

Centrica plc 2024 Interim Results and Q&A Transcript

Chris O'Shea, Centrica

Good morning. Welcome to the 2024 interim results presentation. It's absolutely super to have you all here again. As usual, we've got our CFO, Russell O'Brien, and most of the leadership team, the people who actually do the work, are with us and they're all looking forward to catching up with you after the presentation.

We also announced today that Kevin O'Byrne, who's with us today, will succeed Scott as the chair at the end of the year. We're delighted with Kevin becoming our new chairman. We're delighted that Kevin is able to be with us today. On behalf of the board, and personally, I'd like to thank Scott for the contribution he's made to Centrica. He chaired the board through a period of huge volatility and change for our company. Scott has been a huge support to me personally through some very, very interesting times. I think Centrica is a very different company to the one Scott asked me to lead in early 2020 and he leaves the business in a great position.

Our purpose is energising a greener, fairer future. We're doing this by focusing on three things:

1. Relentlessly driving operational improvements throughout our existing businesses.
2. Giving customers what they want, not what's easiest for us to offer.
3. Investing in projects that both add value and create a range of long-term growth options aligned to the changing energy system.

That's our business model in a nutshell: run the current stuff better than anyone else could and invest wisely. This allows us to support our customers, reward our colleagues, and reward our shareholders. It's very, very simple, but it's also difficult for others to replicate because of the market positions and the deep expertise that we have.

I'm pleased with the performance so far in 2024. EPS is, of course, down from a very tough comp, but we've seen further very pleasing improvements in colleague engagement, in customer net promoter scores, and in customer retention. We need to get better in new customer acquisition, but I'm increasingly confident that the material improvements our incredible team has already made to customer service, coupled with the appointment of our new and first-ever Chief Customer Officer, Gary Booker, will see us deliver organic customer growth on a sustainable basis over the long term.

This time last year, we shared medium-term profit target ranges for our Retail and Optimisation divisions, with the aim of reaching those targets by 2026. I'm absolutely delighted that we're on track to deliver these for most of our businesses this year, two years earlier than planned, and for the whole group by 2026, in line with our targets.

The increase in our dividend is a sign of our confidence in the future, and the extension of the share buyback program is a sign of our commitment to providing superior capital returns to shareholders. We'll have repurchased more than 15% of the company in a little over two years.

Now, we often get asked how we think of share buybacks versus investments. It's very, very straightforward. Our first priority is to invest our capital in the business to create value, but the returns have got to be in line with the framework that Russell laid out last year. If they're not, we'll pass, and we've done that already on a number of investments this year. That might mean that our capex trajectory is not linear.

But it's not a straight choice between making an investment or buying back shares. Our Retail and Optimisation businesses rely on a strong balance sheet. Cassim Mangerah and his team hedge and trade billions of pounds of commodities every single month. That balance sheet strength comes from the assets we hold, but those assets are finite, and unless you reinvest, they diminish over time.

For the last four years, we've focused on fixing the operations, slimming down our portfolio, and improving our customer service. As a result, we've been turning our wasting assets into cash. That's why we've got a large amount of cash on the balance sheet. At the moment, that cash provides the balance sheet strength to support the Retail and Optimisation businesses. It also provides us with the very valuable option to acquire attractive assets as and when they become available.

We're in this business for the long term to create long-term value. That's what drives our investment philosophy. Investment alongside maintaining a strong balance sheet will be what supports our progressive dividend over the long term. We never ever forget that we work for the shareholders, nor that our owners justifiably want a return. By February next year, we'll have returned around £1.7bn over two years in dividends and buybacks.

Today, we've got a much stronger, much more focused set of businesses than we had even a year ago. These foundations, our balance sheet strength, and our net cash position give us tremendous flexibility as we look to the future.

It's been a year since we laid out our strategic and financial framework, and we believe this will continue to create compelling value for our stakeholders. Let me recap briefly.

In short, we see the energy system becoming more electrified, more intermittent, and more consumer-driven as the transition towards net zero continues. Electricity demand in our core markets is set to almost triple by 2050, driven by clear trends in transportation and residential heating, with emerging demand from areas including data centres and the growth in AI. At the same time, the grid is becoming far more intermittent, with renewables expected to make up over two-thirds of generation

capacity by 2050. This will increase the need for assets that can provide energy storage and bridge weather-driven gaps in generation.

Given their short cycle times, batteries alone will not be the solution. Flexible generation capacity, principally thermal, and long-duration energy storage, such as Rough and our recent £70m investment in Highview Power's liquid air energy projects, will increasingly be required over the long term to support the rollout of renewables and overall system decarbonisation while still meeting the number one aim of making sure that customers have got electricity on demand.

Alongside this, customers will be far more engaged than ever before, taking greater control of their energy use and adding further complexity to the system as their use of heat pumps, solar panels, home batteries, and EVs grows.

All of these changes present huge opportunities for us. From building the UK's first grid-scale battery at Roosecote to being the biggest optimiser of home batteries in Belgium, we know how this works. We've seen this movie already. We have got the expertise across the whole energy value chain, and we believe we can identify and take advantage of the increasing interdependencies that are likely to emerge.

Our unique portfolio is already set up to benefit from many of these trends. We've got the leading supply and services businesses in the UK and in Ireland, the UK's only truly national engineer network, international optimisation capabilities, and systemically important infrastructure assets. No other company has this combination of experience and assets.

Profit pools shift across the value chain over time. While we're confident in the structural trends, it's difficult to tell at this stage exactly where the value will accrue in the long term, which is why we're focused on creating a deep and diverse portfolio of growth options. This will allow us to remain nimble while remaining disciplined as the energy transition unfolds, creating the opportunity to exploit the best options at pace.

We've got unrivalled access to data, both in terms of how grids respond to differing levels of intermittency through Centrica Energy's operations in more than 25 countries and through our smart thermostats and smart meters, where we can see how customers respond to different circumstances. This allows us to identify developing trends earlier than most can in the market, and the migration of British Gas Energy customers onto our new Ignition platform will help us to roll out new offers far more quickly than we've been able to do in the past.

Delivering on these opportunities will come with challenges, and we must continue to build our operational and project development capabilities to compete effectively. We can and must also do more to harness the value of our data, which is why we appointed our first-ever Chief Data and Analytics Officer late last year, and we want to speed up the deployment of capital, hence our new Managing Director of Power.

Both Cengiz and Ulrika are here with us today, and I'd encourage you to speak to them after we've finished.

I feel really excited about the future. There is huge change coming, and we've got the opportunity to be right at the heart of the energy transition. All of our businesses have got growth options and all of them have got improvement opportunities. They are very, very good, but they can be so much better. We are relentless in our pursuit of excellence. We. Never. Stop.

With that, I'm going to put you in the very capable hands of Mr Russell O'Brien, who will take you through the financial results, and then I'm going to come back in a wee while and talk to you a bit more about the future.

Russell O'Brien, Centrica

Thank you, Chris, and good morning everybody. We've had a good start to 2024, with adjusted operating profit of just over £1bn and adjusted earnings per share of 12.8 pence. Free cash flow was £816m, including a modest increase in capex to £221m. Our balance sheet remains strong, with £3.2bn of net cash. In line with our progressive dividend policy, we have increased the interim dividend by almost 13% to 1.5 pence. As Chris mentioned, we have extended our share buyback programme by a further £200m to be completed by February next year, building on the £1bn repurchased over the past two years.

Let me now take you through our operating profit by business unit. As always, the breakdown is in the appendix and there's a more detailed commentary on performance in this morning's RNS announcement, but let me cover the headlines.

Starting with Retail, which generated £237m of profit. Within this, British Gas Services & Solutions has continued its recovery, delivering £35m in the period, underpinned by strong operational performance.

In British Gas Energy, profit of £159m is lower than last year, but you'll recall that benefited from material prior period one-off cost recoveries. Underlying business performance in British Gas Energy remains solid and we're continuing to further strengthen the business with disciplined investment in customer service and offerings.

Bad debt is also showing an improving picture, but it's still something I'm keeping an eye on as we go into the second half of this year. We do continue to carry dual running costs associated with our new technology platform, although the migration is progressing really well, and we expect it to be materially complete next year.

