# Centrica plc 2024 Preliminary results

## 20 February 2025

## Transcript

**Chris O'Shea, Centrica**

Morning everyone. Thank you very much for joining us. It's super to have you here for our 2024 results.

I'm joined here on stage by my usual sidekick, Russell O'Brien, our CFO, and we have our new Chairman, Kevin O'Byrne in the audience, alongside our Leadership Team in the front row.

*Slide 4 – Strong 2024 performance…*

I want to start with a very clear message - we never forget that we work for our shareholders. We're focussed on creating value every single day of the year.

2024 was a good year for Centrica, building on our track record of the past few years, delivering progress across the areas that move the needle on value creation.

We're performing strongly, focussing on the controllables and relentlessly pursuing operational improvements.

We've hit the profit targets we set ourselves 2 years ahead of schedule, and we've delivered EPS of 19 pence for the year.

All of this means our confidence is growing, which allows us to give you more insight into how we see the future shaping up. So to remind you, we see a pathway to deliver £1.6 billion of EBITDA by the end of 2028, with more than 85% of this coming from existing businesses and projects that are already in flight today.

And hopefully you'll agree we're demonstrating capital discipline, balancing value accretive investments with shareholder returns.

During the year we returned £700 million to shareholders, whilst ramping up investment to almost £600 million.

And our growing confidence is also reflected in our announcement that we'll increase the 2025 dividend by 22%, to bring it up to 5.5 pence.

Now that's an almost 40% increase in two years, and we're committed to reaching 2 times dividend cover by 2028.

As we've both delivered more than expected and we've delivered it quicker than we expected, we've also added a further £500 million to our share buyback. We'll execute that at pace, and we aim to complete it, if at all possible, by the end of this year. By the time it's complete, we'll have bought back around a quarter of the company in around 3 years.

There are vast opportunities arising from the energy transition for a company like Centrica. Some of the decisions being made across the industry risk increasing costs and decreasing energy security for consumers. We believe the energy transition is the biggest opportunity that our group has, but we are agnostic about the technologies that will drive the changes. We are, and we will remain, disciplined and pragmatic, focused on delivering value to our shareholders, with returns at the very heart of the strategy.

If we deliver what we think is possible, we will create additional capital in the next 2 to 3 years and we can either invest that in value creating opportunities or consider more shareholder returns in the future, it's all about what delivers the best returns for our shareholders.

*Slide 5 - ...with strong strategic progress*

Our capabilities are extremely difficult to replicate, and they set us apart in a competitive and an evolving landscape. A crucial foundation to delivering our strategy.

But we must continue to improve. We. Never. Stop.

Operational excellence is a journey which never ends. We've put a huge amount of hard work in over the past five years and we've made super progress, with higher customer satisfaction across our retail businesses, giving us confidence in our ability to compete and to grow. But there is still so much more to do. The better you get, the more opportunity you see.

Commercial focus is an area where I think we can still make huge improvements, challenging ourselves to deliver the most attractive commercial offers to our customers.

Now that's particularly true in Services & Solutions where we've now got a really strong operational foundation that we must convert into a return to growth in customer numbers.

That's why we've got Gary Booker, our Chief Customer Officer with us, not just today, but in general – to increase the pace of change across the business, to make us more customer focussed and more entrepreneurial than we have been. I'll come back to Services a bit later.

And last but not least, we're investing for value, investing in assets that both deliver attractive returns and assets that are aligned to our strategy, all whilst creating long-term growth options.

I think we've made very good progress here, whether it's new businesses such as the new Meter Asset Provider, which is a brand new revenue stream for the group; whether it's growing existing businesses such as our new gas peaker in Galway in Ireland, to further grow our existing power generation business in Ireland; or whether it's maximising the value from existing assets such as the nuclear power station life extensions and the new capacity market contract we announced this morning for the Whitegate plant in Ireland to underpin and grow our power generation from existing businesses.

We're delivering the opportunities we've developed in a very disciplined way.

Russell now will take you through the numbers and what that means for our capital structure, and then I'll come back a little bit later and discuss the future.

**Russell O'Brien, Centrica**

*Slide 6 – Financial resilience driving value creation*

Thanks Chris. Hello everyone.

I'm really pleased with our performance in 2024. We ran the business well, we generated strong free cash flow, and we used that cash flow to increase balance sheet resilience, invest for value and drive shareholder returns. We've built a track record of doing that over the past few years, and that will remain our blueprint as we go forward.

So, let me start by taking you through the key points for 2024 and I'll then move to provide a deeper insight into our future outlook.

*Slide 7 – Strong financial performance*

We've delivered another strong financial performance which was supported by further operational improvements, across the portfolio.

Adjusted EBITDA was £2.3 billion, which drove adjusted earnings per share of 19 pence.

We delivered free cash flow of a billion pounds, which includes an increase in capital expenditure to just under £600 million. And our balance sheet remains strong, with closing net cash of £2.9 billion.

We returned £700 million to shareholders and continued strong performance from the businesses gives us the confidence to increase our full-year dividend by 13% to 4.5 pence.

As Chris said, we also intend to raise our dividend by a further 22% this year and to extend our share buyback by another £500 million.

That means that we have nearly £800 million of shares still to buy. So we'll be increasing the rate of repurchases with an aim of completing the full amount by the end of this year if possible, depending on market conditions.

*Slide 8 – Delivery across all segments*

Total Group adjusted operating profit was £1.6 billion, which was lower than 2023, against the backdrop of a more normal market environment, with lower prices and volatility.

Our Retail and Optimisation businesses delivered £807 million, just above the mid-point of our earnings range. Within that, Services & Solutions continues to make good progress, delivering £67 million, which was a solid result.

Infrastructure delivered operating profit of £789 million, reflecting strong operational performance, offset though by lower storage profitability, and lower nuclear power prices.

We remain focused on costs, and I'm pleased that we managed to broadly offset the impact of inflation through underlying efficiencies this year.

The next step for us is to harness our data and technology to further simplify our processes and get after more material productivity improvements across the Group. This makes great business sense and is completely aligned to the focus on operational excellence that Chris just spoke about.

*Slide 9 – Cash generation supports growing capital investment*

Now - Let's now turn to cash flow.

We generated £2.1 billion of EBITDA and nuclear dividends.

We paid cash tax of £636 million. In total, including the Electricity Generator Levy, alongside other levies and charges, we paid almost a billion pounds to governments during 2024.

Working capital was less volatile than in previous years, with a £124 million inflow. And that was driven by a number of offsetting movements across the group, demonstrating again the benefits of our integrated portfolio.

We deployed a little under £600 million of capex in the year, maintaining our disciplined approach and focus on delivering strong, accretive returns.

Our investments included bringing ENSEK in-house, giving us full control over the Ignition technology platform, and we expect to deliver attractive, double digit, returns from that investment, while it also provides significant future optionality.

We ramped up our new meter asset provider, the MAP, deploying £85 million, and installing nearly half a million Centrica smart meters in just over four months.

And we continued to progress our peakers in Ireland and other flexible and renewable projects.

All in, this led to free cash flow of a billion pounds - a strong outcome.

*Slide 10 – Closing net cash remains strong*

Moving then to our cash position.

You can see from the graph the significant improvement we've delivered over the past few years by proactively simplifying the portfolio, and increasing the resilience of our balance sheet.

