let's start with cost. What was just described by Iain was moving from the reality of today which is a 75 million barrel business to a kind of aspired portfolio which will take some time to get there and I am confident that in that journey we are not going to lose focus on the cost efficiency, it is vital, you can see how challenging the business is in terms of the numbers. We said to you in February we would deliver about a 10% saving in lifting and other cash production costs off a base of just over a billion, so £100 million. We are on track to do that and beat that. Now within that there is an additional £50 million of costs coming in from Valemon and Cygnus coming on-stream. So the underlying saving there is about 15%. So we are committed to doing that and we are on track to doing that and I don't think that will change.

The question of retention and motivation, obviously that is a difficult one because there are some tough messages in that story, but I do believe in being very honest with our employees. We clarified the role of E&P once and for all, we covered the security of supply question, the vertical integration question and we are now very clear about why

it is part of the portfolio, it is a valued part of the portfolio and it gives us some balance sheet strength. So I think with that clarity we can look at the UK, Netherlands and say we are one of the leaders in terms of production efficiency and that is something to be proud of and we can really focus on that for the future. And then looking at Norway, we have built a great business there and the strategy going forward is as Iain said full cycle everything from exploration, development through to production. So I think still a lot to be motivated by.

Answer: Iain Conn
Thanks Mark; and just to put it into perspective Fred, 150,000 barrel a day company, which is what that would be, is still a big E&P second tier player and if it is all concentrated in one geography it is actually a very sizeable player and obviously we are going to be doing everything we can to make a 40 to 50 million barrel oil equivalent E&P business as strong as it can possibly be and we just defined the boundaries around it. But now our job is to make it as strong as it can be. And that unleashes all sorts of innovation and possibilities within the team and there are a lot of ideas already coming off of that about how we can do that. So it is going to be quite exciting I think going forward and it is definitely not a case of the future has been cancelled or indeed postponed, it is all about, alright so now we know the boundaries let's make it a great business and we can do that.

Q2. Andrew Fisher, Berenberg
Just a couple of questions please. First of all on E&P just to get to that 40 to 50 million barrels of oil, I assume that in there you have the assumption you are getting rid of the non-core Canadian asset as well as Trinidad, but also what is the natural rate of decline we should assume from the portfolio at the lower level of capex?

And then just a second question, to what extent have you discussed any of your plans such as headcount reduction etc ahead of today with the CMA and/or the Government, or is that something that you have got to now deal with after this meeting?

Answer: Iain Conn
Well I would like Mark, in a minute, to address, is the capital enough to sustain and offset decline. One way you could get to this outcome would of course be to say the simple thing to do is no Canada, no Trinidad and mathematically you get to an answer that is not dissimilar. But what we are going to be doing, first of all we said we are going to be managing Canada as a non-core asset and we want to maximise value with our partner, the Qatari's and we will need to make sure that all the options are considered to maximise that value. There is quite a trade at the moment in parts of assets, but not the whole portfolio in Canada, we will look at that and look at all options. Everything is on the table. But that is not the only way we can do this and so we really mean we want to create the strongest 40 to 50 million barrel business, yes focused largely around the North Sea and East Irish Sea so you can draw conclusions from that. But we are going to look at all the options to maximise shareholder value and create the right future, recognising that that is the target zone we want to be in. Mark decline and sustainability?

Answer: Mark Hanafin
Yes we have probably £90 to £100 million of capex for maintaining the assets in there and then with the remainder we do think that is sufficient to maintain a 40 to 50 million barrel business. We have a whole range of in-flight projects you are aware of – Cygnus, Valemon, Kvitebjørn, Statfjord and others and so when we look at that portfolio 40 to 50, £400 million to £600 million combination of development spending, but the occasional bolt on acquisition, we think that is the right range to sustain that production level.

Answer: Iain Conn
And your question about the Government, yes I was in touch with the Government about the job reductions and Mark was also in touch with the Unions where we have been very clear that we are not focusing on front line engineers in the field or customer service personnel this time, indeed we are growing them at the moment. And the Government, obviously does not like hearing big noises about job losses but they do understand the importance of a strong Centrica and they understand the importance of a competitive market. And having been pushing very hard for a competitive market and for the major suppliers to be efficient, it is a bit difficult for them to argue against the logic. But I have not had any difficult conversations. Obviously we wanted to inform the Government after the markets closed last night of the job losses at least.

