Centrica plc 2020 Interim Results
9.00 am – Friday 24 July 2020

CHRIS O'SHEA, GROUP CHIEF EXECUTIVE
Good morning everyone, thank you for joining us for Centrica's 2020 Interim Results presentation. I hope you are all keeping safe and well during this very odd time.
While I hope to be able to see you all again in person in the near future, given the current situation regarding Covid-19 we are hosting today's event virtually.

I'm joined here today by our new CFO, Johnathan Ford, who has been in role for six weeks now. Johnathan has a proven track record of driving growth and efficiency and has deep knowledge of in-home servicing as well as experience of working in regulated industries. I am delighted to have him on board.

Today's presentation will last around 30 minutes. There will then be the opportunity for a live Q&A, where we will also be joined by our Chairman, Scott Wheway.

Before I move onto the announcement this morning that we have entered into an agreement to sell Direct Energy in North America, let me first summarise the first half.
Whilst we were significantly impacted by the Covid-19 pandemic during the first half our performance was resilient overall.

Our focus has been on protecting our colleagues and our customers, and as a result, the business, through the crisis.

The dedication and commitment of our colleagues was reflected in resilient customer service levels across the business.

Although adjusted operating profit was down by £56m compared to last year, adjusted earnings per share of 2.5p were broadly flat, albeit compared to a particularly weak first half last year. Johnathan will go into this in more detail showing the significant impacts of Covid on earnings, principally on our B2B activities, and the mitigating actions we implemented.

In addition, we took a number of actions to protect cash flows with reduced capital and restructuring expenditure, and the cancellation of the 2019 final dividend. As a result, cash flows remained robust, and net debt fell by £400 million to £2.8bn over the first half of the year; this includes a number of working capital benefits which we expect to unwind later in the year. Johnathan will cover the numbers in more detail shortly
Clearly significant uncertainties remain as we head into the second half of the year, and therefore we are not yet in a position to provide full year guidance; and we have not declared an interim dividend for 2020. But the prompt actions we have taken should position us relatively well.

Let me now briefly cover what we've done to help colleagues, customers and communities through the Covid-19 crisis.

For colleagues, we have been working hard to follow Government advice to keep everyone safe, while continuing to run our business and meet our primary aim – to serve our customers.

Our IT capability has been supporting flexible and home working for several years. This meant we could rapidly shift to 15,000 colleagues working from home, including customer service agents who have historically been purely office-based. The resilience of our systems has been extraordinary to date and this has opened our eyes to the potential to work more flexibly in the future.

We also made adjustments to provide more flexible working options for parents and carers. and our focus on supporting the mental health and wellbeing of colleagues has been more important than ever.

For customers, as well as supplying the basic needs of heat and light, we provided additional help for those most vulnerable.

Over 80,000 British Gas customers received extra assistance in the first half including advance credit for prepayment customers, whilst in North America 90,000 customers were provided with bill assistance. We are committed to supporting those customers who need us most whilst not enabling customers to run up unsustainable levels of debt.
Many colleagues have also gone the extra mile to support our communities at this time as well. Through our partnership with the Trussell Trust, our UK service engineers have delivered over 4 million meals directly to those who need them most.
We also increased our support levels for some charities, including Carers UK and Sagesse in Alberta.

I would just like to reiterate how thankful I am for the response of my colleagues to help our customers and communities in what has been an unprecedented set of circumstances.
And the focus and positive energy the organisation was able to release during the crisis gives me confidence that we have the people and the capability we need to deliver a successful turnaround of the Company.

Moving now onto the proposed sale of Direct Energy, which we announced this morning. We have been working hard over the past couple of years to address underlying challenges which have caused us some issues in our North American business. The efforts of our team on both sides of the Atlantic to drive improvement have been impressive. Today Direct Energy is a better business, with a great team. I am very proud of them.

So it should be no surprise that during my time in Centrica we have had a number of approaches for this business. But as with all of these things, the timing has to be right, the value has to be right, and the buyer has to be right.

In May we entered into a period of exclusive negotiations with NRG Energy after agreeing a compelling financial offer. We believe NRG will be an owner who will invest behind Direct Energy and take a great business and make it even better.

The headline price of $3.625 billion represents an attractive multiple of nearly 8 times 2019 EBITDA and is significantly higher than our book value. The proceeds will be used to reduce net debt and allow a material contribution to Centrica's UK defined benefit pension schemes, which will, of course, be subject to negotiations with the Trustees. This will significantly strengthen our balance sheet, giving us the foundation to build a better business with more predictable, sustainable and enduring profits and cash flows.

The transaction remains conditional on approval from Centrica's shareholders and other US regulatory and antitrust approvals. With the disposal proceeds being used to strengthen the balance sheet, the transaction is expected to have a dilutive effect on adjusted EPS. Direct Energy contributed around a quarter of the Group's profit in 2019 and the reduction in operating profit will only be partially offset by lower net interest costs from the associated reduction in net debt. However, I, and my fellow Board members, believe this is the right action for the Group and for shareholders.

We have been clear – the restructuring of the Group is our number one priority, and this is an important step in that journey. The remaining Group is expected to have a more stable financial profile, with an increased proportion of revenues from contracted services, while the sale of North America Business will remove a source of historical earnings volatility.
So what does this mean for Centrica moving forward?

As well as rationalising the portfolio, we have accelerated our focus on simplifying and modernising the company. The significant restructuring activities we announced last month are now well underway and will allow us to put the customer at the heart of everything we do. It will also reduce our overhead costs and allow us to be more competitive. The Direct Energy divestment will, when completed, simplify the Group, whilst strengthening our balance sheet and cash flows.

We plan to restart the Spirit Energy disposal process once commodity and financial markets have settled, having paused it earlier in the year. However, while we still own this business we will actively manage it. The steps we have taken with our partner and the management team in Spirit mean we expect to be, at worst, free cash flow neutral in both 2020 and 2021, even in the current low commodity price environment.

Turning now to our 20% interest in the UK's nuclear power fleet. We have, along with our partner, paused the divestment process due to the ongoing operational issues, and as such, we currently expect to hold an interest in nuclear at the end of 2020.

We will also consider further divestments of other smaller assets or businesses if they help to simplify and de-risk the Group and we can realise good value for shareholders.
Let me now hand over to Johnathan to cover the numbers and I'll be back in about 10 minutes.

JOHNATHAN FORD, GROUP CHIEF FINANCIAL OFFICER
Thanks Chris and good morning everyone. Before I start, I'd like to say that I'm really excited to have joined Centrica, a company I know well as a competitor from previous roles and one I know has a lot of potential. So, alongside Chris and the wider management team, I am absolutely determined to make sure we realise this potential. Moving straight onto the first half financial results.

