centrica

Jeff Bell - Strategic Review

Strategic Review – Financial Framework

Well, the purpose of the financial frame work is to set a series of financial parameters around which to measure our progress and make decisions. It links the cash flow generation of the business and the reinvestment we would see going back into the group with our desired outcomes of a progressive dividend and a strong investment grade credit rating. What that will mean in the near term, is that our reinvestment rate, the capital we put back into the business, will be constrained to a billion pounds per year. But over time, as we expect cash flow to grow, at the three to five per cent level we've talked about, we could see additional reinvestments later on in the next five year period.

Operating Cashflow Growth

I think it's important to start with the stable platforms of cash flow that we currently have. In energy supply, we have very strong cash generative businesses in the UK, in the Republic of Ireland and in North America and indeed we see the potential for some growth and indeed we see the potential for some growth particularly in Ireland and in North America. We also have a very strong cash platform in the E&P business and we would expect to see that continuing going forward. On top of both of those, we do expect to see growth and that growth in the near term will be driven by operating efficiencies and continued growth in the services businesses, and longer term, in the areas of connected homes, distributed energy and in our energy marketing and trading businesses.

£750 Million Cost Efficiency Target

Well, the £750 million will be realised over the five years up to 2020. Now, we do expect two thirds of those cost reductions to be realised by 2018 and we would expect that over the entire five year period that operating costs even out after inflation and investing in some of our growth areas would be below the like for like level they are in 2015.

Capital Expenditure Limit - £1 Billion a Year

Well, in the near term, that will mean limiting our capital expenditure in a few areas. The first is our E&P business, where we would expect going forward to limit capital expenditure to four to six hundred million pounds a year, in line with the smaller size production business of 40 to 50 million barrels of oil equivalent per annum. We would also expend to spend somewhere between two to three hundred million pounds a year in the rest of the customer facing businesses, primarily on information technology systems. That will leave about 200 million pounds a year for potential investment in additional capacity and capability of our growth areas, including in areas like connected homes and distributed energy, and in fact our AlertMe acquisition earlier this year, I think is a good example of that type of acquisition. Longer term, as cash flow growth achieves the three to five per cent level, there may be opportunity to invest more but in the near term, to build our balance sheets strength and ensure the financial resilience that we need, we will limit it to a billion pounds.

Progressive Dividend Policy

We've linked the progressive dividend to growth in our operating cash flow, we consider 2015 to be the base year and therefore we would expect the progressive dividend to be implemented starting 2016 with the interim.