In Ireland, Bord Gáis Energy has recovered strongly and generated a profit of £43m, helped by an improving retail market backdrop.

Moving onto Optimisation. Profit for the first half was £287m. A strong result, though, as expected, lower than last year. In Centrica Energy, profit was £232m, with lower commodity price volatility naturally impacting opportunities across both Gas and Power Trading and our route-to-market businesses. However, LNG had another strong half, supported in part by tailwinds from earlier periods, but also capturing value from the flexibility and optionality we've built into that portfolio.

In Centrica Business Solutions, the environment offered fewer optimisation opportunities than last year and resulted in more normalised profits of £55m. However, performance was supported by our continued shift away from lower-margin Industrial & Commercial customers to the medium-sized business segment, where encouragingly volumes increased by 5%.

Last but not least, Infrastructure, which delivered operating profit of £522m. Spirit Energy increased to £245m. Within this, we had a higher achieved gas price, underpinned by our hedging strategy. That more than offset production outages at Morecambe in May and June which, along with the natural year-on-year decline, resulted in volumes reducing by 18%.

Nuclear profit of £224m reflected lower achieved power prices and a marginally lower level of generation in the half.

Profits also include £124m of Electricity Generator Levy, which, to remind you, is captured partly in the Group's cost of sales and partly in our share of associates' profit.

Lastly, Centrica Energy Storage. Rough was operationally strong through the first half, with good asset availability, although as expected, delivered a lower profit of £53m against a backdrop of lower prices and spreads.

Moving now to cash flow. In the first half, EBITDA of £1.1bn was supplemented by £240m of dividends received from our investment in the Nuclear business. This is a higher dividend than you would normally expect for the period.

We paid cash tax of £323m and the overall working capital move was less significant than we have seen in previous periods, with a small inflow in the first half reflecting larger but offsetting moves in our underlying businesses.

Chris and I would have liked to ramp up capital expenditure faster in the first half, but we've retained our disciplined focus on returns, deploying £221m. Altogether, this led to a strong free cash flow generation of £816m for the period.

I want to pause for a moment on working capital. The markets we operate in are naturally volatile and, as we have seen in the past year, this can give rise to large swings in working capital for Centrica. But while it fluctuates, as you can see from

the chart on the right, if you look back, Centrica operates with a small negative working capital position on average over time, even when including margin cash. Our businesses typically deliver offsetting working capital movements through the cycle. We believe that this is an enviable position for a company to be in and a clear benefit of our unique portfolio.

Moving now to our outlook, which remains consistent with our trading statement issued in June. As Chris mentioned, we're on track to deliver on our medium-term sustainable operating profit ranges for all of our Retail & Optimisation businesses by 2026. I'm very pleased that we expect Residential and Business Energy supply, Bord Gáis Energy, and Centrica Energy to achieve those ranges this year, two years ahead of schedule.

For Infrastructure, while we have had some protection from hedging in the first half, in a lower-price environment, you would naturally expect profitability to fall in the second half. As usual, we have provided hedging positions for Spirit and Nuclear as at the end of June in the appendix today.

The outlook for Rough is challenging. Gas prices are lower and seasonal spreads are currently limited. With an operating cost base of over £100m, profitability will be challenged in the second half and looking forward.

Overall, and coupled with the normal seasonality of our retail businesses, we expect Group profitability to be heavily weighted to the first half of this year. Net cash is expected to decline in the second half, driven by lower earnings and an expected ramp-up in capex, which we currently anticipate will reach the £600-800m range this year. We will also pay both cash dividends, which is around £220m, continue the share buyback programme, and we won't have the benefit of that higher nuclear dividend we saw in this half.

I want to spend a bit of time now on Centrica's balance sheet strength and credit rating – critical strategic assets for our business. You'll remember last year, in our strategy update, that Chris and I outlined the benefit of our balanced portfolio, with each business in Centrica helping and sometimes offsetting each other as we move through the inevitable cycles of the business. To underpin this portfolio we do need financial strength.

Our balance sheet helps us mitigate risk and navigate the volatile markets we operate in. It allows us to enter into long-term contracts to secure energy in advance for our customers and to hedge our infrastructure production. To do this effectively, we have to balance market, credit, and cash liquidity risks. As we saw in the past couple of years, when we manage this well, it can bring significant upside. The balance sheet also helps underpin our long-term decommissioning and pension liabilities, but most importantly, in combination with our strong free cash flow generation, it also supports our investment programme, our progressive dividend policy, and our overall shareholder returns framework.

Now, today, our credit metrics are very strong, but to remind you, we are required to hold more material capital buffers than many of our peers. For example, 50% FFO to net debt with S&P for our BBB rating. While you should expect us to manage our balance sheet as efficiently as possible, we must preserve the rating and overall financial strength. We believe a degree of financial flexibility for Centrica is a significant competitive advantage that we will maintain to create and preserve shareholder value.

In the past five years, Nuclear and Spirit have contributed over £3bn of cash flow to the Group. These are naturally declining assets, but they have helped create the balance sheet capacity today for us to reinvest into new infrastructure assets as we look to maintain the balance in our portfolio and further align ourselves to the energy transition trends Chris has outlined.

Investing in assets with more rateable cash flows will help to grow the business, but importantly, help us maintain and unlock further balance sheet capacity to create more value for our shareholders. Investment will ramp up in the coming years. However, as we have said from the start, we will remain disciplined on any investment we make, whether that be organic or inorganic. Adding scale has to be coupled with delivering attractive returns, and returns have to be commensurate with the risk we're taking. We will not invest in projects that do not meet our return thresholds, and you'll remember we deliberately retained flexibility across asset classes when we announced our capital framework last summer.

It's fair to say that developments in the external environment, such as interest rate moves, cost inflation, longer planning consent timelines, and grid connection challenges, mean the returns profile across some projects is proving less attractive than 12 months ago. As a result, we are investing less in those areas. But, in other areas and geographies, we are seeing more attractive opportunities emerge, aligned to our strategy and, in many cases, driven by our unique optimisation and route-to-market capabilities.

We still retain the ambition for over 50% of our capex to be green taxonomy eligible. We have a healthy opportunity set currently under review, which allows us to be disciplined and selective about the projects we pursue, ensuring we deliver our targeted returns. As a reminder, we expect group return on capital employed to remain above 20% over the rest of this decade.

I want to reiterate what we've said before though. If we do not find accretive investment opportunities to grow the company or we generate cash that we believe is surplus to our requirements, we will return it to our shareholders. You see further evidence of that with our announcements today.

In summary, a good first half of the year. I'm very happy with the Group's performance, and looking forward, I feel that we are well set up to take advantage of

further opportunities we have coming down the track. Let me now hand back to Chris to talk through some of the projects we are investing in, as well as wider strategic progress. Thank you.

Chris O’Shea, Centrica

Thanks, Russell. Investing is crucial to reposition Centrica as a more predictable and ultimately more valuable company going forward. The investment environment is never straightforward, and the volatility in the financing environment over the past year has added a further challenge, but what I see coming through our pipeline gives me confidence that we can deliver compelling growth and returns from assets that align with our strategy. We’re already demonstrating that with projects we have in development right now, and we’re driving the business hard to mature and accelerate a longer-term pipeline. But to reiterate what Russell just said, we’re focused on value over volume. If the returns aren’t there, we’re not going to invest.

One of the areas where we see great value is the new meter asset business, which Dan Rosenfield and his team have set up from scratch. Our engineers already install smart meters today for our customers, but in the past, these meters were owned and they were financed by third parties. This is an activity that we’re bringing in-house. We see an opportunity to deploy over £100m a year, generating a predictable 20-year revenue stream, which is retained even if a customer moves to a new supplier. It’s expected to support a material operating profit contribution by the early 2030s with a low-risk, unlevered IRR of over 8%.

As you know, we’re always looking for ways to create value through optionality. By building capabilities in small asset financing and management, we’re developing a skillset that could ultimately be deployed in other areas, potentially turning one-off sales into recurring revenue streams across the supply, services, and infrastructure pillars. This project shows Centrica at its best. Spotting an opportunity, being nimble, retaining flexibility, and creating options.