Q3. Lawson Steele, Berenberg

Iain Conn
We are going to stop this stealing the microphone bit in a minute, Berenberg now having two questions, so a quick one Lawson.

Question: Lawson Steele
Can I put my cynic's hat on and say here we go again with North America, sort of been there for an awful long time and I am just trying to work out what has changed? I admire renewed enthusiasm, but I was trying to work out, just because you have presence in 50 States which being an Englishman is like being in 50 countries, I wonder why you think you can succeed there?

And one quick one on general staff ideas, do you feel there is more for you Iain I guess you are not new anymore, but new to the job, is there a need to re-energise and redirect staff? Is there any hangover at all from the old days shall we call them?

Answer: Iain Conn
Now you give the mic back so we don't end up with more because we have these corporate clusters and some people have never taken a cynic's hat off I suspect, but let me start with that. And I would like Badar to expand a little bit on the point about North America. We have had a mixed track record in the US, but actually we have over time built some very strong positions there and the Hess acquisition has been quite transformative around our B2B position. I will leave Badar to talk about the residential energy side and services but the big insight for me, and it may not seem very big to you but, we are in exactly the same businesses in the US as we are in British Gas and everyone here is comfortable with British Gas and says wow we have this black hole in America and we don't understand it. We are in Business to Business energy supply, Business to residential energy supply and the services businesses today and we are going to add Connected Home, we are going to add Distributed Energy and power to both of them and we don't see any difference in the trends, there may be difference in some of the regulatory effects sub regionally in North America, but actually it is a very significant market and we know how to play in those activities. But Badar what are the reasons to believe now?

Answer: Badar Khan
Yeah. I think the most important take for North America is that we are focusing on delivering organic growth. So over the last decade you will recall that we have relied quite significantly on M&A to grow the business. What we have been saying over the last two years and currently saying today is that we are looking for organic growth and we think it can be delivered in three forms. Firstly, in actually differentiating our offer for the homes and businesses. We provided you with some sound bites in the materials

today of where we are bundling our energy offer with our services offers and Connected Homes offer where over the last six months we have seen 42% of new residential customers choose a bundle versus 10% in the same period last year, so making real progress on differentiating at the residential and for businesses. Secondly, we are delivering organic growth through efficiencies. Well, a year and a half ago we announced and disclosed that we were bringing together all of our back office, front office, IT, third party spend activities under a single accountability to deliver the same kinds of efficiencies we are talking about today and we delivered $100 million dollar cost reduction programme last year which we used for price competitiveness. I think that the efficiency programme that you have just heard about today continues with that theme quite significantly over the next five years. And the third area that we believe gives confidence for organic growth does come from the acquisition of the Hess energy marketing business and in particular as you saw on some of the slides, the business is now more balanced between power and gas, but we got from the Hess acquisition not only significant scale in gas, but also and therefore an understanding of where gas demand is particularly in the North East of the United States, but also coupled with a significant amount of storage and pipeline capacity positions. And it is the combination of knowing where demand is located at a very, very localised level and being able to move gas from supply to demand in a very complicated North East environment that allows us to capture additional margins. Then there is price volatility at a localised level. That is what has contributed to our over performance on the Hess acquisition in the last two years and it is very hard for others to replicate so we see it as a sustainable source of growth for our business. And these are three things that we did not rely upon in the past and I think are sources of credibility for the business going forward.

Answer: Iain Conn
It is not without its risk. We have got to adjust the operating model in the North East and in particular the residential energy business to be able to grow. So it is not just a walk in the park, but we think we can do it.

In terms of your question about motivation, I believe there is a factor there absolutely. There has been a lot of change at Centrica, there has been an awful lot of the management team that either left by their own volition or left because they were leaving and retiring and there has been a lot of I would say, uncertainty and a little bit of a vacuum and I think part of this is going to be about being clear about direction and giving the right boundaries, giving our people enough space to be able to innovate, at the same time as we are trying to reshape the efficiency of the business. Now that is not easy to do, I have done it before at BP, it isn't easy to do, but I believe absolutely it is possible and yes there is a motivation element, but what I think our people will feel about it today, at least they will know where we are going with clarity where we are placing our points of emphasis. That always makes a difference to an organisation.