As you can see at the bottom of the slide, adjusted operating profit was down by 14% to £343m. I will come onto the drivers of this shortly. But broadly, our Consumer businesses have proved resilient, as you might expect from recurring revenue businesses, with continued high retention rates through the Covid-19 pandemic and operating profit up 37% to £328m. Our B2B businesses were broadly flat overall with our energy supply businesses being negatively impacted from lower demand and higher bad debt provisions, offset by higher profit from our Energy Marketing and Trading business which took advantage of the volatile commodity environment. As expected, our Upstream activities were significantly impacted by the lower commodity prices with operating profit down 87% to £19m.

Low commodity prices were the main driver of us recognising £785m of exceptional impairments on our E&P and Nuclear assets as you can see from the table on the right, with our average assumed forward price assumptions for gas, oil and power falling by between 10% and 30% since the start of the year.

We also booked £251m of exceptional costs relating to last month's restructuring announcement. This will impact cash flows in the second half of the year. We now expect 2020 to be the last year of major restructuring.

Moving now to cover the operating profit bridge. 2019 included a one-off cost of £70m relating to a charge in Ofgem's methodology for calculating the wholesale cost allowance in the price cap in the first quarter last year.

The net impact of Covid-19 was £55m. I'll cover this off in more detail on the next slide.
The impact of lower commodity prices in the Upstream businesses and a small negative foreign exchange movement reduced profit by a further £207m. Warmer weather in the first half of 2020 compared to 2019 had a £60m impact across both the UK and North America.

The underlying Upstream result, excluding the lower commodity prices, benefited by £70m from lower depreciation and tight cost control.

And underlying customer-facing performance was encouraging, with operating profit £126m higher than last year as higher underlying margins in North America Business, good trading performance from EM&T in volatile commodity markets, and cost efficiencies, particularly in UK services and Home Solutions all helped the result.

Let me go into a bit more detail on the Covid-19 impacts. We highlighted in our April Trading Update the impacts we expected to see, and these have played out broadly as expected. We saw slightly higher underlying residential energy demand. However, this was more than offset by the impacts of significantly lower B2B energy demand, including electricity demand being down 14% in the UK and 6% down in North America. This resulted in us having to sell back hedges, with prices typically around 40% lower on average than our hedged position, and increased system balancing costs in the UK as National Grid dealt with the extreme change in consumption.

Revenues in our services businesses were also impacted, as we prioritised essential work only. As a result, boiler installs were 40% lower compared to last year.

The other main impact is on customer bad debt. Cash collection trends have been broadly in line with prior years. Our customer receivables are generally short term in nature and paid down within around 60 days, so the recovery of our first half receivables will arise across July and August. Therefore, the risk is more weighted towards the second half especially given the planned withdrawal of government support for jobs.

We have however increased our bad debt provisioning rates to reflect the current economic uncertainty and risk. This has resulted in a cost of £60m, although this very much remains a judgement at this stage. To help give you some context, our bad debt charge in the first half at the Group level was around 1.5% of revenue, compared to 0.9% in 2019. In 2009, at the height of the financial crisis our bad debt charge was 1.6% of revenues on an annualised basis. So the first half charge is in line with that.

And just to give you a feel for the sensitivity on this. Every 0.5% increase in the bad debt charge as a proportion of revenue is worth around £50m on an annual basis. In total these factors negatively impacted adjusted operating profit by £219m, with the biggest impacts in April and May. However, we started to see improvements in June as lockdowns were relaxed, with energy demand partially recovering and services colleagues able to start carrying out non-essential work again and this trend has continued into July. Boiler installs are now running at about two thirds of where we were this time last year, and we now only have around 750 employees on furlough, with all expected back by September.

In response we were able to mitigate the impact of Covid-19 by £164m through a number of actions including reductions in discretionary costs, use of the UK job retention scheme, the delay of some ECO work and our decision not to pay cash bonuses to management relating to 2019.

The trends we have seen in June and July indicate the Covid-19 impact should be less significant in the second half of the year than the first. However, it is also worth remembering that some actions we were able to take in the first half of the year will not be available to us in the second half. And clearly we have the increased bad debt risk I referred to. So at this stage, we are not providing any full year financial guidance.

Turning now to cash flow. You can see on the left a reduction in EBITDA which mainly reflects the impact of lower commodity prices on E&P.

Working capital is the big year on year change, with a large swing resulting in an inflow in the first half. As revenues fell in our B2B supply businesses, the working capital requirements also reduced. This protects our cash flow position to some extent from sudden reductions in demand, albeit the reverse applies if demand increases as we hope it will in the second half.

The inflow also includes about £250m related to timing on a number of items, which we expect to reverse in the second half. The largest of these relates to a one month deferral of our Danish VAT bill.

Capex mainly related to IT & upstream investment and was pulled back to preserve cash. Restructuring costs were lower, although these will increase in the second half as the exceptional costs flow through.

Divestments in the first half mainly related to the sale of the Kings Lynn CCGT power station. The divestment last year related to the sale of our Clockwork business.

This resulted in free cash flow for the half of £750m, compared to £430m last year.

There were no dividends paid to Centrica shareholders or our minority partners in Spirit Energy. And there was no repeat of the one-off £75m additional pension contribution made in 2019.

As a result, net cash inflow was £593m, and when taking into account non-cash movements, net debt ended the first half at £2.8bn.

We are pleased with the cash flow in the first half. And I think this helps demonstrate the flexibility that exists in our cashflow model. However, we do expect the level of net debt to rise over the second half due to the reversal of the working capital timing and higher restructuring costs.

We are in a strong liquidity position. At the end of June, we had £1.3bn of available cash and £2.9bn of undrawn committed facilities through our Revolving Credit Facilities with 21 banks that run through to 2025.

And we continue to target strong investment grade credit ratings, which helps our ability to purchase the volume of commodity we require on attractive terms.

We have a legacy of long dated and relatively expensive debt which isn't ideal. Where it makes sense, we will look to address this over time by retiring gross debt if we can do so in a value accretive way.

On pensions, the IAS 19 deficit increased in the first half of the year to £522m reflecting a 50 basis point reduction in the discount rate over the past 6 months.

The technical provision deficit is larger as it's based on a more conservative discount rate. Remember it's the technical provision deficit which determines the level of cash contributions into the fund. As part of the 2018 triennial review we agreed a technical deficit of £1.4bn and annual contributions of £175m out to 2025.

On a roll-forward basis using the same methodology from 2018 this technical deficit would be £2.4bn today. And as a reminder, the next triennial valuation is due as at 31 March 2021.

The disposal of Direct Energy announced this morning is a great opportunity for us to significantly strengthen our balance sheet by materially reducing our net debt and reducing our pension deficit and will result in much improved leverage ratios.

Thanks, and now I'll hand back to Chris.

CHRIS O'SHEA, GROUP CHIEF EXECUTIVE
Thanks Johnathan. As I have mentioned, Centrica is a turnaround. It will be challenging, and it will take time. But the great news is that we have the people and all the levers necessary to deliver.