I think it’s a similar story with the investment in the hydrogen-ready gas-fired peaking plants in Athlone and Dublin. Ireland is a market we like. It’s a market that we know very well. The energy system is constrained, with demand growing strongly and a need for new generation capacity. We already have a large presence in this market and a fantastic management team led by Dave Kirwan, who is here today, so we know we’ve got the capabilities to deliver these projects successfully.

The plants are around 70% complete, and once they’re commissioned later next year, they will play a crucial role in stabilising the grid and enabling a further build-out of renewables. This is reflected in the 10-year capacity market contracts each plant has been awarded, which de-risks our cash flow and delivers an unlevered IRR of more than 9%. Again, we retain optionality. In this case, we manage all of the power that’s generated through our optimisation business.

Assets like these, including the four gas peakers we have in the UK, deliver the kind of stable cash flow profile that will help to turn Centrica into a more predictable business over time. They also create a platform from which we can capture the growing value of flexibility.

Now, let's have a look at some of the earlier stage options that we've got where we have exposure across almost all of the key segments of the energy system of the future. Let me start with Rough and Morecambe, our two big storage projects. These assets play a crucial role in the UK energy system today, producing and storing enough energy to heat more than one-third of UK homes. That's more than 10m homes. But they can, and they should, be even more important in future.

At Rough, we continue to mature our plans to deploy more than £1bn to develop the world's biggest single methane and hydrogen storage facility. This is the best way to store electricity for the times when the sun doesn't shine, or the wind doesn't blow. We want to repurpose Morecambe Bay, transforming it into one of the UK's largest carbon storage hubs, having received a carbon storage licence in 2023. Morecambe can store 25 mega tonnes of carbon each year for 40 years. To put that into context, the UK plans to store 50 mega tonnes per annum by 2035 and 75-180 mega tonnes by 2050, so Morecambe is material.

But the existing regulatory environment does not reflect the importance of these assets in a net zero future, so progressing these projects, which would create thousands of jobs through the construction and then the operations period, will ultimately depend on suitable and stable regulatory regimes being put in place. We're looking forward to working with the new government to demonstrate the value of these projects and to move them forward at pace.

In Power, we continue to develop our pipeline of generation assets, but I'm a little bit frustrated that we haven't been able to accelerate the programme as quickly as I would have liked. So, no pressure, Ulrika. But seriously, Ulrika is going to drive our power generation strategy forward, and that will start with a full review of the existing pipeline.

But power projects do take time. Just like Sizewell C, this is a project that would bolster the UK's zero carbon generation capacity. It's a project which is aligned to our strategy, and it's a project that we could bring a range of experience and capabilities to. Whilst we remain involved in discussions, I want to reiterate that we would only invest in this project if the risk and the reward is right for Centrica shareholders. This project has to compete on a level playing field for capital with all of our other options.

Undoubtedly, the energy transition will require new technologies, so we are proactively securing a foothold in some promising areas. Our recent investment in Highview Power, which is developing the first commercial-scale Liquid Air Energy Storage plant in the UK, is a fantastic example of this. This technology is essentially

a different, slightly more environmentally friendly type of battery, which discharges electricity over a longer time than a traditional battery does, and it will provide important stability services to the grid. The initial investment delivers attractive returns aligned with the investment thresholds that Russell laid out.

Far more importantly, we're helping to commercialise a new technology here, and we've secured the rights to equity participation and energy optimisation from Highview's project pipeline. This is another example of us investing for value with further optionality.

As I mentioned earlier, our business model is very simple:

1. Relentlessly driving operational improvements throughout the existing businesses.
2. Giving customers what they want, not what's easiest for us to offer.
3. Investing in projects that both add value and create a range of long-term growth options aligned to the changing energy system.

The foundation of improving our performance is very, very straightforward: doing the right thing by colleagues and customers, building engagement, building loyalty. It makes good business sense. We're supporting our most vulnerable customers directly, including through our new 'You Pay: We Pay' scheme, and indirectly, by calling on changes to regulation, such as the abolition of standing charges, the introduction of a social tariff, and the urgent need for far better prudential regulation of UK energy retailers.

Our safety performance remains strong. Crucially, colleague engagement is now in the top quartile for the industry. That reflects the hard work that the leadership team has put in to show our colleagues we care and to attract a more diverse range of skills and experience into the organisation so that we continue to learn. Improving colleague engagement has played a major role in delivering more stable operations, in turn allowing us to be more proactive and more innovative in the way that we interact with customers.

We've spent the past few years focused on repairing the core of our retail businesses to stem customer losses. Until relatively recently, our operational underperformance meant it was really difficult for us to react to changes in the market, let alone to offer innovation. We're not yet perfect, but there is plenty of evidence of this improvement being embedded in our business. Customer net promoter score is up across the board, complaint levels are falling, and our retention rates are rising – improvements which are now also being recognised externally, for example, by Uswitch and in our Trustpilot scores.

Now that we are able to increasingly look beyond day-to-day operational stability, we can start to really think about what our customers want and how we can make it as simple as possible for them to manage their home energy use. Combining the

unique access we have to data, with our beefed-up data science capabilities, we are now starting to look at our customers in a more sophisticated way, segmenting our target markets and focusing on the propositions that really cut through with each customer group.

This is a collaboration across many parts of the company driven by Gary and his team, with a singular focus on maximising commercial value across our portfolio by being our customers' partner of choice. With renewed confidence in the capabilities, we can be more proactive in engaging with customers and marketing our leading brands. You can see some of the initiatives stemming from this shift in focus in the market today, including our 'Summer of Sport' marketing campaign, which highlights the connection between the energy supply and the services businesses.

We're expanding our time-based tariffs and testing new propositions, in part supported by the migration to our new Ignition platform in British Gas Energy. For example, we've got the best value EV tariff available to all customers in the UK. We just need to be a bit more confident about it, a bit more bolshie. The migration being delivered by Catherine O'Kelly and her team is delivering substantial customer benefits and massively improved customer satisfaction.

There are still huge opportunities for us. I want us to develop an obsessive focus on our customers, and I think the truth is that we are only now implementing that mindset. For example, we recently rolled out Hive Solar, which offers a one-stop installation, energy management and tariff solution after finding out, whilst we were marketing something else, that what customers really wanted was integrated solar offerings. In the past, we wouldn't have been able to make that switch. Agility of thinking and speed of action is so, so important in our markets. With brands that we can be increasingly proud of, backed by better operating performance and more innovative products and services, we have the confidence and we have the ability to change our offerings as our customer tastes change.

Services & Solutions is a great example of our increased focus on giving customers what they want off the back of substantial operational improvements driven by Jana Siber and her team. We've massively increased operational resilience, which you can see in the improvement in our reschedule rates, and that has helped us create capacity to continue growing our on-demand business, with jobs increasing by almost 50% year-on-year.

None of what we are doing is rocket science. By fixing some of the basics, like modernising our planning and dispatch and inventory management systems, we're getting the right people and the right parts in the right place at the right time. That allows our colleagues to serve our customers more effectively. I expect to see these initiatives deliver further improvements over the remainder of this year and into 2025, which will, in turn, allow us to start rolling out the commercial offers that will drive the next leg of our growth.

Rather than try to sell the same product to everyone, we have now got a far greater understanding and we are far better set up to plan and deliver many different products at pace. One example is guaranteed same-day breakdown cover. We now visit more than 80% of our customers with an emergency breakdown, which is no heating or no hot water, on the same day. That's up from less than 65% just a year ago.

We think there might be a premium offering for customers in this. The beauty is that the more on-demand jobs we do, the more engineers we can employ; the more engineers we have, the quicker we can respond; the quicker we can respond, the happier the customers are; and the happier the customers are, the more we will attract new customers, and so on and so forth. You get a virtuous circle. It's not rocket science, as I was saying, but it's also not something that's easy to replicate by others. That's the strength of our model. We now need to get even better at developing the data and insight-led propositions that customers really want.