Q4. Dominic Nash, Macquarie Securities
Three questions please. The first one quite simple, the 3% to 5% free cash flow or cash flow growth is that pre or post disposals, some clarity on that?

And leading on from that the cost reduction number, £750 million is obviously pre-disposals. Can you give a quick indication of how that is split between upstream and downstream, and how much is likely to disappear with a disposal programme?

And the final one which is what is your current return on capital employed and is that going to be on an average or marginal investment?

Answer: Iain Conn

If I may take those. I don't think we disclose our return on average capital employed, to Martyn and Jeff, I don't believe we do.

Answer: Jeff Bell
It is currently and you can calculate it, within the range of what you see 10% to 12%.

Answer: Iain Conn
So let's be clear then, the return on capital employed 10% to 12% as Jeff outlined in the Financial Framework is something that we would want to be operating well within if we can. So we would want to be delivering returns above 10% to 12%. You would expect in a less capital intensive business that our hurdle rate would be much higher than that. On IRR and over time we would expect to walk away from it in a positive direction.

On the £750 million, we are not disclosing a split between upstream and downstream. And just to be clear about both £750 million and the 3% to 5%. I was very clear that the 3% to 5% operating cash flow does include minor inorganics of £50 to £100 million within our capital framework. The fact that they are inorganic is really, it is like sort of spending inorganic. It does not include any form of major acquisitions or disposals, so like-for-like growth rate we believe we are capable of doing from the portfolio we have got today. And equally the same is true with the costs, the £750 million, it does not assume that we are selling assets and somehow reducing our cost base through sale of assets. It is not assuming we are going to be doing big acquisitions. Both of those clearly change it and we need to be very transparent about that, the £750 million is on the like for like 2015 portfolio activity and we will need to be transparent to be able to demonstrate to you that is what it is and that is what we are delivering, so I hope that is clear.

Q5. Mark Freshney, Credit Suisse
The first question is just on the controllable cost base. I think you put a slide up showing £2.3 billion or thereabouts at the beginning of the year. Is the cost savings a function on that £2.3 billion base?

Just secondly you talked about also investing in opex £1.5 billion investment both in opex and capex. Just on the opex, surely that is a marginal cost of making a sale. So could you clarify the framework around why you are including some of the investments in the opex line?

And my third point, further to Dominic's question, the big, I guess across the Group, the big controllable cost or the largest amount of controllable cost will be within British Gas so is it fair to assume that most of the cost savings you are targeting will occur within British Gas and as per the slide on page 48 they might be expected to go back to customers?

Answer: Iain Conn
I will ask Jeff to answer the middle one on opex and capex, but on the cost savings base, I was very clear that it is on £4.5 or just above £4.5 billion of operating costs and controllable cost of goods and I don't think we did disclose the number of £2.3 billion operating costs but certainly the £4.5 billion is the base for the £750 million. And look you can assume that a significant amount on your third question, a significant amount of the cost efficiency will be in British Gas given the scale of our cost base and employment base that is within British Gas, but I do want to be clear, the efficiencies I have targeted are in four areas. Firstly, the corporate functions and the Head Office, secondly the simplification of Centrica Energy, thirdly the customer-facing businesses including North America and we indicated one thing about the Headcount reductions,

about 1,000 out of 6,000 will be in North America. And lastly a big chunk of it will also be procurement and supply chain. And just to remind you, I said the efficiencies would broadly be split half first and second party costs and second party means dedicated contracts, and half third party costs. So the majority of half of it will be direct costs and that is why we end up with such a big number in the headcount implications. Now Jeff opex, the £1.5 billion opex and capex?

Answer: Jeff Bell
Yes defining that sort of opex, it is not the direct cost of goods sold, you would get from additional sort of Hive products or Connected Home products, so it is the capability and capacity to support the growth in those sorts of businesses in different functional areas, but would not be the direct costs you would see in arriving at a gross margin number.

Answer: Iain Conn
We were clear that the £200 million is not cost of goods, it is opex and it is assumed therefore to represent capability.