We're going to bring more focus to the organisation, with the sale of Direct Energy being an important first step. Which means we will do fewer things, better. And we'll focus on our strengths.

And rather than focussing on cost cutting, we're going to ensure we are thinking commercially, making the right value decisions. Don't get me wrong – we are taking large amounts of overhead out of the business with our restructuring, and we'll make sure that when we take costs out, they don't return. But there has to be more to us than cost cutting.

A case in point is our restructuring – we're doing this to free up our colleagues to serve the customer – to get all of the complexity, the bureaucracy, the self-made problems – out of the way to give colleagues the space to operate freely. We have great people, but we get in their way.

And this will increase our agility – our ability to move quickly – and it will help us improve our execution. And it should make it a more enjoyable place to work. Over the past few years, colleague engagement has been declining. The more engaged we are, the happier we are; and a happier colleague will provide even better service to our customers; and that will improve our business. I am committed to improving engagement across the Group.

And each and every one of our colleagues will be focussed on the customer. I am, and everyone else will be as well.

As you all know, Centrica has some very strong customer-facing market positions and capabilities. In total, we serve over 9 million households in the UK with one or more of services, gas, or electricity.

We are the largest energy supplier to residential customers in the UK and the second largest supplier to small businesses. We also provide in home services to 4 million households, which makes us by some distance the largest player in the country.

UK services is now our largest business in profit terms, and with levels of customer retention consistently around 80% over the past 15 years, the business provides a predictable and attractive cash flow stream. There are always areas for improvement, but this is a very stable business.

Hive's integration into British Gas is intended to allow us to benefit from its 1 million active customers without further material cash drain.

We retain a top 2 position in Ireland, while we have leading capabilities internationally in Business Solutions and Energy Marketing and Trading.

As I indicated though, we have historically tried to do too much and as a result, we haven't been as focused as we could have been on capitalising upon these advantaged positions. Whilst our planned divestments will, in part, help to resolve this, even within our retained businesses we have been involved in activities that are unlikely to add value for a number of years. Those activities, such as selling Home Insurance in the UK, have stopped.

So although we will continue to remain active, in a financially disciplined way, in areas of opportunity aligned to our core positions and capabilities, such as electric vehicle integration, heat pumps, the potential for hydrogen to become a part of the energy mix, and home energy management, our focus as a Group is now on those activities where we have scale and the ability to win.

Hopefully you'll have picked up that I'm really excited by the opportunities we have to deliver our turnaround. We have a solid platform from which to build.

And in order to fulfil our potential, I am committed to do whatever is required to deliver for our colleagues and customers. Broadly this fits into four buckets:

1. Delayering the company to free up our colleagues;
2. Increasing the proportion of colleagues who serve the customer;
3. Give the customer a better experience by having each customer served by only one business unit; and
4. Modernise our working practices to increase flexibility both for colleagues, and for customers.

The first priority is to simplify the Group to allow our colleagues to shine. We are too complex, too bureaucratic and too top heavy as an organisation. This has made it difficult for us to respond as quickly as we need to, to the changing needs of our customers with too much energy being expended on doing business with ourselves.

This was the key driver behind the Group restructure we announced last month, which is expected to accelerate targeted cost savings and lead to a reduction of around 5,000 roles across the Group. The restructuring is well underway and is expected to be substantially completed by the end of this year.

Secondly, we can operate with far fewer layers which will give us a higher proportion of colleagues in customer-facing roles.

Thirdly, we will also have fewer customer-facing business units, all of which will report directly to me. And importantly it will result in each individual customer being served by only one business unit, which will undoubtedly improve the customer experience and should also improve customer retention.

The new business unit structure and leadership teams are now in place, which has already resulted in us reducing around half the roles from the top 3 management layers in the Company.

And number four. We have to modernise to be successful - and I know from past experience a growing company will be a more fulfilling place to work, more energising, more fun, than one in decline. We are aiming for a more flexible way of working, to support our colleagues to find the right balance between their work and personal lives, but also to be available when our customers want us. A consultation to simplify terms and conditions for our colleagues in the UK is underway which I recognise won't be a straightforward discussion – but we need to simplify in many areas, and quickly.

By doing all of this, we will substantially reduce our overhead spend, including our decision to stop our material third party consultancy spend. We will accelerate the delivery of our £2bn cost efficiency target, albeit in a different way and at a lower cost.

By getting this right, we will be a more agile company with empowered colleagues and lower costs per customer in both energy supply and services. This is the basis upon which all of our businesses can compete more effectively.

So given the backdrop and what's just been covered, let me briefly summarise what this all means, and what we believe the outcome will be.

We are an energy services and solutions company and we are already helping customers to transition to a lower carbon future. Our focus will be on markets and activities where we have scale and leading positions, specifically the UK and Ireland.

We will be an easy place to work, an easy place to navigate, an easy company with which to do business – we will be simpler.

We will empower our colleagues and ensure each and every person in the company is focussed on the customer – not just our engineers and customer service agents.

Our divestments will reduce volatility of earnings and cash flow. While we continue to own Spirit Energy and Nuclear we will of course maintain our focus on these businesses and ensure they do not become a drain on the Group's cash flows. However, whatever the portfolio, we will also maintain our net debt at a level that is consistent with our current strong investment grade credit ratings.

Centrica remains capable of delivering stable and significant free cash flow, with limited capex requirements once Spirit Energy has been divested.

We will obviously look to continue to maintain financial discipline to put us in a strong position to mitigate all the uncertainties that surround the current Covid-19 crisis. Our first half was very strong in this regard, but we are not yet out of the woods.

Centrica is a turnaround story. It will be challenging and it will take time. But the great news is that we have all the levers necessary to deliver for our stakeholders, and a team determined to deliver it.

Ladies and gentlemen, I'd like to thank you for your time and we look forward to the Q&A session shortly.

Questions and Answers

Chris O'Shea

Good morning everybody, it's Chris O'Shea from Centrica. Here I am joined by Johnathan Ford, our new CFO who has been with us for six weeks, and Scott Wheway our Chairman. So hopefully you have had a chance to see our results and see the announcement about the disposal of Direct Energy and also to watch our Presentation. And with that very happy to move into any questions that you have got.

Q1. Mark Freshney, Credit Suisse
Morning gentlemen. Thanks for taking my question or questions. On the pension deficit your sale circular or sale document towards the back it talks about some restrictions and agreements that you have entered with the Pension Fund Trustees on, regarding deficit or potential deficit repairs. Can you talk through the issues surrounding that and whether you are potentially only on the hook for the £1.4 billion now or whether the pension fund trustees would demand that it is actually the current £2.4 billion that is relevant here. So that is my first question.