And we've taken further steps to strengthen the balance sheet. I'm pleased to announce that we recently concluded our triennial pension review, agreeing a reduced deficit, which is now around £450 million rolled forward to the end of 2024, and deficit payments of around £140 million a year until 2027.

*Slide 11 – Relentless focus on value creation*

I'd now like to shift to the future trajectory of Centrica.

The financial framework we announced in 2023 is unchanged and reflects the strategic priorities we've set to drive long-term growth and shareholder value.

*Slide 12 – Near term financial outlook…*

Starting with 2025 - there is no change to the outlook I gave you in December, so I will be brief here.

We currently expect all our retail energy supply and optimisation businesses to be within their guidance ranges this year. We expect Services & Solutions to deliver a further improvement and we remain confident that it will be within the £100 to £200 million range in 2026.

For Infrastructure, again no change from December's guidance, but I'll just remind you that we expect a loss of between £50 and £100 million for Rough.

We currently expect net cash to be lower at the end of the year, including the impact of higher investment, higher shareholder returns and a working capital outflow.

*Slide 13 - …gives us confidence in future delivery*

And with the continued strengthening of the Group, we now have more confidence to project our financials a little further forward.

So let me run through how we see the Group's EBITDA pathway to the end of our investment period in 2028.

First, the existing Retail and Optimisation guidance of around a  billion pounds of EBITDA.

The middle of the range is a good starting point for your models, but of course, over time we hope that we will be getting towards the top end of the ranges for each of the businesses, subject of course to natural business cycles.

Our existing infrastructure businesses will continue to contribute, but at a smaller scale than they do today, delivering around £200 million of EBITDA, based on current price curves. Note I do not include any contribution from Rough at the moment given the lack of clarity over its long-term future.

Our committed new investments, primarily the MAP and Irish peakers, should generate up to around £170 million of run-rate EBITDA by the end of 2028.

And we expect new investments to contribute an additional £200 million in EBITDA, taking the total for the Group to around £1.6 billion by the end of 2028.

And importantly, that means we have line of sight on around 85% of this projection from assets that are either generating earnings today or investments that are already underway.

*Slide 14 – Attractive returns with half of our investment programme locked in*

Now, delivering that incremental EBITDA will be driven by deploying the uncommitted portion of our investment programme. The projects and activities we've already announced, along with about half a billion pounds of sustaining capex, means we've committed around 50% of the total, leaving around £2 billion still available for new investments.

Chris will talk about our investment strategy shortly.

But we have a healthy opportunity set under review and a pipeline that we have been growing over time, allowing us to be selective about the projects we pursue. But as a reminder, our focus is on returns, as we are demonstrating with our ongoing investments.

*Slide 15 – Balance sheet resilience increasing*

Our investment grade credit rating is a critical enabler of our business, allowing us to operate flexibly in volatile markets.

And we have made positive steps on balance sheet resilience over the past couple of years.

We have signed the new pension deficit agreement, and the new assets we are bringing into the portfolio will have a more rateable profile, like the MAP.

Separately, we have also strengthened our liquidity position, and our debt stack. And we now have over £5 billion of committed facilities in place to help us manage volatility.

If you look back, Centrica's balance sheet has not always been on such a solid footing. That was not good for the company or shareholders.

Looking forward, as we invest, we will be leaning into our balance sheet more, but we don't want to be running the credit metrics up to the red line. That is absolutely normal for any company and we are no different.

That's why we have around £1 billion which we deduct from our future financial headroom projections. This allows us to run the business efficiently, continue to grow, take advantage of opportunities when they arise, and return capital to shareholders, while protecting against risks.

*Slide 16 – Greater financial flexibility*

So let me pull all of that together and for the first time lay out how our balance sheet could evolve in the coming years.

We head into 2025 with a strong net cash position, and we expect to generate around £4.5 billion of after-tax cash flows through to 2028, based on the EBITDA evolution I've just described, and including the new investments that we're making.

Pension and decommissioning payments will consume around a billion pounds, and we expect to complete the remainder of our £4 billion investment programme over the same period. Just to highlight, we have included here around £400 million of new leases to support our growing LNG business.

We've announced an acceleration in our dividends today, moving towards 2 times earnings which, alongside the existing £300 million buyback, represents roughly £1.6 billion already earmarked for shareholders.

And so if you move to the right hand side of the chart, you can see that we have the potential for more financial headroom to emerge over time, after taking into account our reserves.

Now this capacity is not in the bank today, but we are confident enough in our outlook to give an additional £500 million of it back to shareholders through today's new buyback extension.

Now as I said, these projections are subject to the usual caveats, and will flex if markets change.

One thing to note also as we look forward. Our capacity could increase further over time if our credit rating thresholds improve as the shape of the portfolio changes. Similarly, we may be able to reduce the size of the reserve we hold. We will keep this under regular review as we move forward.

Slide 17 – Relentless focus on value creation

Our growing confidence in our future outlook means I have been able to give you a more granular projection than we've been able to give before and demonstrates how we see our financial flexibility growing in the coming years.

The first step is maximising sustainable earnings, and we see a pathway towards run-rate group EBITDA of £1.6 billion by the end of 2028.

We remain focused on maintaining a strong investment grade balance sheet through the cycle.

We are making good progress deploying capital.

And we continue to do all that alongside delivering significant and growing returns to our shareholders.

Thank you. Let me pass back to Chris.

**Chris O'Shea, Centrica**

*Slide 18 – Delivering against our strategy*

Thanks Russell.

*Slide 19 – Creating options around the future energy system*

It's been over a year since we laid out our strategy, a key element of which was delivering the investment programme to renew our infrastructure business for the coming decades.

When I became CEO it was a deliberate strategy to prioritise fixing the three most pressing issues we faced: number one, our underperforming operations; number two, our poor colleague relations; and number three, our strained balance sheet.

That's why you saw our capital investment rate declining consistently over the past few years. Trying to do too much at once could actually have been fatal, but now we have got vastly improved operations; we've got top quartile colleague engagement; and a balance sheet that's got £7 billion more capacity than we had five years ago, that's partly driven by liquidating our existing assets into cash.

We have been focussed and I think you'll agree, this amazing team in the front row have delivered a huge amount.

So our focus has now been shifting.

Reinvesting is absolutely crucial. Stable cash flow from existing and new infrastructure assets will underpin profitability in Retail and Optimisation, creating opportunities to generate three returns from a single asset. That's why this featured so prominently in Russell's waterfall, and

I'm delighted that we have the capacity to deliver that investment while still rewarding our shareholders, our owners, the people that we actually work for.

We've been clear on how we think about deploying capital – attractive returns are a pre-requisite, but what else are we looking for to justify investing our shareholders money? I want to lay that out for you.

Number one, there has to be a clear industrial logic. We've got to be confident that we can run the asset or the business well, bringing our experience and our capabilities to bear to create value. If we're not confident in that, we just don't invest.

Number two, there's got to be a benefit to the portfolio – bringing assets into the group that create synergies, reduce risk, and support the balance sheet.

And of course, any investment has to be strategically aligned, its got to create options to deliver value as the energy system evolves.

*Slide 20 – The energy system is evolving*

Now we don't have a crystal ball. I can't stand here and tell you exactly how or when things change. Nobody can do that.