Q6. Gus Hochschild, DECC
Two questions if I may, firstly with regards to the CCGT fleet. Could you just confirm that basically Killinghome closing, Brigg to stay open and possibly replanting to Kings Lynn, otherwise no change?

Second question, in terms of visibility of future Centrica, we have heard about Distributed Energy, how do you see the new organogram? So where does for instance Distributed Energy tuck into it? Does it become part of British Gas? So some form of restructuring or reporting platform?

Answer: Iain Conn
I will ask Mark to answer the first question, on the second one, I have indicated that the Connected Home and Distributed Energy and power will be new units. Clearly I have also indicated they are going to be global, not local. So they clearly can't just be part of one of the regional business units, they will have to serve all of the markets that we have. But the details of how we are going to do that obviously I would like our team to hear that first. But Mark on the power portfolio?

Answer: Mark Hanafin
Langage and Humber have capacity market contracts. They will stay open obviously. Killingholme closes in the spring of next year. Brigg we have converted it, as we said, to distributor generation, and then you are left with Barry and Peterborough, they both need some help so they are either going to need continuing short term contracts from National Grid or to win a capacity contract in this upcoming auction, otherwise they would have to close.

Q7. Bobby Chada, Morgan Stanley
Two questions please. If I understood the framework that you set out properly, you say you are assuming the inflation on the £4.5 billion cost base erodes some of the benefits of cost saving, but you are not assuming any benefit to the top line. So that is broadly eating about £100 million of inflation year on a £4.5 billion cost base. It seems like pretty cautious assumption on inflation. Surely you would like to be able to have some kind of inflation in the top line in some if not maybe not all, but some of your businesses?

And then secondly in E&P, I think the historic average exploration spend has been running at around £150 million a year, going up and down a little bit. Where do you see that going to with the resizing of the business?

Answer: Iain Conn
I will ask Mark to address the exploration spend although we have obviously got business plans to go forward. You have asked a really important question on the top line Bobby. When I walk through that broad frame, I said that we are not assuming. You can easily get to a number that meets the range necessary to deliver the 3% to 5% without assuming inflation passes through to the top line for some of our products. Now that is a cautious way of thinking about it, and that gives us confidence amongst other factors to be able to say 3% to 5% we think is absolutely within our ability to deliver. And we would not expect inflation just to apply to the cost base and nothing to apply to the top line in those growth areas. But you can get to the number that way.

The other thing we have assumed is that we have actually assumed competitive erosion inside British Gas energy supply and we have assumed that we will do things to offset it, like energy efficiency, but we haven't assumed that we will be able to more than offset it, even including the energy supply growth opportunities in the US and Ireland. So we are trying to lay out a framework that we believe is absolutely deliverable. Now it is not without risk and execution risk we were just talking about earlier. But this is something we believe we can do. And clearly there is possibility to exceed it in a number of ways and you have highlighted one of them. The second one would be it turns out the assumptions in British Gas are cautious. The third one would be that we deliver more cost saving than the £750 million and the fourth one would be, Jeff had a slide about capital investment and it showed that in the outer years of the period there will be more capital space potentially within our Financial Framework to invest at a higher rate. That means that if we are successful it wouldn't necessarily all be capex, but it could be. If we are successful we could see accelerating investment, therefore accelerating growth beyond the period, but we are being very thoughtful about what we commit to and we want to be able to measure it on this 3% to 5%. We also think that 3% to 5% if delivered and translated into a sustainable progressive dividend, when combined with the absolute level of yield today, would deliver a very interesting investment proposition. But clearly that is for you guys to deduce.

But Mark, on exploration expenditure?

Answer: Mark Hanafin
£50 million.

Q8. Ashley Thomas, Societe Generale
On the Connected Home strategy, and in particularly data analytics, you had the video clip of the electricity usage for London. Do you feel confident moving forward a strategy of developing through bolt-on acquisitions and organic investment, will be able to deliver to you a better end product rather than just going out into the marketplace as a number of your peers have done and taking an off the shelf solution from a vendor like O-Power?