Early signs are encouraging. Revenue per customer is up 3% in the first half. That's delivering improved margins. They're now up almost 5%. With further work on embedding operational stability and maturing the commercial proposition, this creates a huge long-term opportunity for this business and the entire group.

So, if you let me now conclude. In summary, we've had a very good start to the year, with improved colleague engagement feeding into strong operational performance, which in turn supports our financial results and our shareholder returns. We're successfully implementing our strategy, and at the risk of sounding like a broken record, the model is simple:

1. Relentlessly drive operational improvements throughout the existing businesses, running them better than anyone else could.
2. Give customers what they want, not what's easiest for us to offer.
3. Invest in projects that add value in and of themselves and create a range of long-term growth options aligned to the changing energy system.

I'm really proud of what the team have achieved in the first half, but I want to see us accelerating delivery of the huge opportunities that lie ahead. I remain very, very impatient, but I'm also very, very disciplined.

With that, I just want to say thanks very much for listening, and Russell and I would be delighted to take your questions. Any difficult questions for our Chief Financial Officer, I'll take the easier ones, but we'd love to take your questions now. Thank you.

Question 1

Jenny Ping, Citi

Three questions, please. Firstly, just on balance sheet, and probably one for Russell. Obviously, you made it very clear that you need a very robust balance sheet in order to do the day-to-day, but you also talked about potentially going to 1x net debt to EBITDA from a rating agencies point of view. That's obviously a very wide gap. Can you just nuance that a little bit more to give us a sense of where can you take in the next 12 months, or in the medium-term view to give us a sense of the scale of potential excess cash?

Secondly, just around new nuclear. Chris, can you give us an update on where you are with that discussion with the government?

Thirdly, you both have talked about M&A of potential assets. Can we get a sense of what areas you're looking at? Obviously, not naming specific assets, but certainly the direction of travel.

Chris O'Shea, Centrica

Let me take the last two and then hand over to Russell to talk about the balance sheet. New nuclear, I can't really go into any details other than to say the civil servants are the same civil servants that were there before the election. The new government is in place less than three weeks, so they need a bit of time to get their feet under the table, but our position remains as it's always been, which is we're interested, we're in nuclear, we like nuclear, we like EDF as a partner, but the risk and return has to be in the right place, so we'll see where this is in the government's list of priorities, but we remain engaged.

On M&A, how I would look at that is I'm quite relaxed about whether we have organic or inorganic build-out. If you build something yourself, you've got unproductive capital for a while, you've got risks in project delivery, you've got other things that come with running big projects. If you acquire something, you don't have those risks, but you've got risks of integration, you don't know what you're acquiring, so I think we've just got to look at the balance of risk and we've got to look at the reward available. I'd be quite comfortable if it's all organic; I'd be quite comfortable if it was all inorganic. It just really depends on the assets. It depends on the risks and the balance.

I'll let Russell talk to the balance sheet, but I think one of the things we've got to be super careful of, for us, I think, in general, but in the UK in particular, is when you start a buyback scheme, people tend to focus almost religiously on that buyback about what excess cash do you have and when can we get it back. I actually think that's to the detriment of us looking to grow the business. What I'm hopeful of is, as people see the investment program that we've got, they start to look at Centrica less as what's the size of the buyback and more in how are we growing the business, how are we making sure that we give the customers what they want, how are we

making sure that we have the assets that we can run better than everybody else because otherwise, it becomes a very perfunctory conversation. But with that, I'm also interested as to when we'll get to 1x net debt to EBITDA, Russell.

Russell O'Brien, Centrica

When we laid out the capital allocation framework last summer, we tried to give you an idea of the boundaries we might operate in as we guide this company forward. The 1x net debt to EBITDA was a boundary rather than a target. That's something that we would think that we could get up to under certain circumstances, but generally, you'd expect a business like ours to be moving at levels below that.

Our philosophy on capital allocation hasn't changed since we laid it out last summer. When I look at the capital framework, when I look at the balance sheet, I'm not looking at a single point in time. I'm not looking at June 30; I'm looking over multiple years. I'm projecting the company forward. I'm looking at the strength and flexibility we need. We've got the ability to seize opportunities when they come, but also, we're ramping up a significant investment programme. We have to take that into account as we look at the balance sheet over the coming years.

As Chris said earlier, that will be lumpy, and we've seen that already. That's why when I look at the potential, and we unpack all of that, there's various moving parts, and as we pull them all together and we stand back from it, we also want to make sure we've got the capability and the capacity to continually grow the progressive dividend.

So, not looking at a single point in time, 1x net debt to EBITDA is more of a boundary, and when you take it all into account, that's how we ended up with the discussions with the board about the surplus capital we have today, and the decision for the £200m of share buybacks. That's the overall philosophy. I hope that makes sense.

Chris O'Shea, Centrica

It's almost a carbon copy of the answer I get when I try and spend loads of money.

Question 2

Mark Freshney, UBS

Firstly, on British Gas Residential. Chris, I disagree with you on price caps, I think they've been very bad for the market; you like them. Ofgem seems to be taking the lead on looking at a future market structure. Clearly, tentative steps, and clearly, a ban on acquisition tariffs comes off in October potentially. What are you hearing when you speak to Ofgem and the government?

Further to that, your business has been shielded from competition for about three years. You seem confident of winning customers, but how do you think the market will behave in October?

Chris O'Shea, Centrica

What I think I said on price caps was that price regulation has provided benefits to consumers. If you were to design price regulation, you wouldn't design it as it is just now. I think we've got to be quite careful about that, but I think it does give consumers protection. I think the mistake that was made was that Ofgem designed a price cap and then said they wanted extreme competition. It's economics 101 to say if you want to regulate prices in the market, have extreme competition or have price regulation but don't have both. It was economically illiterate, and it was always doomed to fail. However, regulation of some form, I think, has been good for customers. We have an open relationship with Ofgem, I meet with the chief executive regularly, but they don't give us advance notice of what they're thinking. They have conversations. The ban on acquisition tariffs – look, I think we saw something similar in the insurance market recently, so they can see what the impact on that is. I don't know what they'll come out with.

I don't agree we've been protected from competition. I think that everybody's in the same position. I think that under the old market, we had an illusion of competition. We had very poorly regulated companies that could come in. £400 I think it was to get a license, and you hadn't been bankrupt in 10 years. That was it. We saw the impact of that. It cost consumers billions of pounds. Every single consumer paid nearly £100 for that failure. The reason that we campaign for prudential regulation is that that loss should have gone to the shareholders. Some people left this market very rich and leaving consumers ripped off. I think that was a failure of regulation. Until we have prudential regulation, where Ofgem require companies to have adequate capital before they enter this market, we run the same risk again.

We call for prudential regulation, we call for a social tariff, we call for the abolition of standing charges, and we want to get rid of this postcode lottery of you get a different energy price – electricity price mainly, but also gas – and different standing charges depending on where you are in the country. Make it simple for people. We think those are the things to focus on rather than to say, should we have a price cap or not? But regulation should emerge over time.

Look, I'll give you an example. Last week, we answered the telephone to British Gas customers – sorry, we responded, telephone and web chat, 10 seconds. Last year, it could be up to seven minutes. That's how you keep customers. Customers want to know that companies are easy to deal with. They want to know they give them what they want, so that's why it's really important. We used to do one thing for everybody. If you liked us, great, you wanted to stay in; if you didn't, you went somewhere else. Cengiz talks about having a segment of one, when you've got 7.5m customers like Catherine has, that might be a little bit stressful, but that's how you keep customers.

I don't agree we've been protected from competition. I do think that we're seeing real improvements from the improved customer service net promoter scores. Somebody tried to sell me a system to run our energy business on a few weeks ago, and they

said, if you do this, you're going to get a net promoter score – we've got it, we can evidence it – 35. I said we had 42 last week. It was a very, very short meeting. We have got far greater improvements to customer services than I think people realise. We're quite reticent about shouting about that because we want to make sure that they're sustained, but they're definitely there. What we need to get better at is customer acquisition. I don't think we're very good at that at the moment. If we can improve that, you keep the customer service right. That's why we're saying we never stop. You will never be satisfied with what you've got in a customer-facing business. You always have to improve. You always have to innovate.