But what I can say is that we are driven by pragmatism, delivering the energy our customers need today, and the solutions that are needed to keep energy reliable, affordable and clean in the future. These are key trends that we know will shape the energy market of the future – more electrification; more intermittency; more demand for bespoke consumer products and services.

Now none of this is new to you, but some of the implications of these trends are quite stark, and they're only starting to become evident now.

The world consumed more energy in 2024 than it has ever done, driven by global economic growth and emerging structural trends like the growth in data centres. And despite a tilt towards electricity and massive growth in renewables, the world emitted more carbon in 2024 than it's ever done in a single year.

The implications of a system becoming more reliant on renewables are becoming clearer. In just one single month over Christmas, the share of UK output from wind in the UK ranged from a low of 2% to a high of almost 60%. Back-up thermal generation, predominantly gas, filled the gaps there, the difference between the 2 and the 60 and will continue to do so over the medium to the long term.

It is very clear we need more low carbon baseload power. We need more back-up generation. We need more storage. Those are the assets that will ultimately drive system decarbonisation.

And those are the assets that we're focussed on investing in – our nuclear business; our gas fired peakers; our battery investments; the conversion of Rough to hydrogen storage. These are the assets that are needed to drive the energy transition.

A more complex and intermittent system will naturally lead to more volatility, and that will increase the need for people who can deliver energy where it is needed, and when it is needed to keep the lights on at a sensible price. That is a huge opportunity for businesses like Centrica Energy.

Alongside these trends, new technology like demand side response is leading to customers looking for more bespoke solutions to their energy needs. For some that will mean more engagement, proactively managing their household energy use. Others just want us to take the hassle away, but they want to be safe in the knowledge that they're getting a good deal. We've got to deliver the right solution for all of those customers.

Now our mix of businesses means that we are uniquely positioned to take advantage of these trends.

But we are mindful that the environment is rather dynamic – recent US policy changes after the election are a perfect example of just how quickly things can change.

We've got to be prepared for further twists and turns, and that's why we are creating a portfolio with the flexibility and the optionality to create value regardless of the pace of the energy transition.

*Slide 21 – Natural gas and nuclear remain vital*

Although the exact path is unclear, nuclear and natural gas are going to remain critical components of the energy mix at least out to 2050 and most likely quite far beyond that.

Nuclear is an essential contributor of zero carbon baseload electrons.

And natural gas is crucial to the move away from unabated oil and coal fired generation. As a result, gas demand will most likely rise from today in absolute terms.

We therefore see scope for significant growth in LNG demand over time, with a lot of new supply expected to come into the market over the next 2 to 3 years we expect that will depress prices until the market adjusts to the new LNG.

So we've proactively hedged our exposure, with deals such as the Petrobras agreement announced this morning, locking in positive spreads to eliminate that downside risk, whilst retaining physical optionality in the event the market is better than we expected.

If you look closely you'll see these volumes have stepped up again since our December teach-in, and we are now almost completely hedged out to 2027 and north of 50% out to the end of the decade.

This is a fantastic example of prudent risk management, we leave risk on when we see opportunities, we take it off when we see the downside coming.

And if the market plays out the way we anticipate it will, we stand ready to pick up well priced longer-term LNG supplies to add to our portfolio, which will add further value to the Group.

*Slide 22 – Our significant role in Irish power market*

Let's take a look at Ireland, it's a market we love, it's a market we know well, and the energy system there, evolving looking at security, affordability and decarbonisation is at the core of our investment strategy.

The Irish electricity system is constrained, you've got very strong growing demand, and a need for new generation to keep pace.

That has created really attractive opportunities to target capital towards flexible generation, and we are now on a pathway towards doubling our installed capacity by around 2028-2029.

We were recently awarded a capacity market contract which will help underpin continued operations at Whitegate until 2033 at about €50 million euros a year, which will support strong profitability.

Our two reciprocating peakers in Athlone and Dublin are expected to commence operations later this year, and having been designed for fast response, they are perfectly positioned to capture value from growing intermittency.

And as we announced this morning, we've been awarded a contract to deliver a new 334-megawatt open cycle gas turbine. The project will receive a higher capacity market payment than other peakers, about €60 million a year, showing the increasing value of reliable back-up generation sources, which underpins a significant portion of the revenue for the project and delivers a very attractive return.

Ireland is a great example of us acting pragmatically, targeting our capital to the most attractive opportunities in countries we know and where we believe we can add value, and aligned to the changing energy system and delivering clear synergies with our existing portfolio.

*Slide 23 – Positioned to capture growing value from integrated energy propositions*

As I said earlier, there will be significant change in energy retail markets.

Maximising these opportunities requires efficient, flexible operations overlaid with an entrepreneurial mindset. This is why it's been so important to deliver the operational improvements we have seen over the past few years.

It was also a key factor driving the acquisition of ENSEK, which powers our Ignition platform. We have brought one of the industry's leading technology platforms in-house, which delivers value in its own right by eliminating third party fees. But most importantly, it gives us greater control over our operations and the integration with other proprietary Centrica systems.

The migration of customers to the new platform is now largely complete, and has been a key driver of the significant improvements that we've seen in Catherine's business, in service levels, with net promoter scores at a near-record level last year, improving by about 70%.

We are starting to see a reduction in transition costs, and we want to be as efficient as possible, but we will not blindly chase a cost number because that could hurt the progress we have made with our customers over the last couple of years.

We are focused on value, and we will continue to invest in customer service and in our brands to support the growth ambitions. But delivering a margin of 2.7 per cent, just slightly above the Ofgem allowance in a more normalised year, suggests we are getting that balance just about right.

In Services, as Russell said, performance was solid. Reschedule rates remain low and we have delivered very strongly on our Customer Promise which is basically same-day engineer repair visits.

Our engineers made it to almost 93 per cent of people who called us before 11 o'clock in the morning with no heating or hot water this week, so you can see that even in the very cold weeks delivery here is strong.

Now there's no-one else that can match this proposition, and the strong delivery gives us confidence to push the organisation further to deliver more compelling options for our customers.

We are seeing promising signs that improved operations are having an impact on value, with better customer retention and contract acquisitions, whilst on-demand jobs continue to increase. Most importantly, margins have gone from 2.9% in 2023 to more than 4% last year and our intention is to further drive significant improvements.

We believe that being able to offer a one-stop shop for consumers, drawing together our supply and optimisation capabilities will be increasingly a competitive advantage in future, allowing us to really maximise the value of our nationwide engineers who are in customer homes 7 million times a year.

Our engineers are the leading installers of boilers, the leading installers of heat pumps, and leading installers of smart meters in the UK. We maintain home gas and electrical systems. And, crucially, we've got award winning training facilities to make sure they have the right skills today and into the future.

We're by far the biggest player in a completely unconsolidated market, but we only have around 10% market share. The growth opportunities here are truly huge.

So while the recovery is clearly continuing in Services, there are massive chunks of value still to go for and increasing the pace of our commercial progress is one of the top priorities for the coming years.

*Slide 24 – Investments aligned to our energy market outlook*

So we've got a clear plan for the assets we are investing in. You can see that reflected in the things we have done recently, and it remains the framework that we will use to assess opportunities going forward, whether these are organic or inorganic.