Answer: Iain Conn
We have developed our own product end-to-end historically and having bought AlertMe, one of the problems with AlertMe, we had a 20% share, but there were other shareholders who were also clients. And the buy in model, unless you are exclusive which of course most of the vendors don't want you to be, you end up with your product pipeline and the things you want to do with it being constrained by the other demands on the platform. And in the end we decided that the right thing strategically

was to own it. The impressive thing about what we have done, and what we have got, is we have got the physical capability to deliver the physical devices into the market. We have got the pipeline of products, much more than we have announced so far, being developed and the data analytics capability is quite sophisticated. Now we are not saying that we are suddenly going to be market leader and Google is going to be you know a mile behind us, but when you look at the space, actually we are quite capable of a material market share and we are perfectly capable of offering just as effective solutions and devices into the market. What we have got that other people don't have is 29 million customer accounts and 12,000 engineers and technicians that go and install and maintain things in people's homes. We already have a relationship with the home and most of these other companies don't. That is the difference. And we think that will ultimately allow us to play.

Q9. Peter Atherton, Jefferies

You have used $70 dollar as your base assumption, might it not have been more prudent to use $60 dollar oil given where we currently are? And perhaps you could tell us your thinking about $70 dollar or base assumption?

And linking the dividend to the long-term growth in the operation cash flow makes a lot of sense, but it is a little vague and as you say the operational cash flow could dance around. Is there any chance you can give an idea of more specific dividend target past 2015 and 2016 just to give near terms? I understand out to 2020 but perhaps for this year and next year?

And perhaps one for Mark, a lot of the potential around home services was based on smart meters. The smart meter programme is potentially building up to be one of the great IT disasters, public procurement rollouts that we have seen, what is your thinking about the programme at the moment? Are you confident it is going ahead and what contingency plans have you for Centrica's business itself from the potential fiasco?

Answer: Iain Conn

I am going to answer the $70 dollar thing, I would like Jeff to deal with dividend, it might be a short answer and then Mark to talk about smart meters you have clearly got a downer on IT at the moment. On the $70 per barrel assumption, look at the end of the day the forward curves up until very recently here showing $60 to $70. We were trying to figure out where we believed a sensible basis would be to draw a baseline from which we would be able to calculate through rules of thumb differences of actual situations so that you guys would be able to calculate is Centrica on track or not on track on this 3% to 5%. Now we could have chosen a different number, $70 and 50 pence seemed like the right basis when we were doing all the analysis. In the last literally ten days you could argue people are getting worried is it slightly to the high side, but there is an awful lot of time to play out here. I think it is just as good as any. What we have to do is make sure we have given you decent rules of thumb so you can actually make that assessment. So Jeff the dividend?

Answer: Jeff Bell

I think probably the long answer is I don't officially become the CFO until August 1st, effectively for me not to take up that post would be to make up new dividend policy right now. The short answer is no I don't think you will tease anything further out on the dividend than linked to cash flow.

Further answer: Mark Hodges

Smart meters, it won't be a panacea but coming new to the sector, I think it is really exciting. I think it has the potential to reframe the way we connect and engage with the consumer. We have got 1.5 million rolled out now, you are right, we are leading the

way. We certainly want the whole programme to continue, we are lobbying and advocating that and everything I am hearing is that it will, but there is some uncertainty, but beyond that if you think what it does, rather than having these massive one-off billing events, it allows us to target potential propositions and uses. You saw the picture of London waking up and what goes on through the day so it should allow us to develop specific targeted propositions, it should allow us to reduce a lot of the service noise because we won't have estimated bills, it will be highly accurate. It will allow us to help people; we do this already for a vast number of our smart customers. We can give them hints and tips on how to reduce their energy consumption. So it has this potential to change the debate from one-off massive, in terms of customer numbers, pricing decisions to a much more engaged customer thinking about their own energy efficiency, thinking about their consumption. And in terms of rebuilding trust, in terms of the brand, I see that all as an opportunity. So I don't see it as a panacea but I do think it is a really important development and I do think if others did not go down that route, not withstanding government policy, it would be an interesting debate for us to have, given some of those benefits that I have just laid out in terms of our desire to continue. I mean NPS for example in our smart customer group is higher than our typical residential energy customer.

Q10. Martin Brough, Deutsche Bank
Just coming back to the capital employed figure and return on capital employed. In your results you present about £8 billion of capital employed when you look at your capital structure. So the problem is your market value of capital, if you take the market value of equity and add on the debts, it is more like £18 billion plus any provisions or minorities. So if you are making 11% return on £8 billion, it is 4. Something if you look at the capital employed that the market is currently attributing to your capital. So is there something wrong with that maths or is it you are being valued a long way above book aren't you?