Secondly, on British Gas and the higher consumption and price caps. Your predecessor spoke about targeting a 3% margin. I just want to understand if that is still the case within British Gas residential?

And I guess my third question is on your services business. Your services business, clearly Johnathan you came from the major competitor of British Gas which showed a lot more growth than British Gas services. Can you talk about what your expectations might be for that business in the medium term regarding growing the top line rather than cost out? And what you think you might be able to do with it? Thank you.

Answer: Chris O'Shea
Mark thank you very much. I will try and take the pension deficit restrictions question and British Gas, and then Johnathan will talk about services. So the deficit we had on the technical provisions basis, at the 31 March 2018, was £1.4 billion. If you roll forward the assumptions to today, recognising things like the discount rate etc., that deficit would be £2.4 billion. So it is very important that, obviously it is different to the IAS 19 deficit I think, because one uses essentially government discount rates and one uses double AA corporate bonds. So that is the first point.

The restrictions we have entered into with the pension trustees had obviously, we anticipate making substantial contribution to the pension scheme from the proceeds of the Direct Energy disposal. We haven't yet agreed the level of that contribution and we will enter into negotiations with the trustees in the intervening period and hopefully have that before completion of the transaction. But in advance of that, we have agreed to a couple of restrictions. One of the restrictions is that we won't make any excess distributions or special distributions to shareholders before we have agreed the size of the contribution into the pension scheme. And the second thing is we also would not undertake any accelerated debt repayment, again until we have entered into agreement with the Pension Scheme. And so those are the restrictions that are referred to in the document. So we will enter in to discussions with them and agree the level of contribution. But the reason for sharing the £2.4 billion is simply that, it is a like for like comparison to the £1.4 billion. That does need to be funded over time, if there are no other changes in external metrics etc., but it doesn't need to be funded from this transaction.

So your second question was in terms of the higher consumption and the price cap margins. So obviously we still target the 3% margins that we are permitted to make under the cap, including some headroom that we have got there. We have seen consumption increase in our residential business over the lockdown, not much in gas but we have seen higher electricity consumption. But it hasn't offset the reduction of the scheme in the B2B space and so both in British Gas and in Direct Energy Home, residential demand has gone up a bit. But both in what was UK Business and what was North American Business, the drop in demand has more than offset that increase in demand. So net-net we have seen a reduction with the impact of Covid.

On the services question, I will pass over to Johnathan so he can give you his views.

Answer: Johnathan Ford
Thanks Chris. The first thing I feel on services is I think it has been a very resilient performance in the first half, you can see that in the numbers that have come through with the UK Home business up 27%. I think that speaks to a very stable business with high levels of retention and recurring revenue. As you quite rightly point out, that is the model that HomeServe had. I think when you talk about the growth from HomeServe, that was mainly an international story. I think if you look at the UK picture there, customers are flat to slightly down but profits have increased a little bit. And I certainly think within Centrica, looking at the services business there, I think this is a service business that can grow its profitability.

I think there are opportunities to improve retention, it is always much more efficient and cheaper to retain the customers than to go and buy within the marketplace. I think we can do more there. I think we can also drive our customer service up, it has performed well to date but I think there is more to do there. I think technology can help us do that, we are investing to allow us to do that. And I think we are also moving more customers online. That migration has also increased in the last six months and that is a channel that customers like to use and are happy to use. So I think there is a number of opportunities for us to move that business forward.

Mark Freshney
Thank you very much.

Q2. Jenny Ping, Citi
Hello, hi good morning, a couple of questions from me please.

Firstly, just going back to the cost savings from the restructuring you have announced a couple of months back, in terms of the redundancies and potential cost savings that could come through from that. How should we think about the cost savings falling through the bottom line going in to 2021? Or are we really going to be seeing all of that savings ploughed back into the business in terms of coming up with more price competitive products etc. and actually much more focused on customer retention rather than seeing the benefits in the bottom line? I am just thinking about this in the context, obviously you have got the dilutive impact coming through from the disposal, how we should marry those two up on your bottom line earnings. Any views there would be appreciated.

Secondly, just on HomeServe, following the earlier question, could you give us an update on where we are on the FCA investigation and the result of that potentially coming up with elements that could increase the competition here?

And then lastly, Chris you said in your video recording that there is potential for further smaller assets that could be put up for sale in the coming months to try and continue to simplify the business. Can you give us a feel for what they are or what they could be, the areas that they fall in? Thank you.

Answer: Chris O'Shea
No problems. Thanks Jenny. So dealing with the last question first. The point is we will actively manage our portfolio, we have demonstrated that this morning obviously, with the disposal of Direct Energy. In the past, we could be accused of having over promised and under delivered. So what I would rather do is tell you what we have done rather than tell you what we are going to do. So I wouldn't speculate on what assets we may or may not dispose of. But we will manage this portfolio for value and there are some things we could consider selling. But if you would bear with me, we would prefer to do what we did this morning which is to let you know when we have done something.

On the cost savings, how should we think about this? So we are accelerating the £2 billion programme, but you are right in terms of, will it all fall through to the bottom line? And this is not profit support. This is about us being way, way more competitive and so we will happily invest some of this in customer retention and in growing the business. But I wouldn't speculate at the moment as to how much goes where. I mean the reason we are doing our restructuring is to make this a far simpler business. We are, as you saw in our presentation, way too bureaucratic, top heavy, it is a difficult place to navigate. We are going to cut through all of that and going to make it easier for people to work here which will give them more time to think commercially and to sell more to the customers. So we have got to get away from cost cutting being near profit support and therefore very happy to reinvest some of this in customer experience and in growing retention and also growing customer numbers. So I can't give you a number as to what will fall through, you have to make your own judgement on that.

And on the FCA investigation, could you repeat your question as I wasn't sure I got the whole part of that question.

Further question
The FCA was investigating how the industry, the insurance industry, is able to price more competitively, and they were supposed to come out with a decision in June, as far as I was aware, to implement, that is to put some sort of price cap in or to enforce churn. A bit like the price cap really on the energy side. Do we have any updates on that?

Answer: Chris O'Shea
I don't have any updates. I think actually they have delayed, and they said it will come out later in the year. I suppose that many people they have been impacted by Covid. So there is no update there on that and I am sure that you will find out at the same point that we find out. I mean our drive and our belief is to provide good value to all of our customers and to make sure that everybody gets value for money no matter how long you have been with Centrica and British Gas in home servicing. I am hopeful that any regulator will be able to see that.

Jenny Ping
Thank you.

Q3. Dominic Nash, Barclays
Good morning, congratulations on the sale of Direct Energy. Two questions from me please. Firstly on the proceeds. You say you are going to pay down debt, but you have got quite long dated debt. Will you be using the proceeds to call in longer dated debt and what sort of exceptional charges will we be looking at there?