Attractive risk-adjusted returns are a non-negotiable.

We've got to be able to add value to the assets, they have to add value to our portfolio, and they must align with the way the energy system is evolving.

Our investment pipeline today meets all of those criteria, and crucially, it gives us the flexibility to react to whatever path the energy transition may take.

Whether it goes faster or slower, more or less electrified, that's ok. We value optionality hugely and we build it into absolutely everything we do.

*Slide 25 – Summary*

So, in conclusion.

*Slide 26 – Creating value through the energy transition*

We had a very good year in 2024, with further improvements in our operational performance supporting our financial results.

The progress we've made over several years making Centrica more streamlined, efficient and resilient means that we can give you a bit more line of sight on how we see the business developing.

We have a very exciting future, and it's based on delivering the simple value creation model you hear me droning on about all the time:

Number one – Relentlessly driving operational improvements throughout the existing businesses, basically running them better than anyone else can;

Number two – Constantly pushing to deliver what the customer wants; and

Number three – Investing in projects that add value in and of themselves whilst creating long-term growth options.

By continuing to deliver on this, as we've said this morning, we see a pathway towards £1.6 billion of EBITDA, and a balance sheet that could support further returns to shareholders.

Accelerating our progressive dividend demonstrates our continued confidence in the resilience of the group, whilst our buyback programme now sits at £2 billion.

Stepping back, I am proud of what this team's delivered over the past 5 years. Our market cap has increased from around £2 billion to £7 billion; we have transformed the balance sheet; we've positioned the business for growth; all whilst returning almost £3 billion of capital to shareholders to date, and there's more to come.

But that progress is in the rear-view mirror and as we move forward I want to see us accelerating delivery of the massive opportunities that lie ahead.

I am really looking forward to taking some very, very significant steps forward this year.

Now with that, I want to thank you for listening, and Russell and I would be delighted to take your questions. What we'll do is take questions from the room first, and then move to any callers on the line and there is a facility to ask.

Ajay, even before I sat down you've got your hand up. So Ajay you can absolutely go first.

**<u>Question 1</u>**

**Ajay Patel, Goldman Sachs**

A few questions, please.

So I guess the first one is just to maybe if you could describe the journey a little bit from last year and where we were, in regards to the balance sheet, the outlook for buybacks, outlook for investment and how that journey has changed over the last 12 months to kind of lead to this increase in buyback today. So that's the first one.

I think the second one is on the credit ratios. When can we maybe see an improvement? Is it dependent on the build out of the investments? Has the de-risking of the LNG contracts today helped? Or did the liability reductions that we see or the roll off of the cash outflows from them in regards to pensions and decommissioning costs drive that? Just to give us a sense of what the levers are and how should we see that part of the journey evolve?

And then on the service side, I guess how much of the medium term picture for service business is driven by top line growth? And when could we see that? Because we're not there yet, and that sort of seems like a real opportunity for Centrica.

So to help us understand, that would be helpful.

**Chris O'Shea, Centrica**

Perfect. So Ajay let me take number one and number three and then Russell is by far the best qualified in the room to take number two.

So very simple number one is just confidence and we're more confident in the future. That's why we were able to do it, to give shareholders more back. So very simple answer.

Number three on Services, we're not going to grow this business by cost cutting, it's got to have top line growth. We have 2.8, 2.9 million customers, 29 million homes in the UK. There's an awful lot more to go for and I think integrated offerings for those customers will be very helpful. I think also driving more value from what we do at the moment, if possible. So I think you can see revenue growth from the existing customer base. But you know, Catherine's got seven and a half million customers in her business and we've got 2.8, 2.9 million in Services. At a minimum why have we not got seven and a half million customers in Services.

I don't care whether they're contract customers or whether they're on-demand. I just care that they are happy customers and they come back year after year after year. There's also different products that we can be looking to offer. So that's what I mean about we've got to get better at building new commercial propositions, taking them to market quickly, testing what works, listening to customers and then those that work, do more of it, those that don't work, tweak them or stop doing them.

But definitely top line growth is a priority. And in some ways operational improvements, it feels when you're doing them, it feels very, very difficult. When you then turn your mind to growth you understand the growth is actually the difficult part. So this will not be easy. But I think we've got brilliant businesses. I think also confidence, the businesses need to be more confident in just how good they are and that then leads you to better customer propositions.

I think it's a brilliant question. I would say that I tried when I was CFO to get the credit metrics improved, I was unsuccessful. Russell has just completed the triennial valuation months early. I was late when I did it, so I'm hoping that we've got an upgrade in the CFO, so maybe we'll see some improvement in credit metrics within the next month or two.

**Russel O'Brien, Centrica**

That's a good question. And I think that there's a number of things that, of course, drive the rating. I can't really point to single one. But the good thing is with Centrica, most of the things that drive the rating are pointing in the right direction.

So if you're if you're looking at the credit strength of a company, sustainable earnings is an important one. If you go back Centrica's earnings have been a bit more volatile. They are now more rateable and dependable. That should be helpful. The pension deficit helps. Bringing rateable stable cash flows into the business really helps because if you remember we've had in the past a larger infrastructure portfolio. That portfolio was a natural diversification to the trading and the retail businesses. That's declined. By building the new investments like the MAP we're bringing into the portfolio that's really credit positive. And at the moment our S&P metric is 50% FFO to net debt. That's if you do the maths, that's the same as one times net debt to EBITDA. And that's why on the charts I showed you today, our guidance for the end of 2028 shows a debt capacity of £1.6 billion, one times the 1.6 EBITDA, but if we could move down a trajectory of having lower headline metrics, it would just give us more flexibility either to invest more or for more shareholder returns.

**<u>Question 2</u>**

**Ahmed Farman, Jefferies**

Hi, Ahmed from Jefferies. A few questions for my side.

Maybe I'll start with capital allocation. I saw some comments earlier, presumably media comments, around Sizewell C and Rough, and I thought we could sort of get your thoughts on where those two processes are? And particularly on Rough is the scope of the discussions that you may be having with the government to try and get it to a profitable number with the same size, or is this a broader discussion and a broader scope of the asset?

The other question I have is on gas peakers, it seems to be very focussed right now on Ireland and your core markets. I'm just wondering if there is a broader opportunity in new markets that you see and are interested in.

And then finally, just a sort of final one on gas prices. Is there something you can sort of say about the gas price sensitivity for the earnings, both for 2025 and more sort of longer term, given that remains a very volatile market in terms of pricing?

Thank you.

**Chris O'Shea**

Thanks so much. Let me take one and two and then Russell can talk to the gas price sensitivity.

So I can't really tell you the state of the conversations on Sizewell C and Rough. On Sizewell C, I think the Chancellor has said during the budget / Autumn Statement, the Chancellor allocated £2.7 billion to the project and then so there's an expectation to make a decision with the comprehensive spending review, which I think is sensible because there's a lot of money to commit to that, that's sometime in the first half of the year. So I would expect if the government wants to make a decision it's got to have investors so I would hope to have something in the first half of the year. But things happen. And so I wouldn't commit to that.

On Rough the conversation is about unlocking £2 billion of investment we stand ready to do it. We've got the money in the bank, we're good to go.