Answer: Jeff Bell
First of all I think the capital employed base we would see in terms of the book value of the business would be higher than that; I think it is a little over £10 billion rather than the £8 billion. And clearly the market in terms of our valuation, will take into account future cash flows there you know greater value than potential we have on book value for some parts of the business, particularly the downstream or customer-facing business.

Further question: Martin Brough, Deutsche Bank
But the market value is still about double that £10 billion?

Answer: Jeff Bell
The enterprise value is.

Further question: Martin Brough, Deutsche Bank
So it is half the 10% to 12% in terms of getting an idea of what aggregate investors are looking to get after tax?

Answer: Iain Conn
It depends how you calculate returns. But I mean what we are defining here is return on average capital employed as an accounting definition which is what we are delivering. You can make an argument that if you take the cost to debt and the cost to capital, the cost of those is different so it depends if you want to take that into account as well. I mean we are talking about return on average capital employed on an accounting basis, but you could look at return on enterprise value in which case most companies would have different returns to their posted numbers. Now we hope as Jeff

said to beat that 10% to 12%. It is a boundary of our Financial Framework that we would like to stay above. We are starting in it and we want to move above it as we increase or reduce our capital intensity. But the other thing going on don't forget last year in the first half last year, 50% of our operating profit was from E&P and a tiny fraction. So there has been a very big shift and if you just stopped the clock right now, of course we are looking at much lower returns than we have had in the past. E&P typically, the supply chain reaction adjusts within 18 months to two years and we would still expect that to happen and we still expect margin expansion again in E&P. Obviously it does depend on prevailing price environment in the very near term, but we will have to see.

Q11. Fraser McLaren, Bank of America Merrill Lynch
I have three quick questions please. The first it sounds like you may be willing to exit from nuclear. If that were to happen, would this be as well as the other intended disposals and how would that change your overall investment outlook which you referred to this morning?

Number two, may I ask for a bit more detail please about a few of the other assumptions that you have made in the review. So for example have you included any of the harder remedies from the market investigation?

What do you think will be the overall rate of energy demand reduction in the medium term?

And what do you assume about the relationship between success in the Connected Home piece and their energy use? Isn't margin in one not just eroded by the other?

And lastly, I agree that Distributed Energy may be interesting in the future, but what do you think your edge is today in terms of technology, not just the fact that you have lots of relationships with customers?

Answer: Iain Conn
Can I just touch on the first two and ask Mark Hodges to deal with the Connected Homes cannibalisation question I guess and Mark Hanafin to touch on the Distributed Energy and power one.

On the first one, we are clearly not saying we are going to sell nuclear. What we are saying though is that we are assessing it as a financial investment and on its merits as such. That does mean it is possible though, we could conclude we wished to do that. If we were to do it, it is clearly not included in the £0.5 to £1 billion of divestment proceeds and we were clear that was about making adjustments to the E&P portfolio and Wind. It is not obviously including nuclear. At least if it were, I think we have got a problem. The nuclear business if that were to happen, and clearly this is hypothetical, we first of all need to make sure that we are delivering on our dividend and credit rating which we in most circumstances think we would be in which case clearly we have a couple of uses for that potential disposal proceed, one of which would be to acquire things or to reinvest the capital organically, but probably more likely to acquire things. Or it is balance sheet. And obviously moved significantly away from our BAA1 and BBB+ rating. I don't want the company to be aiming for an A rating, I would like us to have an efficient balance sheet that has got strong investment grade credit rating as Jeff outlines. So we would probably look to deploy the capital provided we had the opportunity to deploy it in line with strategy, as simple as that. But we are getting into the zone of hypothetical.

In terms of remedies and demand destruction, we have been what we believe to be reasonably conservative and or realistic about the forward margin structure within British Gas. And we do assume competitive pressure and pressure from regulatory evolution. We don't include or assume some sort of radical, because you just get into we will cross that bridge when we get there, but we have been sensible about our presumptions on that. Mark Hodges on Connected Home isn't it just eating up other parts of the business?