Anyway, a kind of longer answer. I don't know what's coming of the regulation, but I do know it could be improved.

Question 3

Harry Wyburd, Exane

Two and a half from me, please. First one on the share buyback. I completely get that talking about the share buyback and having us too focused on the share buyback detracts from what you spend most of your time doing, which is running a business that deploys capital at good returns, but if this is a downplaying of the share buyback, should we think that we're going to hear more from you on organic capex over the next year or two? Should we expect that at some point, we'll get another capital markets update of some shape or form where we see higher organic capex in return for having less share buyback?

The second half one is on the buyback. I guess you've said it's till February, so should we expect another update on the buyback? Will you revisit that at full-year results, or are we going to wait until July for any further update on the buyback?

Then the final one is just on finance costs. You've bought back several of your bonds. Would I be right to assume, therefore, that although the medium-term operating profit guidance is unchanged, probably the medium-term net income guidance would have improved because you're going to make a saving on interest costs? Is there more you can do there? Maybe if I could really stretch it, could you guide us on interest income for full year '25?

Chris O'Shea, Centrica

Let me take the one and a half questions on the buyback. There are few people that know about finance and bonds more than Russell, who used to run Shell's balance sheet, which is a wee bit bigger than ours, so this is his area of expertise. Yes, you should expect to see us spend more capex in the next year or two. Whether that's going to be another capital markets – I mean, this is a capital markets event, so again, I prefer to focus on running the business.

February or July – look, I would say, if you look at this, we have £1.7bn of shareholder returns in just over two years. I think that's quite healthy for a company

that's capitalised at about seven-ish billion. We'll have bought back 15% of the company. I think at an average, at the moment, I think till the end of the first half, the average price we paid for shares is about £1.20 or something, so we're in the money even with today's share price reduction. I think there's not many companies that would say that they've bought 15% back of their capital, but we've got an investment program of billions of pounds going forward.

What we're trying to do is to make clear – hopefully, people understand, the money's not burning a hole in our pocket. Whilst it can be a bit of a pain sometimes when you have to say, okay, you've got 3bn on the balance sheet, what are you going to do with it? The alternative is that we say, we can't take these questions, let's go and invest it all, and then you act at pace and repent at leisure. We're going to take our time and make sure that the returns are there.

But that's our focus, really. Hopefully, shareholders see that we get it. We manage money for shareholders. When we've got excess capital, we'll return that. We took the decision – I can't remember what we started the buyback at, 250 or something, we increased it, and we looked, and then performance was a bit better. I think the second half of '23 or '22, the performance was better than we'd expected, particularly in the trading business, so we said, look, we'll give some of that money back to shareholders because we've got enough here to invest what we want to invest. I think in the second half of '22, we saw some amazing performance in our trading business. We gave most of that outperformance back to shareholders because it wasn't in our plan to invest that. That's how we think about it.

What worries me is if you say expect a February or expect a July, and you guys write about that, then people come into our stock just before the results, and then you see what happened this morning, which is they say, well, it wasn't 250m, it was 200, it wasn't 300, it was – they don't focus on the fact that it was the best part of 2bn over two years and your stock price is going to fall.

I would say, don't expect anything at any point, but do expect us to be a very conservative custodian of our shareholders' capital and take it as a sign that we've paid a lot of that back. It was very important to us to restart the dividend. We've taken a lot of that back. We've increased the dividend quite a bit. Great companies have dividends that grow over not just years but decades. That's what we want. That's what we aspire to be. Something that this is the start of something that our successors, successors' successors are still building and it's still an upward-sloping line as we go forward.

On that, Russell, what wizardry are you playing with the balance sheet?

Russell O'Brien, Centrica

Thank you, Chris. A few things on the financing cost. There's a few interesting stories actually in the first half of this year. The financing cost turned into a positive £20m credit to the income statement due to the large net cash position, but behind that, you've got an interest rate paid on the bonds that we have of 8.5%. Then 5.23% interest on the cash that we hold and invest.

You can see that we've still got a bit of a drag of some of the older, more expensive bonds from Centrica's past. We've got £6.13bn of cash on deposit versus 2.9bn of debt, so the debt stack has moved around, but we were very happy in the first half of the year to do a couple of bits of liability management because, over time, you want to make sure that that debt stack is fit and healthy and flexible for what we see coming down the road for Centrica. We refinanced the hybrid bond, which is an important part of the debt stack, at a time when our credit spreads were at a good position. Historically low. We were happy to get that done. Then we had a 2033 big maturity, so we took out some of that to take a bit of refinancing risk off the table. £370m of that bond being repaid. That's just tidied up the overall debt stack for the next couple of years.

We might do a bit more. Let's see. It really depends on how interest rates and swaps work out. Also, who knows where interest rates or swaps work out? That's why I can't guide you on what the financing costs will be in the next couple of years, but certainly, I think it's left us in a stronger position those activities.

Question 4

Ahmed Farman, Jefferies

A few questions from my side. Firstly, I think, Russell, you talked about in your presentation how some of the attractiveness of investment opportunities have moved around over the last 12 months. I was wondering if you could elaborate on that point.

Then you've given us some quite helpful granularity on the various projects under development. It will be helpful to have some understanding from your side of when you expect the earnings contribution to come through and how you expect those to ramp up.

Then, finally, in terms of broader opportunities, another theme that's getting discussed is AI and data centres. I would be interested in hearing your views, how you see that in your core markets of UK and Ireland and shaping the business to potentially benefit from that.

Chris O'Shea, Centrica

Let me take the last one and then see if Russell wants to take the first two. I think the AI benefits for us come in two places. One is the impact on our business in terms of how we give customer service and how we run the assets that we've got. The second one is the demand for electricity. I think people are massively

underestimating in the UK – I think they’ve got it in the US – just how power-intensive, how energy-intensive, how electricity-intensive AI is. It’s why we’re building these two power stations in Ireland because Irish regulators, and government realised that their data centre business – or they know the data centre business brings a lot of economic activity. It brings a lot of people as well, which people often forget about. But they could see they were becoming more electricity-constrained, so they took a proactive view and asked if we would consider building some new power stations. I think you’ve got the benefit of being long electricity in a market. I think that will continue. I think we’ll see that over the next 10 years or so.

We’ve been using AI in our business for years. You know, chatbots that we’ve got in the business, things that help customer service staff, but we’ve probably not invested much in it in the past few years. These are probably things that were put together maybe four or five years ago. This is one of the reasons that we’ve got Cengiz joining us as our Chief Data and Analytics Officer because a lot of that comes through artificial intelligence. I think you’ll see lots of improvements on customer service driven by artificial intelligence. You should also see more efficiency. You should see ideally reduced staff costs as well but don’t think that AI is going to completely replace people because people want to talk to colleagues. Somebody said to me when I’ve been to a few things and spoken to a few companies about this, they said, “AI won’t take your job, but somebody using AI will take your job”.

I think the thing for us is to make sure that we are at the forefront of using AI for customer service improvements, for making sure that we understand data on the different power stations that we’ve got, that we can therefore compare data across pieces and understand where we can learn, so I think there’s huge opportunity there, but I think somebody also said a couple of weeks ago that AI has added \$8tn to the market cap of companies in the US without delivering a single dollar of any notifiable improvement. We’ve got to be careful that there’s always a lot of noise, and then there’s a plateau, and then there’s the benefit, so we’re looking to deploy it just now, but it will take a bit of time.

Russell O’Brien, Centrica

On the investments that we’re looking at, you’re right, and I highlighted it in the speech. Things have changed in the past year, and we’ve had to pivot a little bit. Just to give you a few examples. We had been building a pipeline of some solar assets. Those assets bring very long-term stable cash flows. We can also tie them often through PPAs directly to customers with Centrica Energy. We’ve done a few of them, but at the moment, the return-risk balance on some of the solar assets, we don’t like, so we’ve walked back from a majority of them until we find the right assets at the right value.

We’ve pivoted also to other geographies. Centrica Energy, as you know, is involved in 25 markets overall. 25 countries. We’re looking at, for example, batteries in Sweden, where they’ve got a very strong presence and where we might be able to

combine their trading capabilities with new investments in batteries there to bring incremental returns. We think that's the right type of thing for Centrica.