And it's about increasing the capacity of Rough, making it more flexible so the cycle times faster and then understanding do we want to design it just to store natural gas or do we want to design it to store hydrogen? The reservoir you don't do anything with that, it's the metallurgy in the wells, in the platform, the pipeline and the onshore terminal.

So you could have some phased development whereby you increase the capacity, you have it hydrogen ready but you're doing methane and then if you go full to hydrogen you then build a brand new terminal. We've bought land around the existing terminal. You know, optionality we value massively. So we have the option to do all of this. We have enough room to build a brand new terminal beside the existing terminal, which is what you would need for hydrogen.

So we're in those conversations just now. Could an agreement mean that you have a short term extension, yeah it's possible, but what we're really looking to drive is how do you secure the future of this amazing asset and the people that work there in the Humber for the next 40 years. It has been there for over 40 years supporting the UK. We'd like it to be there for another 40 years, but the conversations are ongoing just now. They are at quite a senior level in government.

You know we are obsessed with energy and we are obsessed with our energy stuff. The government have a whole bunch of other things. So sometimes it really depends what else the government have got on as well. But we will continue to push. I'm as irritating to the government as I am to my colleagues in terms of trying to get things done. So we'll keep pushing them.

So gas peakers in Ireland. We like Ireland, we know the market well. Dave is sitting in the front row. He's responsible for our overall power business. That's not why our investment's go into Ireland. It's just a really good market. And if there's other areas that we could invest in, we've got some battery projects in Sweden that we've been looking at. We just bought a battery in Belgium and the reason we bought the battery in Belgium is we are the biggest optimiser of batteries in Belgium. We do about 30% or 40% of Belgian batteries, including lots of at home batteries.

So if there's other opportunities elsewhere, absolutely. But what we're not going to do is to go and try and add another four or five, six, seven, eight markets. Jill Shedden our Chief People Officer is also sitting here. And that would expand massively the work that we'd have to do, in terms of how do you support all these different operations?

So where we see value, we will make a targeted decision to enter the country. Where we are just now, Ireland, Belgium, Denmark, the UK. You've seen a bit of an expansion in the US. You know, we look at trading in the US now. The deals that we've done with Coterra Energy to hedge the LNG portfolio are quite innovative. You might see us doing a little bit more there. So we're not against going to other places, but we don't have a plan that says we need to be in 10 or 15 countries. The markets we're in just now we like. We like Ireland, you know, we're delighted to now be able to at the end of the decade do 20% of Ireland's electricity. And we're happy to do more if the returns are in the right place.

And then Russell gas price sensitivity.

**Russell O'Brien**

Yeah, let me cover that. I'll just walk through the various different businesses that we have here in Centrica, because I think what you'll see is that the confidence and the message we're giving around sort of a sustainable solid earnings also translates into how we're managing gas prices and other exposures.

So if you think about gas production, so the Spirit business we have, we hedge that 2 to 3 years in advance on a rolling basis, you can see that on slide 37 in the pack. So, we're not exposed really to short term fluctuations there. We do have some unhedged proportion of that, which is benefiting at the moment from the slightly higher prices, but no material exposure there.

On gas price trading and optimisation, which Cassim's here, his team does. Of course, that's a business where you walk in every day and effectively you're hedged and you're trying to take advantage of dislocations in the markets. You're not taking pure gas price exposure. The LNG business we've just discussed is one which is basically locked in from gas price exposure for the next couple of years. We've just outlined that. We do see at the moment it's more challenging to take advantage of the gas markets and particularly things like storage, not just in the UK, across Europe. So that's something that we're working through.

And then finally in the downstream, while we are exposed to the gas price dynamics, most of that is passed through to our customers in terms of the price cap, for example, which we're all hedged from as well.

So actually what we are, you know, an energy company with a lot of gas, as you look through the portfolio, most of that's pretty well hedged.

**Question 3**

**Dominic Nash, Barclays**

Hi there. Yes, it is Dominic Nash from Barclays. So probably three questions for me, apologies.

Look first a very quick one, net debt to EBITDA, you're still guiding to one times as your sort of credit thing but have I got this wrong, you've changed the way your EBITDA is now being calculated. I think these are higher now than it was previous, if you could give us an indication of that.

Second one I think was quite noticeable from your presentation, I thought was quite interesting, is that I didn't see anything on the consumer. And what I mean by that is the sort of cost of living, the potential for rising costs of power and the potential impact on that. And Chris, I kind of agree with you that there could be quite big policy changes if you push too hard, as in anything in life.

So the two questions come out of this. First is how you seen your bad debts rising and the impact of that one on the price cap mechanism.

But more importantly, when you're sitting in front of Ed Miliband and you're talking about CP 30 and REMA, does your vertical integrated model give you a little bit of a conflict of interest, or are you batting for the consumer, in particularly with zonal power pricing and the way that say, Octopus is out there saying it's a great deal for consumers?

I don't know what your actual position will be on that, based on your vertical model.

**Chris O'Shea, Centrica**

Brilliant, let me take the other two then, Russell, take the net debt to EBITDA.

So bad debts were down in the year, £380 million or something. But we effectively have a social tariff in the UK. So customers that can't pay the cost of that is spread over the customers that can pay. We've called for a social tariff. We think that should be improved. We think we shouldn't go through the process of billing customers who can't pay, giving them the turmoil of not being able to pay, the stress and then it gets paid by others anyway. So we think there should be a social tariff, but that will require government involvement, data sharing, etc., and those that can't pay get billed less to those of us who can pay. The price goes up for those of us who can. You just strip out the stress.

What that then allows you to do, is those that choose not to pay you identify them more easily. At the moment you can't really identify them. So we do think there is improvement needed there. If power prices continue to go up, if gas prices continue to go up, then you would expect bad debt to be to be more of an issue.

What we find is the vast majority of our customers want to pay and we feature very prominently in bills that they prioritise paying. So our customers are truly awesome, they are you know they're absolutely brilliant, so they try hard to pay us. What we want is a solution that those that can't pay we take the turmoil away.

In terms of the discussions with Ed, I don't think we're conflicted at all. I think that everything that we do is, from the point of view of what's good for the consumer. So if you take our view on zonal pricing, we are dead set against it. Now there are some companies that are dead set against it because they think that is going to choke off investment. SSE I think have been quite public. I think Scottish Power have been public. They've investing tens of billions of pounds this decade, I think we would do well to listen to them, they're investing far more than us.

Our position is very different, though. It's not to do with assets. Our position is that the energy market of the future requires more engaged consumers, and the wholesale market, as you know, settles every 30 minutes. And probably as we go forward, as we do more demand side response, the retail market will maybe the price will change maybe every 30 minutes. If you do that with a single price, then you have a more engaged consumer base. If you see the electricity price is 10p just now, over the next 30 minutes it's going to be 11p. I'm an energy geek, could that be something that you get some nationwide traction on, people talking about the energy price. Maybe that's just people like me. But if you overlay 12 local distribution zones and you overlay standing charges, which are different as well, because of different transmission charges, and then you overlay locational pricing, you could easily see that you've got a 100 to 200 to 300 to thousands of prices for electricity changing. So you get thousands of prices, hundreds of prices, even, changing every half an hour. How do you engage anybody?