Answer: Mark Hodges
Well the way I think about it is there are two sides to the opportunity. I mean yes there may be an element of it which helps us to defend the relationships we have with current customers to defend some of the margin that we have with current customers. That would be true in terms of both services and energy supply. And will it help customers to reduce some of their consumption and is that therefore bad for us? I think you have to look at the economic value of customers over time. If we can retain customer relationships for a longer period then I would argue it is a benefit for us rather than looking at a one off impact. So certainly there are risks around it. We have identified clearly there are a number of pathways to create value from Connected Homes, it won't just be to protect the base we have got. We do see it as a material new revenue stream as well and I think in the round in terms of the way we put the strategy together, I feel comfortable that combination of defending and helping retain value in the book we have and creating material new value is a good option for us to have.

Further answer: Iain Conn
And there is demand for bundling of new things. I mean Badar, any example Badar last year, this year?

Further answer: Badar Khan
Yes as I said earlier, of the residential customers that we have acquired this year, 42% of them have selected a bundle, that is either a protection plan or element of our services contract relationships or a smart thermostat or other Connected Home proposition. I think just what Iain was saying, we do the same thing on both sides of the Atlantic, our strategies are actually the same. The difference that we have in North America is our starting point in market share is significant smaller. At the residential level it is around 10% of the customers that are switched, but roughly 60% of the market that has not switched. And on this point around the proposition, we are expanding and in fact seeing customers who are actually larger being more attracted to this proposition which actually offsets this energy efficiency, so that the starting point is actually a larger home and in North America the range of home sizes are really quite large. So we are actually seeing a more valuable customer segment choosing the offer and we are in fact seeing retention materially change already in our performance this year. So it is a better customer segment, it is higher retention as well as generating additional sources of income.

Further answer: Mark Hodges
Just one small point the Hive NPS right now sits at 78. In terms of maintaining a relationship with a customer and then broadening the potential offering that is a great starting place in terms of that part of the Connected Homes proposition.

Further answer: Mark Hanafin
Technology, we will be neutral in terms of our offering to the customer. So we offer best technology, which gives us an advantage because we are not going to be stuck with one manufacturer. So we will do that. I think we will develop some proprietary technology in that for the block that Iain showed, the clever block around building

management services, energy management services and VPP and so on. But more generally we have a right to win in this space I believe. Not just because of the customer relationships and the sales forces we have, but also because we have a lot of the skills in the power business at the moment to do all the licensing, the consulting, the building, the operations maintenance and we also have the skills in trading to do all the clever part about optimising the customers energy use and using the flexible generation. So it is not all there on day one, but there are a lot of elements of what we need to execute on that strategy.

Further answer: Iain Conn
On that point of technology Fraser, the point about technology, we are going to invest in technology and invest in technological capability and we are going to be doing that, we have already started and will continue and we have to be very technologically savvy, not just tech, but hard technology in order to pursue these goals and we believe we can do that. But that will also be part of the resource allocations we need.

Three more questions and that is it.

Q12.
One quick one for Mark. The situation with Barry and Peterborough, can you confirm that a) they are the lion's share of what I think is £60 odd million losses in thermal generation this year and the point you made about going into the capacity auction. If they are not successful in this year's capacity auction would you therefore be effectively making the decision to close them by Q1 next year?

Answer: Mark Hanafin
No they don't represent the lion's share of the losses; the losses are across the portfolio on a P&L basis. We have had outages in Langage in the first half as well; spark spreads have been very depressed. Load factors for the fleet have been 20%. So that is a P&L problem across the fleet. Similar to last year in terms of the numbers. What I said was that we would need something additional, these plants can't survive in just an open CCGT world. That either is short term contracts from National Grid, it is getting a capacity contract or potentially it is us finding some other innovative way of utilising those assets. We have done it on Brigg where we have gone from a grid connected asset to a locally connected distributed generation asset at a slightly smaller weighting. That was a very innovative step. We would obviously look at that before we would make the decision to close, but if they don't get the capacity contract then they are vulnerable.

Q13. Deepa Venkateswaran, Sanford Bernstein
I have two questions. The first one is on the cost cutting, you said this would supersede all the existing targets. So you have got the £100 million going on in E&P right now and BGB again another £100 million. So could you just clarify the £750 million growth and the £300 million in net, how much is accounted by the existing cost programme?