And then on the second question, it is almost like a race to the bottom. You are putting in quite a big cost cutting programme. You are facing fierce competition. Your customer numbers are down, I think 2% in retail in six months. You say you are introducing a BGX to come up to low cost option. With that are we actually going to start seeing in this environment a collapse in your competitors? With the way the world is going are you starting to see the competitor pressure disappearing as they themselves get under pressure? Or secondly, are you at risk of everybody just going down the same route and we end up with a similar sort of insipid margin for evermore whilst everybody puts the same sort of cost cutting processes in?

Answer: Chris O'Shea
There is a lot to unpack in there Dom, so first, I will give a very high-level comment on the proceeds and the debt I was talking, and then Johnathan will jump in if I have got anything wrong on the debt. So we published in the Annual Report the maturity of all out debts, you guys know all of the interest rates so you could all make your own judgement as to what sums we would call it we were to pre-pay them. But just to remind you, we signed the deal to sell Direct Energy. We have got to get approval from our shareholders, we have got to get approval

from Anti-Trust Authority and others regulatory for approvals in the States. And so we do have some time to think about this now. But you will be able to price in any of that yourself.

In terms of a race to the bottom and BGX and what we have seen in other competitors. So we have seen quite some price competition in the past few months and we have been more disciplined in the UK in that if people want to sell energy at a gross loss then they are welcome to that business. That is no business that we want, it is not a sustainable position.

So the competition hasn't eased, but the market practices are such that if you sell at gross loss you basically pay to have someone take your product, that is not good business and would not last in the long term. So I wouldn't want to talk too much about our competitors other than to say I don't think anyone can expect to survive if they pay someone to take their product off them. There has been some relief obviously through Covid, you have had the various Government support schemes and for some of the small suppliers that were unable to access the Government loan schemes they have been able to defer the network charges to National Grid so that has provided them with a capital influence if they choose to take that. That has attracted an interest at 8%, that was a change to the rules introduced by Ofgem. So companies can access that, you can make your own judgements as to whether or not that is good idea. But it is very much a temporary measure. So we're in this market for the long term and will be disciplined in our pricing and we will be competitive as well.

BGX is not a different brand, if you take a step back. In our UKB division a couple of years ago we tried a digital-only platform that we called BG Lite, it was quite successful, we got over 30,000 customers on that. And so we built something, in an agile way, test and learn, and got some success and then decided a few months ago to replicate that in the residential business. And again test that and get proof of concept and see how that works. Probably not digital only, probably digital first, but we believe the customers still want to be able to pick up the phone.

So what we are doing is looking to see what kind of platform alternatives can we have and we have got over 10,000 customers I think on the BGX platform and so we are learning a lot. And so we will do this, we will learn, we will make amends and adjustments and we will continue to move forward. But it is all about giving the customer a better experience, it is all about making sure the customers can access our team in the way that they wish. In the first half through Covid, we saw two thirds of our transactions with British Gas actually carried out online which is tremendous. So there is an appetite to do things online and what we are trying to do is satisfy that and customer demand.

Dominic Nash
Thank you.

Q4. Deepa Venkateswaran, Bernstein
So there is probably a bit of overlap with the previous questions, but just I want to focus on the use proceeds. So firstly I wanted to say it is a great thing to have simplified the business and the valuation seems to be definitely better than what we were expecting. But I just wanted to understand what might be below the line adjustments that might come through because of the sale. So particularly on the pension side, if you do manage to contribute a chunk of this towards reducing your technical deficit, does that mean we might see any benefits below the line? Because above the line it seems like it is a 3p hit to earnings going forward. So just wanted to understand the nuance and of course then if you are going to buy back any bonds, one would have to see will there will be a hit. So that is basically the main question I had really, how should we look at the divestment below the line and above the line? Thank you.

Answer: Chris O'Shea
On that I'm looking at Johnathan and getting a nod here. I mean it's the same answer I suppose to the last one in terms below the line, so we have just signed this transaction. Obviously we

know our debt portfolio, we know how we could retire debt, but you can make the judgement on that. That move about as the risk free rate moves, then the price of any buy back moves. So rather than speculate I think what we would have to do is to wait and see where the market was at the point that we completed this transaction.

The contribution to the pension scheme, we have talked about a substantial contribution that we will negotiate with the pension scheme and the best way for us to do that. So I think you will just have to make your own judgement on that. But the proceeds will go on the balance sheet, either through a reduction in debt or a contribution to the pension scheme. And I view both of those quite similarly, they are both essentially debt.

In terms of the comment, I think I mentioned that Direct Energy contributed around 26% of our pre-tax operating profit last year so you can work that through yourself and you know the US tax payment in the US, not the one in the UK. But you will be able to work that through.

Q5. Martin Young, Investec

Good morning to everybody. Three quick questions hopefully. The first one on dividends. You have said in the Direct Energy document that you would look to reinstate dividends when it is prudent to do so. I just wondered what, if any restrictions there are currently in place preventing you from reinstating those dividends? Obviously the Ts and Cs of Direct Energy and the relation with the Pension Fund, appear to place some restriction but presumably not a total barrier, but also anything you may or may not have done with the various support mechanisms offered by the UK Government. So just interested in that sort of ballpark picture there.

Secondly Chris made comments about slimming down the range of offers from Home Services, specifically referencing EVs and heat pumps. Just wanted to be clear on whether you saw those as being a key part of your offering going forward or something that might be done on a low touch basis with less priority?

And then the final question and an accounting one. Note 6C in today's release sets out a value of £44 million for the recoverable estimate on E&P, is that a number that relates to your 69% stake after all de-commissioning liabilities and net cash or net debt positions in Spirit have been taken into account? Thanks.

Answer: Chris O'Shea

Thanks Martin and thank you very much for that very detailed accounting question which Johnathan will be no doubt delighted to take. But let me start with heat pumps. Let me talk about restrictions on dividend. And then I would like to ask our Chairman to give you, we have got the Chairman here and ultimately dividends are a Board decision. So I will give you my view, and Scott can add in the view of the Board and then we can go to Johnathan in terms of the accounting notes.

So I mentioned heat pumps, the possibility of hydrogen, home energy management, electric vehicles etc. The point to make is that we are technology agnostic. We have a great in-home servicing business and we have a great relationship with customers, we're the UK's largest energy supplier.

Now I think that as we move to decarbonisation we'll have a mix in technology, so I think that you will find air source heat pumps and hydrogen pumps and I think it's entirely possible that hydrogen will become part of the energy mix and the point is that we are very well placed to both enable that and to benefit from that. So we are not going to throw our weight behind anyone technology over another because I don't think we know any better than anybody else. But these are great opportunities for us as we move forward and are actually very excited about the opportunity that we see and therefore we will keep that under review and we will be firm followers as such, that we make sure we understand what technology is going to take and that we are very well positioned for that. But we are not going to take a position in pushing one technology over the others. It is really down to what the Government wants to drive and policy, and what our customers want, and what our customers want us to be able to provide them. So I am very excited about that.