And so I think that where we come from is with the consumer. I think that those that are for zonal pricing. I think if you're sitting in an economics lecture in a university or a tutorial, it makes perfect sense. Let's make costs cheaper where the electricity is generated and everybody's going to move there.

That completely ignores friction costs. Is everybody going to move? I'm from Scotland, I'm from the central belt in Scotland. I spent quite a bit of time in the Highlands. Absolutely beautiful. I'm not sure everyone's going to move there. That's the windiest part of the UK. I'm not sure everyone's going to move there, but if they do, who's going to build roads, who's going to build the houses, who's going to build the infrastructure?

This stuff will take years and years and years to happen. So I think zonal pricing has economic merit in an abstract academic sense. When you overlay real life, which is what we do, and think of what actually is good for our customers, it doesn't make sense. So we're not conflicted at all. We don't have billions of pounds that we're looking to put into specific electricity production projects in the UK, which might be impacted by zonal pricing so our objection to it is not driven by the same as some of these other investors. It's all down to the consumer.

So that's why we want a social tariff, we want no standing charge at all, single price for gas, single price for electricity. And then let's see if we can get everyone to geek out about energy in the way we all do.

**Russell O'Brien, Centrica**

Net debt to EBITDA, so no change on the trajectory. And if you do the calculations, as I say, one times net debt to EBITDA is basically the S&P 50% FFO to net debt.

On the EBITDA, previously we were reporting the cash flow representation of EBITDA and we're trying to move generally more towards EBITDA as a metric because we've had feedback from many of you and from our investors that it's something to be used. And of course using EBITDA from a cash flow perspective, it doesn't capture income from associates, so we've just captured that in the new representation the earnings we get from our nuclear business, so that we've got a comprehensive view.

So that's used for the current reporting as well as the trajectory we've given you for 2028.

**<u>Question 4</u>**

**Mark Freshney, UBS**

Hi, it's Mark Freshney from UBS, two questions.

Firstly coming back to Sizewell C. It's my sense from the presentation that as an option is being de-emphasised and you're talking about many more other things. Would you say in recent months your expectation of putting equity into Sizewell C has either gone down or gone up?

And secondly, an observation, first of all, I mean, the Clean Power Plan through to 2030 is un-costed, right? It doesn't look into the near-term impact on consumers, which I think we're all underestimating. But further to that, you've got the quasi tariff deficit, which is £4 billion of debts, you know, no repayment plan is in place. And Ofgem are looking closely at a debt relief scheme. To the extent that there's any P&L or cash flow benefit for yourselves, would you consider giving that to consumers and increasing support?

**Chris O'Shea, Centrica**

So we're very interested in investing Sizewell C but it's all dependent upon the returns. Russell's team are leading the work on that, along with Dave. It kind of waxes and wanes. There's periods of intense activity, there are periods where it's a bit quieter, but I think it's quite busy at the moment, so we're very interested. But if it doesn't make sense for us, then we've got plenty of other stuff.

So our job is to make sure that we're not so hung up on one thing that we have to do it no matter what. So I'd like to do Sizewell C. I think it's the right thing for the country, if the returns are not there I'm very happy for other people to do it, that's totally fine.

On the clean power act, on the debt relief scheme, we're always thinking about our customers. So if there is something, and we've spoken to government about this. The new Energy Minister responsible for consumers,  Miatta Fahnbulleh has been very engaged on this in a very constructive way. I've met her, Catherine's met with her quite a few times, and we've indicated a willingness to be involved in some kind of debt relief scheme. But the request that we've got is we don't just look at it and say there is £4 billion of bad debt, or whatever the number is, can we do something that fixes that £4 billion? What we say is, can we fix the problem? That's why we're such strong proponents of a social tariff. A social tariff will fix this problem.

So yeah, why not? Because I'd love to have the point. I think if you or if anyone who's ever been in a situation, or a family member or friend has been in the situation of having unrepayable debts hanging over them it's horrible. Horrible for their mental health. And it pains me that we've had customers that are like that. And as I say, we go through this very inefficient process. I'll send you a bill, you can't pay, you get upset. We have to try and collect the debt, then it just get socialised.

Let's skip all that nonsense out and let's just not bill the people the same amount if they can't pay. But that requires a partnership with government and it requires a willingness. I think it can be self-funding, but it means those of us that can pay, pay more. And we pay more explicitly. And those that can't pay less. And those that choose not to pay, we go after them relentlessly because you cannot be a freeloader.

But at the moment the problem is we cannot differentiate between the freeloaders and those that can't pay, but with government's help we will be able to. So we'd be very happy to participate. Like everything that we do, we want a long-term sustainable solution.

**<u>Question 5</u>**

**Harry Wyburd, BNP Paribas Exane**

Hi. Thanks Harry Wyburd from Exane. So two for me, please.

So the first one's for Russell, and apologies because I'm going to lead the witness here, but I just want to try and get your sense for where we end up in terms of dividends with this new £1.6 billion EBITDA guidance. So it's about £0.3 billion higher than current consensus, the £1.6 billion. And if we say dropped half of that down to net income and put it on the new share count, post the buyback, on my maths, you'd be close to about 20p of EPS. And then on your new explicit 2028 2x dividend cover, you'll be looking at close to 10p of DPS. So the dividend doubling sort of put you on a 7%, six and a half, 7% yield.

Is there anything in that short bit of mathematics that you would disagree with?

**Russell O'Brien, Centrica**

So that was a very good piece of mathematics, which I'm not going to respond to. So we've given you very clear EBTIDA guidance. You can do your calculations on share count and I'm sure you can do calculations on other things. We're not giving profit guidance beyond that.

**Harry Wyburd, BNP Paribas Exane**

Okay, Fair enough. All right. It was worth a try.

Second. I just want to take a bit deeper into this reserve. And particularly why you decided to say you had £1.6 billion of debt capacity and then a £1 billion reserve, rather than just saying I've got £0.6 billion of debt capacity. So what return generating things would you use the reserve for. You sort of alluded to if we got a great opportunity I think in what you mentioned earlier. So should I think this is just a billion for a rainy day funds; if LNG spreads collapsed and power prices fell massively or is this more something you'd be willing to spend on an amazing M&A deal or if you did Sizewell C and Rough? How much of that is really a risk buffer versus an opportunity fund or pot.

**Russell O'Brien, Centrica**

I suppose it could be all of those things, but you know, if you take out a loan, you don't then spend all the money and have no ability to pay it back. You've got to have some sort of buffer for the fact that swings will move around in your company and that's what we've got today. Anybody that's running with a credit rating will have some degree of flexibility built into the way that they manage their company, and so do we.

And I would hope that everybody be happy that we've got that buffer, because in days gone by when Centrica did not have such a strong balance sheet, that was problematic and we had to take action that we didn't really in the long term want to do. So it could be that we have some downsides unexpected and that means that because we're not up to the red line of the credit rating we've got a buffer for that. It could be there's an M&A opportunity. It could be that markets move in different directions.

It just gives you flexibility and strength by having that there. So rather than saying we've got £0.6 billion of debt capacity, I just wanted to be transparent, as we've been pretty transparent today, about how we look at the balance sheet overall.

**Harry Wyburd, BNP Paribas Exane**

Thank you.

**<u>Question 6</u>**

**Jenny Ping, Citi**

Thanks very much. Harry's already asked my EPS question, so I won't try again.