The MAP. Last year, I guided you to potentially £100m a year for the MAP; we're now guiding £100-150m. In fact, we'd quite like to do more than that. That really depends on this smart meter rollout schedule. That's a fantastic asset class for Centrica and something that we expect to ramp up significantly in the second half of this year.

Then, of course, we highlighted today the two gas peakers we're building in Ireland. We've got another two under construction in the UK and a few others are already in the portfolio. The grid will really need assets like that. It comes with long-term contracted stable cash flows. That's good for Centrica, good for the balance sheet, so we're spending a little bit more time looking at those assets as well.

When I take it all in the round, that gives me the confidence to say that for the overall year of 2024, we will be in the range of £600-800m of capex because I can see things ramping up on the spend. When do you see the earnings? We really only started this last year, and it's not yet material we have for the whole group, but I suppose the good thing is that most of the projects we invest in are relatively short cycle. These are not 10 years of capital sitting on your balance sheet before you get earnings. In fact, the MAP, you get earnings basically as soon as you put the smart meter on the wall. We should see in the next couple of years the earnings profile building, but it's not material at the moment.

Question 5

Ajay Patel, Goldman Sachs

Thank you for the presentation, by the way. In the first part, you had the slide on the meter asset provider and the peakers. If you sort of say over a five-year period, that accumulates to a decent amount of capex. I was wondering if you could make it a little bit simpler for us and just go what kind of earnings would you expect that to contribute given that a sizable amount of its infrastructure are very visible?

The second question I had was on gas storage. You sort of called that out. I'm just wondering, with the environment that we're in now, is there any point at which you would have to start to make a decision on what to do with Rough next, which may push on a discussion with the government, and how should we think about that?

I know we've dwelled on the balance sheet a lot, but I just want to think about how you put the pieces together. As we have now, we have about just over 3bn of cash on balance sheet. You have set out a growth capex program up till '28. You can sort of bridge all of those things together, and you start to go, okay, there's got to be more that comes here. Is it really the decisions on the larger scale projects that ultimately you're holding back for? Then it all sort of folds back onto the decision today to do £200m of buyback. £100m. £300m. Zero. I just want to understand what

framework you apply to get to that outcome and what are the pieces ahead of you that dictate such a choice so that we understand your mind map when it comes to these things.

Chris O'Shea, Centrica

Let me go and then get Russell to jump in. On the MAP and the peakers, I think we said 9% IRR on the two peakers. €300m or something is going to be invested in them. You could look and say something north of €30m we would expect those things to be bringing in per annum once they're up and running. If you look on the MAP, what do we say? North of 8% or something. If you deploy £500m over five years, you should expect something north of £50m a year coming in from those things. That's why I think we said they become quite – and I always map out the script. Obviously, Russell has to sign off, he has to approve what I say. He said a material contribution by 2030, so you could easily see those two things together giving you more than £100m by the end of the decade if we get our rollout done properly.

On Rough, Rough reopened as a storage facility. In a high-price, high-volatility environment, it's brilliant having a storage facility and we made good money out of that. If you project forward where it is at the moment, there's no shape in the price curve, and there's no volatility, and there's over £100m of operating costs. Rough will become a loss-making asset. Now, we don't just up sticks and say, okay, it's turned from being a profit – we made some money, so we'll reinvest some of that money, but the luxury you would get in a high-price, high-volatility environment of continuing to operate this thing at a profit, you'll lose when you go into the current environment that we're in. I'm hopeful that the conversations will be fruitful. I think it's strategically important that the UK has the ability to store 12 days of average annual UK gas demand; nine days of peak demand. The Netherlands, France, and Germany can each store around 100, if not more. I think France is the highest at 120. Rough provides half of our storage. If Rough shuts down, it's six days. Four and a half days at peak demand. Having less than a week's storage capacity in the winter doesn't feel right. Even if you fully redeveloped Rough, you take it to about 21 days. You're still at one-fifth of what the European average is. So, for me, it's a no-brainer, but you would expect me to say that, given that we own the asset.

I think that the question is always going to be how much does the UK system, and I mean the government, the electricity system operator, the regulator, how much do they value having energy security? I look at it a bit like a house insurance policy. Most people buy house insurance and never claim on it, but when you claim on it, by God, are you happy that you've got it. I think it's a no-brainer, but I'm not the key decision-maker on this. But we've got time to have a conversation and a decision.

Then, look, on the balance sheet. I know exactly what you're trying to get to, but we're a board of 12 people. We have a conversation. As you say, it could have been zero, it could have been £300m, it could have been £100m. It's not like there's a formula and we sit and go, "That's a brilliant answer. That's what we're all going to

go.” We have a conversation, and we look and say, you know, we look at what it’s been like to be a Centrica shareholder. The reason that I was keen for us to return surplus capital to shareholders was I always think it’s good to remind shareholders that you know we know whose money it is.

We had been quite good at getting capital from shareholders. We had a rights issue, I don’t know, in 2015 or something – 2016. We’d cut the dividend once before I arrived, once after I arrived, and then we cancelled it, and so it’s not really been that happy an experience. What we wanted to do was to show shareholders that we know that you’ve been very, very patient, and you get a decent return. When you look at it, we just thought, this is reasonable for us because we don’t have something to come out and say, look, here’s a big investment, so you look, and shareholders, I think, quite rightly will say, “You’ve got all this money, what are you doing with it?” But by the same token, we’ve got lots of ambition, but we’ve got discipline. If we were less disciplined, we’d have less of a problem on this, but we’d have more of a problem long term, so everything that we do is for the long term.

I can’t really give you a formula, but the mindset is that we absolutely know who we work for. The board acts as the custodian of the shareholders’ value, and management executes the business on behalf of the board on behalf of the shareholders. If we’ve got surplus capital going forward, we’ll have no hesitation in returning it. I genuinely hope that we’ve got enough investments that meet our investment criteria so that we can invest all of the money we’ve got because what that does is it generates further income and it generates more capacity. If you can reduce the risk in the portfolio, you can reduce the very punitive, I think, thresholds we’ve got from the rating agencies. That, I think, is the biggest thing to free up surplus capital in Centrica. It’s not about paying away some of the money that we’ve got in the bank at the moment. I don’t know, Russell ...

Russell O’Brien, Centrica

I think I might be just repeating what I said earlier. You’ve got to look at it over multiple years. You’re ramping up capex. It’s a relatively slow start, but we’ve got £3-4bn in the next couple of years. You’ve got to have a balance sheet that’s got to have some flexibility and optionality. You’ve got to take that into account. Then you’ve got to make sure that you’ve always got the capability to continue to progressively grow the dividend and everything else you need. You take it all in the round, and then you come back, and you stand back from that, and that’s where we got to. We can’t be more prescriptive than that. It’s a sensible framework, it’s not changed from where we were before, and it’s something, as Chris says, we’ll continue to review as we go forward.

Back to the earnings, you were asking about some of the investments. Just rough and ready. On the MAP, if you were to invest £100m a year over 10 years, that’s about 5m meters, you probably end up with about £70m of adjusted operating profit at the end of that by the mid-’30s. Of course, you’ve got the EBITDA, but you’ve got

to take off the depreciation off that, so that's the rough way to calculate the MAP. The team can spend more time with you to give you that in more detail.

Question 6

Charles Swabey, HSBC

I've got two questions. One is on Centrica Energy. I just wondered if you could provide a bit more colour on how the three separate businesses within Centrica Energy are performing compared to your expectations.

My second question is on British Gas. I was wondering if you could talk about the driver behind the increase in cost per customer in the residential supply and your expectations going forward.

Chris O'Shea, Centrica

Let me try the British Gas, and Russell can talk about Centrica Energy. We recruited another 700 customer service agents last year because the customer service wasn't where we thought it should be. That's why I was saying last week, 10-second response time for customers. That has contributed to an increase in the cost. I think the dual running costs were about £10 per customer in the first half of the year. Slightly down. We would expect that to remain for this year and probably for most of next year. We turn the old system off at the end of next year, and then we hopefully have no dual running costs.