On the dividend. On your specific question about what restriction do we have? Other than the undertaking we have given not to pay excess capital distributions until we have agreed the level of contributions to the pension scheme, we have no restrictions on our dividend so we are free, but we are also prudent, and we all recognise the importance of distribution. But I think it is probably best for us to take advantage of the fact that our Chairman, Scott Wheway is here. So Scott will share his thoughts and the thoughts of the Board.

Further answer: Scott Wheway, Chairman
Morning Martin and thanks for the question. Let me just underline what Chris just described to you. The Board is acutely aware of how important the dividend is to Centrica's investors and Centrica's staff. But frankly Chris and I are in violent agreement that the truth is that Centrica recently has recently had a bit of a history of over promising and under delivering. And so we want to be very cautious and very prudent in the way that we proceed. And if you look at the amount of uncertainty that is ahead of us over the next six months, Chris has been through the steps that are required in order to get the deal that we have announced today completed. The Covid remaining shadow across our business and in particular across bad debts where we are all cognisant of a lot of studies that show what a lagging impact that debt can be when we looked at previous crises. We have come to the view right now there is too much uncertainty for us to say any more other than to give you the reassurance that we understand how important the dividend is and we hope to be able to say more as soon as we can in the future.

Answer: Chris O'Shea
Thanks and on that you win the prize for the most detailed read of the results, I will pass over to Johnathan to give you a high level response but I would suggest that if this gets into any detail, it is probably best to take this one off line. So I will ask Johnathan to do that in the interest of time, we will save the detail of any questions.

Q6. Fraser McLaren, Bank of America
Good morning everybody I hope you are well. Just four very brief questions from me if I may. The first I would just like to get your views on the extent to which the sale of Direct Energy will impact on the outlook for the business solutions division, especially as you have identified North America as a key market there.

And also for connected homes, I know it is not a US angle, but just wondering what your view is on connected home and whether or not that also should form part of the portfolio in future?

Then on nuclear, just wondering when the pause in the process becomes a stop because you can't sell it and your views on whether Hunterston will return?

And then just in terms of uncertainties in the second half. I understand your views on bad debts. I was just wondering if there is anything else there that you worry about in particular in relation to the remainder of the year? Thank you.

Answer: Chris O'Shea
Thank you. I am wondering whether… we're all well so thank you for asking. So Martin came up with three and you came up with four, if somebody comes up with five, I will think you are all trying to trump each other. Look on the, I will take them in order.

So the extent that the sale of Direct Energy impacts on Centrica Business Solutions. So, Centrica Business Solutions, where we have activities with people with boots on the ground in the US, that is not part of this disposal. So we decided to retain that. We do see this as a strong market going forward. Undoubtedly there was some core selling opportunity to Direct Energy which we no longer have once it is sold, the business. But we still see the opportunity for us to grow Centrica Business Solutions in North America. We think we can do that without having a large energy supply business there. If we are right, then we will be very happy and if we are wrong then we will no longer have it, so what we wouldn't do is fund lots of losses for a long time. So we have a view and time will tell whether that is right but you can be sure that we, and hopefully you will see that, we will take action and decisions very quickly so we will watch this and decide what to do. I think it is a good business we have got out there.

In terms of Hive, you call it Connected Home, I call it Hive, we have got good products there. This in my view will never be a material contributor to profit in and of its own right. But customers that have Hive, they themselves have retention levels higher, satisfaction is higher etc. And customers who take Hive and services and energy probably have some of the best customer satisfaction there. So what we have done, is that is no longer a business unit and that is already, steps have already been taken. It is part of British Gas, it is in a business unit and it is a product that we have got in there so we think we can benefit. Over a million active customers, so we think we can benefit from that as part of the British Gas portfolio without further material cash drain. Again if my hypothesis isn't right, then we won't continue that, so what we won't do is continue to throw money at it but there is definitely some benefit there, but more as customer experience benefit, customer retention benefit rather than a standalone business unit. So it is no longer a separate business.

In terms of nuclear when did a pause become a stop? That is a good question, I don't have a view on whether Hunterston will return to service other than if it can be returned to service safely then I am confident that the regulator will get to a place where we can do that. If they can't be returned to service safely then we and EDF as partners, we would not want to return it to service. So we obviously have a view that it needs a revised safety case to operate safely. We have got to reach agreement with the ONR and if we can we will start but if we can't then it goes without saying, that we won't. You have got to remember that a lot of value in this portfolio sits in Sizewell. So, a different kind of technology. So, we are undoubtedly seeing some issues, the issues we have got Dungeness and Hunterston, whilst they are different issues, they are in the older plants so we just want to see whether we can get a common position with the regulator, get them up and running again. If we can we can proceed with the sales, we have got. If we can't we either decide to retain this or proceed to a different type of sale. So, what we have agreed with EDF is it doesn't make sense for us to try and sell something, I wouldn't be over the moon buying assets that weren't working and I wouldn't pay top dollar for that. And therefore, let's just take time to figure out what the future holds and then make a decision at that point.

Your last question, what worries me, and Johnathan can talk about bad debt levels. I'm equally worried about the impact of, potentially of Covid and specifically I am worried about a mass unemployment event. That's the thing that worries me most. So our underlying business is strong if the economy is strong, if lots of people lose their jobs and can't pay their bills then that is more problematic. In the UK, bear in mind it is now effectively a regulated market and so it is not simply that we have merchant risk here. There is also risk in terms of for the regulators. So, this is one of the few areas we have in our regulated capped market, where actually it can work reasonably well. Because there are mechanisms for recovering things like bad debt levels, obviously it is not a straight pass through. But there are some protections in there. So I worry a little bit about that. But other than that I actually feel very optimistic about the opportunities that we have got ahead. What we have found during Covid is when we have had to we can work very differently. So our customer service agents were always in the office and now they are all home. And so that opens up huge amount of possibilities for us, our ability to do things quickly, we have demonstrated that with the Direct Energy sale. We are demonstrating that with a number of other things as well in terms of the restructuring. We can move really quickly. So I think a lot of our colleagues have learned just how to do things differently. So I am actually quite excited about that. The macroeconomic environment is clearly something that worries me as we go forward, but we can't really, we can't control that. So all we can do is make sure we are very, very well prepared and as I mentioned, 15,000 colleagues working from home every day and system resilience touch wood, working fine is a really a very useful piece of learning.

Just the week I took over, we were planning on running a test to see how many people could work from home and we weren't sure which half of our building in Windsor to send home to see whether the system could cope with it. And I was quite nervous around how each department would find it. But then we had to send everybody home and we found they could work with 15,000 people. So through events like this you learn a lot and so I am really actually optimistic about what we can do going forward but I have been really worried about the economic backdrop. And maybe Johnathan can talk a bit about bad debts specifically and our worries around that.