And so I've just got one. Looking at your retail division, obviously your guidance, operating profit long term is £150 million to £250 million. You've come above that. You've got the ongoing IT replacement program that takes out further, call it £70 million a year on run rate. So is there any reason why at least for 2025, you won't be seeing a number meaningfully higher than the top end of the range. Thanks.

**Russell O'Brien, Centrica**

Yes. I mean, I think the thing to bear in mind about the residential business is that every year we've got more than £10 billion worth of revenue and more than around £10 billion worth of cost. And to some extent, you're trying to get them to land in the same period. And if you go back to 2023, of course, you had a much higher number when some of the costs and revenues didn't all fall in the same period.

2024 was a bit more normal in that respect. The volatility was less. There were a few things that went in our favour and overall a lot of that was to do with was really efficient commodity cost optimisation as we managed the book.

As we look into 2025. There's a few dynamics we need to sort of watch out for. You know, we see a little bit more switching in the market, a bit more competition, that might drive a little bit more investment to retain customers. So that might be driving margins down perhaps a little bit. There's ongoing regulatory Ofgem consultations, which might go in either direction. But overall, if I stand back and look at British Gas Energy for 2025, I'm thinking the £150 million to £250 million is still a good aiming point for that one.

**<u>Question 7</u>**

**Pavan Mahbubani, JP Morgan**

Thank you, Pavan from JP Morgan. I have two questions, please.

Firstly, looking at Spirit and the 2028 projections, how should we think about the split of the £200 million-ish being between Nuclear and Spirit, if you can give any indication. And I guess thinking about the Spirit existing assets, based on either the current forward curves or your internal projection of gas prices, how long do you see this field being in operation today? That's my first question.

And then my second question is on the £2 billion of uncommitted Capex. I mean, I know we're talking about potentially some of Sizewell C or Rough depending on the frameworks being appropriate from the government or anyone else. Can you give a bit more of steer on what other things that you're looking at? Has that changed since you first started announcing this Capex program in 2023, renewables, batteries, flex gen, I mean, any colour on what you're looking at or if all options are on the table would be interested in that, please? Thank you.

**Chris O'Shea, Centrica**

Let me take the second question, then Russell can talk about the first. The portfolio of opportunities that we're looking at is simultaneously stable and changing.

So if you take the gas peakers in Ireland, we've got seven sites there and we're building in Athlone and in Dublin and we decided to bid in for a different technology in a different capacity market auction for a site in Galway, where we were successful.

So would we have been saying last year we're going to be committing X hundred million euros to this thing. We absolutely wouldn't. Would we have said we have earmarked some amount of money for potential flexible generation In Ireland? We absolutely would. And so we continue to refresh the portfolio.

We're quite excited about our partnership with Highview power. So we own 10% of that company and it's got some quite interesting technology. We're looking at a project in Carrington at the moment, that's in Manchester. We're talking about another project at Hunterston, the site of the old nuclear power station. Now if this technology can be proven at scale this time next year, we might be looking at three or four projects with Highview power.

So it does evolve, but it's all about building options, but it's about being focussed. Solar we have deprioritized because we can't make the returns. Now, if we could build a solar farm, if we could do a solar farm with an off-taker that gives us 8%-9%. Then why not? Because we know we can do it. But we're not really pursuing that at the moment.

If you look at batteries, one or two hour batteries look a bit overbid just now, deprioritising them, but three or four hour batteries, they look quite good. So when we look at that, do we want to get in there. We have to understand why one or two hour batteries are looking a bit sicker. Is it because everybody looks then they go in and then returns go down? Well, if that's the case, we've got to make sure that Dave can build three or four hour batteries very quickly, because otherwise we'll get in the market when it will be depressed.

So it's quite dynamic actually. But what we want to do is keep dynamism in the portfolio. You then go to the other end of the spectrum for the larger regulated assets. That is far less dynamic, but you're also taking probably a bit less risk. On Sizewell, I don't think we've spoken about the size of stake that we're looking at.

Remember that that's an asset that is probably, the vast majority of the spend is going to be in the next decade rather than in this decade. And so out with 2028, the 2024 to 2028 capital investment plan, and even if we go, we've got Martin Scargill here, who runs the business, the Rough asset, even if we could go in tomorrow on Rough, some of the investment would fall out with the timeframe that we've got.

The other thing we also look at is potential partnerships. So we own 100% of Rough just now and I would like us to keep 100% of Rough until we get to the point of sanction. After sanction that might be an asset whereby we see, you know, what we can bring in some third party capital, whether it's debt financing through Russell's team or whether it's an equity partner. It's all about value, the maximum value point of that asset will be the point of sanction and we might decide, if we've got other opportunities that we want to realise some capital there and do something elsewhere, but everything is about optionality. That's why I'm dead set against us putting hundreds of millions, if not billions of pounds into assets that take several years to build, that don't have a return in the construction phase and leave you with non-productive capex because your optionality disappears.

So that's how we think of the portfolio, on Spirit can I just remind you that Spirit's not just the Morecambe field, you've also got the Cygnus field and you've got the Greater Markham area as well, as well as all of the decommissioning, But Russell, when do we think Spirit's going to go on till.

**Russell O'Brien, Centrica**

Yes. I mean, I think first of all I'm not going to split that £200 million into two parts, but I can give you the dynamics behind both of them. The EBITDA will decline materially over the coming years, not just because of the reduction in volumes you see from those assets, but also because prices at the moment, in the past have made those numbers buoyant.

Just to put that in context, Spirit's EBITDA for 2024 was £707 million. But of course that's taxed at 78%. So the actual drop through to cash flow is of course a lot lower. By the time you get to

2028 I think most of the main fields will still be in operation. Morecambe probably we're guiding towards the end of this decade when you might begin to see some of that coming to the end of life.

And of course our great opportunity is to try and then transfer that facility in to carbon capture. So trying to sync those two things together is really important. Cygnus is performing really well and GMA is a relatively small field on the scale of things. The other component of the £200 million guidance is of course, nuclear and within nuclear, in December, we were really happy to have the life extensions on the AGR's, two years later for two of them, one for the others. We're hopeful, as is EDF, that we could see continued extensions going forward. I haven't banked any of that into these projections.

**<u>Question 8</u>**

**Charles Swabey, HSBC**

I am Charles Swabey, HSBC. I've two questions. First one on Centrica Energy. I was wondering if you could just comment on the performance in the second half of the year, it was obviously quite a bit below the first half. What were the moving parts and is there any read across for the 2025? And then the second one is on nuclear again.

There's some press speculation last year about Centrica and potentially getting involved in Hinkley. I was just wondering if you could comment on that and could you see a situation where you take a stake in both Hinkley and Sizewell?

**Chris O'Shea, Centrica**

So Russell can take you through the performance of Centrica Energy. One of the great things about having a lot of money in the bank is you suddenly become very attractive to lots of people who have got things to sell. So I wouldn't be drawn on specific things, but our investments are focussed. So we would always say, okay, is this something that we like?

Is it something we're good at? Does it add value to the business? Is it something that's good for customers? What I would say is we look at a lot more than we invest in, so we passed on a huge amount of investments last year because either they weren't strategically aligned, the returns weren't right, or we just didn't think that we could add value to them so investors could invest in them through a different way.