And the second question is on the smart metering costs. I guess you have presumed that you passed through the existing smart metering cost. Can you confirm that? And do you have any further measures on the smart metering procurement to control those costs going forward versus recent history?

Answer: Iain Conn
Both important questions. I will ask Mark Hodges to clarify the smart meters and then I will come back and clarify the £750 million for you.

Answer: Mark Hodges
So in terms of the smart meter cost, yes that is passed through, that is simple. And in terms of controlling the costs, we are always looking at the cost of the meters that we are supplying, looking at the technology. We have been through a couple of iterations that is something we will keep under review. And it is not just the meter we are looking at the in-home display, looking at how that might work on the smart phone. We are looking at the whole value chain in terms of how it gets deployed in the home and used by the consumer and try to make sure we can minimise the cost to the end consumer over time.

Answer: Iain Conn
But there is a revenue stream associated with the smart rollout and clearly we are broadly speaking we are rolling that out with getting the costs back so we have not included that in the £750 million.

In terms of the £750 million and previous targets, I was very precise, I said that any targets for the calendar years 2016 to 2020 would be superseded. So what it means is that of the E&P delivery that we talked about earlier this year that we deliver this year and run rate into 2016, that we delivered this year would not be part of it. Obviously, in order to deliver the E&P programme we will have to deliver a lot of it this year. There may be some of it that 2015 to 2016 that is therefore part of the £750 million. So we will be very clear, the baseline is 2015 costs. Therefore by definition if there is slight tails of existing programmes they are included in the £750 million, they are not additive to the £750 million so I hope that has clarified that.

Further question: Deepa Venkateswaran, Sanford Bernstein
The BGB £100 million was therefore next year so that then is included in your £750 million?

Answer: Iain Conn
The costs of the Group as a whole, this year is the base line. We have got pluses and minuses in this but we are not trying to play games with the BGB situation, the base line is what we have planned to deliver and what we can deliver in 2015. Operating costs and controllable cost of goods. And what we will do at the end of the year, as we go into the Prelims is give you clarity on the base line and how we are going to monitor progress going forward.

Q14. John Musk, RBC
A couple of questions on the Connected Home again. You say you are going to have a new reporting line for the new Connected Home. Can you let us know whether that is profitable in its own right at the moment and how those profits are measured? Is it the sale of the equipment with all the churn benefits and efficiency benefits you get in your energy staying within British Gas or direct energy?

And then secondly, one of the issues I think with the rollout of Connected Home is cost and £250 for a Hive seems relatively expensive I would say for the average man in the street. Post CMA would you be looking to offer those bundled with an energy tariff and lock customers in on a two year deal with a cheap Hive?

At the moment in the US I think you use Nest, is there some confusion you see with customers if you try to rollout Hive into the US?

Answer: Iain Conn

Can I take those quickly? On the US situation, clearly we are looking at Hive and its potential and we currently have a relationship with Nest. We have to resolve that if we rollout Hive, but we do like our technology.

As far as the way we measure Connected Home, we are not going to get into that today, what we are going to do is be clear in February how we are doing in these areas and how we are going to report them and how we would like to be measured. You are absolutely right that Connected Home has got profitable parts where you have got currently product in market we are making money on but you have also got pre-investment in research and development pipelines which does not remunerate at the moment. So it is not an easy thing to say, okay here is the Connected Home P&L and when you bundle the offerings with other offers, how you ascribe value is not simple. So we are not going to be drawn on KPIs today. We are going to give you a suite of KPIs in February which are going to allow you to measure our progress and understand what is going on in these new growth nodes as well as in the existing business.

Closing remarks: Iain Conn

Ladies and gentlemen I would like to thank you all for being very patient in a very warm room for a very long time. And on behalf of our Chairman and ourselves, thank you for coming. I hope have given you clarity now on where we are going to take Centrica in its next phase. We are very confident this company has tremendous set of skills to play into the trends of energy going forward. In fact it potentially has skills today that are more relevant to the future trends in energy than the past trends in energy and we think Centrica is very well positioned to be a leader in energy and services going forward as we serve our customers. Thank you very much indeed.

End of Presentation