Answer: Johnathan Ford
Yes so with bad debt we took an extra charge of about £60 million in the first half. I would say that our provisioning rates at the half year are pretty good and they stack up to where we were with the financial crisis back in 2009. So I think we are on the right side. Going forward who knows, the risk we feel is bigger in the second half as the Government job retention scheme unwinds. But it is just difficult to predict, it's a real judgement at this point.

I think the other big unknown is the impact on energy demand, we saw in the first half the lower demand in our B2B business, impacting quite significantly and that combined with the need to unwind the hedges and sell the energy back, that cost us as well. So again, that is a big unknown, with reoccurrence of Covid that is also a risk.

Fraser McLaren
Thanks.

Q7. John Musk, RBC
Morning everyone, just two questions from me. Slightly repeating unfortunately, but on the dilution impact from the US sale you are obviously not giving direct guidance on what you are going to be doing with the proceeds other than saying that there is a large chunk to go to pension. But if we were to think about the right level of debts against all the business going forward, maybe you could give us some sort of guidance there because the EBITDA level post the US sale is perhaps in round numbers around £1.5 billion. But how much debt do you think you can carry in this business post the US sale?

And then secondly, on the nuclear disposal. I don't know how much colour you can give, but the political situation with China is obviously deteriorating. Are there buyers that are outside of China that you could be discussing the nuclear business with or is it all Chinese counterparties?

Answer: Chris O'Shea
Thanks John, I will take the second one first. So I wouldn't want to speculate on who may or may not be buyers but I would say that there are more buyers for nuclear power businesses than Chinese buyers. So I am quite confident about that. So we watch with interest what the UK and Chinese Governments are doing just now. But that is not, that has no impact on our decision and has no impact going forward, if Chinese buyers are not acceptable then such is life, it's just a smaller buyer pool. So on that, we will see how that plays out.

On the dilution, what is the right level of debt going forward. So normally net debt to EBITDA is a very good measure. So when you have got an E&P business, it has got a huge capital investment profile and a large depreciation charge. It is a less relevant measure so I think that if we didn't have Sprit Energy, then we would have an easier way to talk about gearing, but at the moment you need to just bear with it, to say we will carry the appropriate level of debt on the balance sheet but what should be clear is that we anticipate the entire proceeds from the disposal will be held on the balance sheet either to pay down net debt or to make the contribution to the pension scheme. So that is how we intend to use the full $3.6 billion disposable proceeds.

Answer: Johnathan Ford
And Chris I think in any event our leverage ratios will be materially improved as a result of this transaction.

Q8. Mark Freshney, Credit Suisse
Hi two questions. Firstly on the hybrid bond which I think you have to issue a notice to call early in 2021, or the first hybrid bond. Does the agreement with the pension fund preclude you from calling that bond and not issuing a new one? So that is my first question.

And my second question is just on the credit metrics. Clearly there is a big change within the group. The group is triple B. Is there, at the other side would you hope to be a higher credit rating to enable the UK businesses to trade with lower collateral? What are your thoughts there? Thank you.

Answer: Chris O'Shea
Well I have always hoped we would have a higher credit rating it just makes life easier. But Johnathan can take you through the process, we have obviously been through the process with the agencies, in advance of the transaction as you would expect. On the hybrid I think I would say probably I would like to leave it that we have an agreement to not prepay any debt without going into too much detail and just to remind you that we do have period of time from today until closing and we hope to be in a position whereby we have got a meeting of minds with the pension trustees as we go forward. But maybe Johnathan could talk about the credit metrics.

Answer: Johnathan Ford
Yes on the credit metrics, as you know we continue to focus on retaining a strong investment grade credit rating. Don't really want to go into the discussions that we have had with the rating agents. We can't do that. But I think it is safe to say that our leverage ratios will look considerably stronger once we have received the proceeds from the Direct Energy sale.

Q9. Verity Mitchell, HSBC
Morning everybody. I am going to talk about something and ask some questions about something completely different. In the Presentation on Slide 16, you have all your different businesses. And what struck me this morning was that you said that each customer is going to be served by one business unit which will require quite a lot of restructuring. Could you talk through how you are going to deliver that? Will you need more IT spend? That is quite a big call.

And secondly, just on your business customer mix. I noticed that you reduced a lot of I&C customers. So is the focus in business energy going to be much more SME than I&C going forward? Thank you.

Answer: Chris O'Shea
Thanks Verity. So the key point is, if you take for example under what we had, if you bought energy and services but you also were also customer of Hive and you were served by two different business units, you had two different customer experiences which we don't think is

the best way to deal with customers. So Hive, is now part of British Gas, that has already been done and we will review those customer experiences.

And similarly in terms of the business solutions. So we had teams that would go out and would look to sell business solution type kits so gas engines, solar panels, batteries, operations and maintenance contracts. And we also had a business which would go out to try and sell energy and so those two businesses have now been put together. So Centrica business solutions and that includes the former UKB business. So that again, we believe that customers, so if a customer has somebody coming from the UKB in to sell them energy and somebody coming from Centrica Business Solutions. Understandably they might not feel that they are getting best customer service than if they were served by one business. I don't anticipate that there will be a huge amount of IT spend required for that and so we are not going to be entering into some massive systems change in order to integrate back offices. And there is a lot that you can do with people in front office and customer facing IT spend. So the digital experience will improve, that doesn't mean you have to change your back office.

In terms of your question on I&C and SME. Demands from I&C business, so the volume business, so you've got bulkier volumes and smaller margins and again as I mentioned earlier about residential business. We will manage this for value and so we won't chase volumes in I&C, margins in SME are better. But obviously volumes in I&C are a lot larger, so again you can have some customers. You can lose a couple of customers deliberately or inadvertently and they can take a lot of sites away. So you do see that number moving up and down, but it is not that we are exiting that market, but we don't want to be in that market just to have high volumes.

Verity Mitchell
Thank you.

Q10. Ajay Patel, Goldman Sachs
Good morning. I have three questions if I may. Apologies I logged on a little bit late. Firstly I wanted to look at the technical provision deficit on the pensions. It went up from £1.4 billion to £2.4 billion. I am just thinking in the context, one if you just give us some brief explanation so what has been the drivers behind that large increase?

Secondly, in terms of paying down, thinking about proceeds of the US disposal that is quite a sizeable number now. Can we infer a big chunk of the proceeds will be used to pay this down quit substantially or is there nothing to infer at this stage?

And then the last question I have is, I am not sure but have you gone through the tax implications of the US disposal and I didn't see that in the statement. So I just wanted to see if there is any clarity there? Thank you.