So I would be wouldn't be drawn, I wouldn't be drawn on that.

**Russell O'Brien, Centrica**

Centrica Energy. So £232 million in the first half of the year, £75 in the second half of the year. That is definitely a business you have to stand back and look at it through multi years. There's three components to Centrica Energy, as you learned in the teach-in in December, the LNG business, the Gas and Power trading business and the RETO business and they all have slightly different dynamics.

It just happened in the second half of last year, a few of them were not performing as well as they had. But if you look into 2025, we're very confident we'll be in the guidance range there. If I was to pick one area that was softer in the second half of last year, that would be gas and power trading.

And I think if you look in the market in general, gas and power traders are all reporting a relatively softer performance there. Market dynamics volatilities as well as the shape of the curves, has made it a little bit more difficult to capture value. But I think Cassim is telling me a relatively strong start to 2025. So let's see how we get on there.

**<u>Question 9</u>**

**Bartek Kubicki, Bernstein**

Okay. Good morning. Thank you for taking my questions. Three items to discuss here. So if first of all, we can go back to Rough storage. I just wonder for how long will you be able to tolerate a potential EBIT loss you are guiding for? And consequently we think about the scenario there is no agreement with the government related to hydrogen, related to re-regulation of the assets. What could happen to Rough and how much capital or how much cash can you take out the assets. Assuming a scenario where you are closing this. Second was on LNG trading. You provided this chart of how much of the volumes you have hedged for the next years. Just if you can give us a rough indication, what are the margins you are expecting or the profit you are expecting in 2025 and 2026 on LNG, are they higher than you managed to earn in 2024? And the last one is like a sort of more like conceptual subject to discussion, thinking about AI and thinking about your trading division, one of my ideas is that AI could potentially decrease the barriers of entry to trading into the power and energy markets.

Just thinking aloud, I know you have a lot of experienced people, but what if AI is indeed able to somehow decrease barriers of entry to the trading business. Do you think this is a realistic scenario and do you think consequently this could impact your trading division and impact the way how you are thinking in the trading division?

Thank you very much.

**Chris O'Shea, Centrica**

Thanks very much, so how long will we tolerate the losses on Rough, not indefinitely, is what I would say. But I cant tell you how the market is going to evolve, so, you know, Rough is emptying as we speak. As it currently stands we wouldn't be refilling it, but if the market changes, then, you know, we could refill it.

But we don't have infinite patience. But we also made a lot of money on this asset in 2022 and 2023 and it is right that we reinvest some of that money to see whether there's a long term option, but we don't have infinite patience. I'm not known for my patience, and Russell is not known for funding losses, so it won't take long.

LNG trading, we won't give guidance there, but what we would say is when we hedge the volumes, we do still retain physical optionality. So if we were to tell you just now what we've hedged them at, then there's still potentially upside there. So we wouldn't give any guidance. And then I think it's a great question on AI and trading.

I think we did about 12 million automated trades last year. So we've been using AI in our trading business for a few years. There is a tremendous team primarily in Denmark in Aalborg, and it was led by Jesper Jung, who's now doing some of the short term power and gas trading.

What we don't do is to teach the computer then let it trade. What we do is we set up our trading strategies and we then execute a lot of very, very, very small trades that you just couldn't possibly do if it was a human being executing them. And these are trades, where you might make €100, but if you multiply that €100 you make in a trade by 10, 20, 30 million trades and you can see that it could actually be pretty good.

So we do deploy that, but what we probably won't get to is something whereby somebody writes a big program and that's our trading floor, that would feel very, very nerve wracking to be involved in that. But I think we're well ahead of the curve in terms of AI deployment in trading.

**Question 10**

**Ajay Patel, Goldman Sachs**

Thanks. It was a bit of a follow up actually to Bartek's question. So if you look at the LNG, I'm trying to understand how much of a de-risking event this LNG portfolio chart presents and I'm thinking, well, Centrica Energy is £250 to £350 million of profit as a guidance. I'm just wondering maybe qualitatively within that, there would have been an element that would have been for LNG spreads right?

Have you secured so that now you have line of sight to the end of the decade, that element of profitability so that that's less of a concern, or is there just too many moving parts and you're not willing to kind of give us a steer. It's just it would be nice just to understand what you've removed, what you haven't on something that is quite a sizeable amount of your profits.

**Chris O'Shea, Centrica**

I'll let Russell say what he's comfortable saying, but we're happy that we've locked in positive spreads on the overall LNG portfolio. The reason I'm smiling is I remember when I was doing Russell's job, we were all sitting here going, you could lose $300 million on the Cheniere contract. Oh, my God, how do we guard against that.

And now we're saying we've hedged this and it's all positive spreads and there's upside. But the big prize in LNG that we see over the next 2 to 3 years, it's bizarre so you enter into a 15 or 20 year contract and when you enter into the contract, the assumption is that what's happening today is going to happen in perpetuity for the market.

We just have to look back last year and see how it's very different. And so one of the reasons that we hedged this was so that we are ready and able to go in and add new long term LNG to the portfolio because if the prices are depressed we'll go in and add it. And I think we'll be very happy that we've added that as long as it's the right delivery schedule, the right location, the right partner.

So that's a longer-term prize. But I mean, I don't think we've ever said, you know, how do we split Gas and Power trading, how do we split RETO. Because sometimes you've got positive and negative correlations in there. So sometimes one bit will do a bit worse, one bit will do a bit better, it's why the portfolio is nicely balanced.

But I'll let Russell tell you he's not going to give you guidance, unless he's feeling very generous.

**Russell O’Brien, Centrica**

I mean, you know, we didn't give guidance before and we're not given guidance now, it’s a dynamic portfolio.

**Chris O’Shea, Centrica**

The other reason for that is it's commercially confidential. So as we said today, we're delighted to have Petrobras added as a customer for a number of reasons. Brazil is a great country, Petrobras is a great counterpart, but you’ll see in the RNS, they see this as crucial for their decarbonisation. So you think about our strategy, we've just entered into deal that is going to help Brazil, decarbonise.

And as you know, Brazil's got a huge amount of hydropower. And so what we're helping them is to balance. And then we want to learn a bit more about how do you balance the huge amount of hydro because the UK is talking about having more pump storage so that will be more information that we get, about what does a country do when it's got lots of hydropower. Okay, we can then work that into our overall model in terms of how will the UK market evolve if these new pump storage facilities come in? All about having knowledge, it’s is all about applying it across the piece, so  whatever target we've got, we aim to beat. Are there any more questions in the room?

If not, Fraser are there any more questions online, so if not, then we're done. I'll just say thank you very much for coming. It's a wonderful place. I know the acoustics are not the best here, but it is quite a spectacular room. And thanks to all of you for coming and thanks to these fantastic colleagues who have driven such an improvement in this business, it’s unrecognisable from where it was several years ago.

And my hope is, as we go through the next five years, and we're sitting in 2030, we're saying, God, what was that business, that business in 2025, we don't actually recognise it because it will be far, far better. But we look forward to seeing you either on the roadshows when we’re out and about, if you’ve got any detailed questions follow up with Investor Relations.

You've got executives here. Who’ve all been told not to answer any of your questions, but you can try and if not, we'll look forward to seeing you in July for the results. So thank you very much.