We've given a view as to where we thought cost per customer should get to, but that's a proxy for margin – really, what we focus on is margin per customer. We have to make sure that the costs are in the right place. I think in the past, we were slavishly focused on cost per customer, and that led, I think, to some customer service detriment. What we want to do is to make sure that we invest enough in customer service to delight the customers, and that might mean that you move a bit from cost to acquire into cost to serve because the most valuable customer is a customer that you retain rather than the customer that you acquire.

I wouldn't want to give guidance as to where it's going to go, but other than to say we are very focused, and I think AI will give us the opportunity over time to reduce that. But I'd rather invest more in customer service and get more from customers and, therefore, grow the margin. If we could be the best margin but quite a bit higher on cost per customer, I'd be okay with that, actually. I don't want us to be high because we're flabby; I want us to be high because we're giving customers great service.

Russell O'Brien, Centrica

Yeah, great, and Centrica Energy – a couple of different moving parts. Of course, you come off the back of a very strong year. Last year, £774m of earnings; first half of this year, £232m. Gas and power trading, the main drivers of that is where you've got optionality in the market, which requires volatility, and volatility has just been

naturally lower as you go through the first half of this year. The earnings of that business are strong but more subdued, as we expected.

The LNG trading business, I mentioned that in the speech, that's one which remained broadly flat year on year. The way that that business is structured is that, of course, you're rolling in contracts over multiple years, so we're still getting a bit of a benefit there from higher prices in previous periods. But the trading team have had a fantastic year. We had nine cargoes going into the Isle of Grain. You remember we get 26 cargoes a year from Sabine, but they traded, bought, and sold 140 just in the first half so that business is way beyond just a tram line for Sabine into the Isle of Grain. There's so much going on there and it's continuing to perform very strongly.

The renewables route-to-market business, you'll see in the pack that the actual gigawatts under management have actually gone down a little bit. That's a good decline from our perspective. We had some nice contracts that rolled off and the new contracts weren't ones that worked for us. We didn't go into that. We want to maintain a strong margin portfolio there but continuing to remain strong on the underpinning there.

Stock, we've actually got higher volumes in stock as we go through this period. Not in Rough, but just generally in the gas and power trading across Europe. That sets us up well for optionality in the second half of the year, so watch this space, but so far, so good.

Question 5 (follow-up)

Ajay Patel, Goldman Sachs

It was just a follow-up on that leverage point. If we look at the business by the end of the plan, how much improvement do you have in that leverage equation? What are the key drivers here? Is it really just adding infrastructure assets that are visible, or is it adding businesses that are more complementary to the rest of the portfolio, which helps with that leverage point?

Russell O'Brien, Centrica

Of course, this is the discussion we have with the rating agencies because we want to build a company that's resilient and strong, and that's how they look at it from a rating agency perspective. I think it's a bit of everything that you said there. One of the diversifications we had historically on the balance sheet was Spirit and nuclear. It's a different type of cash flow from the retail business. That diversification gives you a bit of strength. That's then positive from a credit rating perspective. They're declining, so bringing other assets in with rateable, contracted, regulated cash flow streams, and that could be anything from the MAP, which is a very stable cash flow stream, straight through to maybe regulated asset base, that type of stuff. That would be very complementary to the rating. But also, different parts of the generation space, which have a different mix of cash flows from other parts of the business, would also be complementary. That's why, and you've seen it consistently in all the

presentations we've done in the past year, we've got a big focus on bringing that type of cash flow stream into the company.

Then, to your specific question, what does that look like on a spreadsheet when you get to the end of the business plan? We would hope that that means that some of the leveraged metrics that we've currently got begin to go down. That's what we talk about when we talk about more balance sheet capacity. To what and when? Who knows? We'll keep working it, but that's the direction of travel.

Chris O'Shea, Centrica

I'm quite impatient on this, but Russell quite rightly reminds me that we have to be patient. We're 50% FFO to net debt. I think with S&P for a BBB flat. SSE are 18%. Now, they are a very different company, but I think what we've got to do is to try and be really boring, so not only to put new assets in which are very stable, but also to show that the assets that we run today are stable and predictable and growing. I think if we do that, then you'll see over time – but I do keep saying to Russell and to Richard, when do we get down to 20%? Because I'm very impatient, but I do think it will take a bit of time. Centrica's been a far more exciting stock than it should have been over the past six or seven years, so we just want to be really boring.

Russell O'Brien, Centrica

We're trying our best to be as boring as possible, Chris.

Chris O'Shea, Centrica

Indeed. Any more boring questions we've got?

Question 7

Pavan Mahbubani, J.P. Morgan

Thank you for your presentation and for taking my questions. I have a few specifically on energy supply. Looking at the cost to serve, so I understand Chris, you said you're not targeting a number, but I guess looking at where you are versus peers, do you feel like you're comfortable after the dual-running IT cost roll-off that you are in a position where you think you can certainly stabilise customer numbers or continue to have them stable, or even acquire customers?

Related to that, when the dual-run IT costs roll-off, how should we think about that feeding into margins? Would you expect that that flows all the way through to the bottom line, or what proportion do you think you'll reinvest if that's something you have line of sight on?

My final question is on the new Ignition platform. I know you mentioned some of the things you can do with it, but can you give us a bit more examples of what that new platform is enabling you to do from a customer perspective? If I'm a British Gas customer, what new things am I going to see with the new platform?

Chris O'Shea, Centrica

On energy supply versus peers, there's limited data there, but I'm not comfortable in just maintaining the market share; I think we should grow. Now, with a 24% market share today, can we grow to 50%? Probably not. Can we grow to 30%? I don't see why not. You get the service in the right place that attracts people towards you, so I think that we should be looking to grow that business.

As the dual-run costs roll-off, how much will we reinvest? That's one of the things Gary will be working on in conjunction with Catherine to make a case for that. For me, it's all about value. If we could show you've got 7.5m customers, £10 a customer dual-run costs, if Gary and Catherine can make a case to invest all 75m of that in something that we think will deliver value, I'd certainly be helping them to try and persuade Russell that that was the right thing to do. I wouldn't say just now, expect X to fall to the bottom. I'd be disappointed if it all fell to the bottom line because that means that we're not investing in improved service.

Ignition, it's far easier for our customer service operatives to use. For some of it, we use the customer services CRM in Ignition, and sometimes we use a Salesforce CRM, and we've got to decide exactly which one we want to use. But it's so much simpler. I don't get to do it anywhere near as much as I'd like to, but if I take customer calls, you're using an old SAP system. I used to work for a German manufacturing company. SAP is unbelievable if you are one of those or you think like that. If you don't, it's a bloody nightmare. It's just not a customer service tool. You get this blue circle of death, and you're toggling between 5 or 10 different windows. On Ignition, it's very straightforward. Your customer service agents can take more calls, they can do more web chat, and they can answer the questions far more quickly.

The other thing it allows us to do is we can put changes through in a matter of minutes and hours, rather than a matter of days and weeks and months in terms of we want to offer new products and propositions to customers. You could actually potentially have multiple changes to tariffs in the same day. That would be nigh on impossible, if not completely impossible in SAP, so it gives us more flexibility, but the customer experience is just a lot better, and the customer service agent is happier. So, happier agent, happier customer. It's dead simple. I'm really quite excited as to where this can go.

When we talk about investment a lot externally, we talk about capital assets, but when we talk about investment internally, we're talking about both capital and revenue investment. I'm really hopeful that we see huge investment opportunities in the retail business. As you can see what we're doing in Jana's business with some of the new systems we're putting in place, the planning and dispatch system, but I'd like us to be investing a lot more. You see that with some of the marketing that we're doing. We're more confident getting our brand out there. We weren't doing any advertising really for a long time. I'd be quite comfortable if we did more, as long as we're getting a return on it.

Question 8

Alex Wheeler, RBC

Just one from me, please. Just on the smart meter capex, I was under the impression that within your customer base, when you brought the smart metering in-house, the active pipeline was around 3m of remaining smart meters to do. I just wanted to check whether that was correct.

Secondly, if we take that around 3m, £200 a meter, 600m, how much visibility do you have over the other part of the capex given that you're guiding to over 1bn to 2035?

Chris O'Shea, Centrica

The 3m, I think we're 55% covered at the moment, but remember, we've got 7.5m customers, but probably 11.5m meter points.

Russell O'Brien, Centrica

12.5m.

Chris O'Shea, Centrica

Is it 12.5m we've got, yeah? There's a lot more that we could do there. You've also got these assets that are finite, so there's a replacement cycle as well. Quite happy to do it for other people if they'll pay us the right amount of money. The meter asset provider, we've got a captive audience at the moment in our own customers, but we've got the opportunity to expand that and do it for third parties as well. The great thing is we could also turn this on and off, so this would be exactly the kind of thing that people want to invest in. We decide, if we see a better return, we could pause it, we could securitise some of the income that we've got from it, so again, it's all about having optionality. I'm quite excited about this business also because it gives us the opportunity to do small meter asset financing as well.

Question 9

Dominic Nash, Barclays

Thank you for the presentation. A wry smile here about your wanting to be a dull stock again. I think your share price reaction today is probably not dull enough, I would say. A couple of questions from me. First of all, on REMA. Could you give us some colour on the timetable we expect to get some conclusions with the new government in place? I noticed in your results statement that you said that you're looking for an enhanced national GB market for your REMA conclusions. Could you give us some flavour as to if we do actually move to a zonal or regional power price market what the impact on Centrica would be, positive and negative, please?

Secondly, on the 2030 clean energy statement that the government is talking about, could you also tell us, will natural gas be classified as clean energy, do you think, and/or what would you need to do to get future-proofed if clean energy was to be literally zero fossil fuel?

Chris O'Shea, Centrica

On the REMA, the Review of Electricity Market Arrangements, we think that there should be a single price across the country. I suppose if we land on zonal or regional pricing, the biggest impact for us would be on the nuclear power stations we've got just now: two in the Lake District, one in Hartlepool, one in the east coast of Scotland, and one in Suffolk. The question would be, would they be at a premium or at a discount to the market? I really don't know. We'd have to see how that played out. I don't expect it to be material, though. I think that what they're looking at for regional or for zonal pricing is – how do you encourage people to want to agree to having things built in their backyard? But the reality is, if you look at things like transmission cost, what you want to look at is how do you – it's a challenge. You want to build your power generation closest to the consumption, but nobody wants lots of power stations around Greater London, so it's difficult. I really don't know how that will come out, but I don't think it should have a material effect for us in Centrica. I think the thing that we're looking at is it has more of an impact on customers, so we think customers should just pay a single price because we think that the simpler the market is, the more that customers will engage. The more they engage, the more we'll be able to reduce energy consumption. I don't know when that will come out. It's less than three weeks since the government changed, so we've got to give them some time and understand when that will appear.

In terms of the 2030 clean energy statement, not sure yet whether natural gas will be included, but if you look, when the old government came out, they said that they wanted 24 gigs of nuclear capacity because they thought we'd have 100 gigs of electricity demand, so you'd have 76 gigs generated elsewhere. You could have that with wind and solar, but you've got to have a lot of backup thermal generation. At the moment, the liquid air energy storage asset we've just invested in is a six-hour battery, so it's 300 megawatt hours. A 50-megawatt, six-hour capacity battery, so run for six hours, but weather patterns can last a lot longer than that. The only way we know to have electricity on demand is to burn stuff. At the moment, you burn fossil fuels, or you burn biomass. I think that the question that we've really got to face into as an electricity market is: if you have a rapid build-out of renewables, and you've got thermal generation as backup, if it's fossil fuels, if it's gas, do you actually invest the money to put carbon capture solutions on the plants, or do you do carbon offsets? If you've got a gas-fired plant that might run for 350 days a year, you put carbon capture on it. If you've got a gas-fired plant that might run for 5/10/15 days a year, then it's quite a different value equation. I don't know what the outcome of that is going to be, but I do think that that's what we as an industry and government have got to really think about doing. The good thing is that we are in the early stages of an investment programme, so we can adapt quite quickly to this.

My view is that natural gas, even if you look at the UK's projections, we will still be burning gas in 2050 and beyond in the net zero future. It's net zero rather than gross zero. I think natural gas has to be clean. If we decide that it's not clean, then I think you can do your own sums of what the impact would be on electricity prices, and it

will not be pretty. We look at it from all parts of the value chain, but I don't think you can just wish natural gas out of existence in the electricity generation system at the moment.

So, time will tell. I think the government seem very sensible. Hopefully, they'll be very sensible. What we always think of it is we look at this from a consumer point of view. Our customers are their voters. What's good for our customers is good for their voters, and ultimately, politicians want to be re-elected. We'll see how they think in the coming weeks and months. We worked well with the old government, we'll work well with the new government, and hopefully, we'll come up with something that works for consumers because that's really the thing that we've got to do.

Question 10

Bartek Kubicki, AllianceBernstein

Three questions, actually. Firstly, I would like to ask you whether you have any past extraordinary costs you can actually claim back from Ofgem through their regulated tariff. I would think about, let's say, much higher bad debt last year than you usually have, and whether you can share with us what's the magnitude of those costs and what could be the potential timeline when they could be recovered.

Secondly, if we look at your capex programme and your pipeline, how much actually of this £3-4bn of capex is already, let's call it, guaranteed by the existing pipeline, and consequently, how difficult is it to increase the pipeline in the future?

Third question, very technical, on the buybacks. If we do the math, and we look at the speed, how many shares, or what was the value of shares bought over the last months, basically, this £200m you are announcing means that either you will need to slow down the share buyback, meaning lower volumes per day, or you will see the finished buyback earlier. Is there any thinking behind this from your perspective?

Chris O'Shea, Centrica

Let me take the first two and ask Russell to deal with the technicalities of the buyback. How much of the £3-4bn is guaranteed? We've got a pipeline of in excess of £10bn of projects that we're looking at, at the moment, but we don't have commitments anywhere near that level. The idea is to have far more ideas, far more potential projects than we have capital, so we make the best decision. We're not struggling for potential projects; we just want to make sure the returns are right and that we pick the best rather than – I think the phrase Russell uses is we don't want the first cab off the rank, we want the best projects here so that's why Ulrika is going to look at the pipeline.

Past extraordinary costs, when you've got market dislocation, there's always going to be a lag in reclaiming costs through Ofgem. I think they showed last year, with the recovery of previous costs, a willingness to make sure that market participants make the target return or get the right relief. If bad debts continue to be at an elevated level

across the industry, then you would expect to see an increased allowance there, but I wouldn't like to put a number on it. Obviously, the way that you do well under the price cap is you are better than average because you get the average across the industry, so I'm hopeful that Ofgem will do the right thing if we see a sustained higher level of bad debts or see an increased allowance there. On buybacks, Russell.

Russell O'Brien, Centrica

The current buyback finishes at the end of this month; the next one will start thereafter and go to the end of February next year. On a quantum per day, the announcement of £200m today will be a lower daily rate, but we would expect the brokers to be buying back exactly as they're doing at the moment, buying back every day through that whole period rather than accelerating it or finishing early. So that's the structure.

Closing remarks

Chris O'Shea, Centrica

I'm getting a sign from Fraser, our Head of Investor Relations. Either I'm for the guillotine, or he wants us to finish off. I think we've had all the questions. Just to say, thank you very much, everybody, for coming. Thanks to those of you that are on the phone. I've got visions of Dom being on a beach somewhere with a cocktail in his hand. It was very good of you all to join us. We'll be back again in February for the full-year results.

Just a summary - we're on a path to try and make the company more boring, more predictable, and sustainable over the long term. Hopefully, you see that in our results today, and you see continued delivery, continued customer service improvements. The pace is quite high and I don't think it will change. I think there's just so much more that we can be doing. I think we're in a good place. I think we've got great growth opportunities in all of our businesses and every one of our businesses also has substantial improvement opportunities. I think that's a really good place to be. Thank you very much, everybody, for coming. Thank you.

END OF TRANSCRIPT