Answer: Chris O'Shea
Nobody has asked about the tax implications and I'll resist the temptation to give you the wrong answers, so Johnathan can talk about that and also take you through the movement in terms of pension deficit movement. In terms of the proceeds, what we said is the proceeds will be retained to strengthen the balance sheet so a combination of a material contribution to the pension scheme and the rest be used to reduce net debt and obviously we have got some time between announcement and closure, so lengthy discussions with the pension schemes. We have been in quite intensive discussions with them over the past few weeks and will continue to do that as we go forward. But we anticipate a substantial contribution to the pension scheme and the rest will be used to pay down net debt and then I will hand over to Johnathan to talk about pensions and tax.

Further answer: Johnathan Ford

So the technical provision as we say has increased on a roll forward basis from £1.4 billion to £2.4 billion and that is foremost entirely down to the movement in the discount rate. So we are looking at something like a 70 basis point increase, that is driving that increase in the liabilities, that is driving the deficit.

With regard to the tax implications, we put at the back of the statement that the transaction costs and taxation costs are around about £100 million. And that is predominantly taxation costs in the US as part of the reorganisation.

Ajay Patel
Okay, thank you very much.

Q11. Fraser McLaren, Bank of America
Hello please forgive me for asking a follow-up or two. Just first of all on the restructuring programming, you are losing a large number of colleagues as part of the programme, probably more than you had originally intended. I was just wondering how you managed the risk of dropping the ball on the way along, and actually having the business damaged by such a transformation, especially in terms of levels of service?

And then just on E&P, how confident are you are that you will be able to sell E&P at a price that makes sense? Any why are you not holding it for sale if you are sure there will be a transaction? Thanks.

Answer: Chris O'Shea
Well in terms of the question on restructure, the first thing is, you mentioned that risk and levels of service, and we mentioned the majority of the job losses will come from management levels, so come from people that don't actually interact with the customer. And so the first thing we do is to focus on this. The reason we are doing this is to simplify the business and to make it easier for our colleagues in Centrica to focus more on the customer than on the internal working with Centrica. That is the first thing. The second thing is that the majority of the losses come from people who don't actually interact with the customer. So what I mean is there is no impact on customer service from those people who are leaving.

The other way and I am sounding like a glib answer. We have great people and I want to, we want to empower them and we want to show them that we trust them. And there is an adjustment there and so I think we have got to show people that we support them and we have got to give them responsibility. And they are responding and as I mentioned, we have learned through the Covid crisis, just what people are capable of. So in some ways, what we have in Covid is an experience of an ability to show, for us to learn what our people are capable of but also to show them what they are capable of. And I think they responded tremendously well. There is always improvements, but I think they responded really well.

And so this is about, without sounding glib, is about managing properly, making sure we don't put too much debt into the organisation. But the other thing you have got to bear in mind is we have been doing this for five years. And my assessment is that the stress of just doing this year after year after year should not be underestimated. And so while this might seem larger than we wanted to initially go. And it is certainly quicker, and it is certainly done in a different way. It is done with the intention of saying once we're through this, we are going to go back to winning ways. I think we have forgotten how to win. And so I think actually that this is can reduce the stress in the organisation. Right now, it is stressful for people particularly because of doing it when they are at home. But we will manage this very closely. But we have great people and they are capable of a huge amount that, I am confident that we will get the right. We monitor of levels to service quite closely.

But your question on E&P, I have always said I am confident that we can sell this. The question is at what price and in what form. And so, we are committed to exiting the production of hydrocarbons. But it is not a fire sale, we are not panicked sellers. But the reason we paused this process was we wanted to understand what the level of interest was and give things time to settle and then go back to the market and figure out what is the best way to go back to the market for this. And that is exactly what we have done, so we told you what we were going to do and that is what we have done.

The reason it is not held for sale, and I suspect that you know the answer to this is you have got to be highly confident of completing a transaction within twelve months. In order for you to hold up the sale. I am looking at Johnathan and our Group Controller for a nod on this, I'm a bit rusty on the accounting standards. And in order to do that it means a very high test. So whilst I'm very confident that we can sell this, I couldn't say on the 30th June, I am confident that we will have a transaction that we will execute within 12 months because frankly we have got to decide with our partner, what is the best way to dispose of this asset. So if you bear with us, rest assured that commitment hasn't wavered towards selling this, but we are committed to doing it in a way that we get the maximum value for our shareholders.

Q12. Jenny Ping, Citi
Thanks. Just on the bad debt, what conversations have you had with Ofgem, if they were to get significantly worse in the second half in terms of seeing a movement in the cap to essentially make that a pass through?

And then on the impairment for E&P and Nuclear, can you just confirm that you are now using the forward curve to impair those assets as at 30 June?

Answer: Chris O'Shea
So I think the conversation with Ofgem, so I have spoken a lot to Ofgem probably a lot more than Ofgem would like. As have a number of the energy companies, so the response of Ofgem and the Government in terms of open communication, it has really been quite positive. So we have had energy supply round table with Ofgem on a weekly basis and similarly had a good conversation with BEIS as well. So they are acutely aware of this issue. What we encouraged the regulator and Government to think about, so there were some suppliers that immediately wanted an emergency fund. And the position that we took in Centrica is that if you are a well-run company you have to be able to withstand bumps in the road. So we actually didn't think there was a need for some emergency funding and I remain of that view. We said we should wait and see what the impact is on customers. And we should support our customers and it has been proven right actually that our customers have demonstrated that if they can pay they do pay, and so we are quite comfortable with that. And as you know, through the price cap there is a mechanism for recovering bad debt, a live mechanism. And there are different opinions amongst various energy companies.

So, I would say we have very open and transparent communication. I can't say that there is necessarily a meeting of minds, but I think the regulation and price cap is quite clear. But Ofgem have shown a willingness through this deferral of network charges, to small suppliers, a willingness to support some small suppliers. My personal view is that they won't all succeed once they come out of this crisis, but for businesses that have been making losses for a number of years, it is not rocket science to figure out they don't have a long term future. So I think we just have to wait and see and it has to be driven by customer behaviour. But with that I will ask Johnathan to answer the question on the curves on impairment?

Answer: Johnathan Ford
So the answer is yes we are using forward curves, P50 forward curves long-dated. And as we mentioned in the script, the impairment is driven off an expectation around 10-30% lower power prices.

Jenny Ping
Thank you very much.

Q13. Bartek Kubicki, Societe Generale
Good morning, just very short two questions please. Firstly on your legacy contract, I wonder if the first half performance was actually better than I thought, if this changes somehow for your guidance in terms of the loss the contract will bring this year and the following years?

And secondly on Centrica Business Solutions, I would like to know your view on a post-Covid world and your expectations in terms of revenue growth and actually customers' demands for this sort of service? Thank you.

Answer: Chris O'Shea
So I will take the CBS question and will then ask Johnathan to answer your question. that I think relates to the gas asset book, and what the results were in the first half and our view going forward.

So during Covid we saw quite a reduction in customers signing up for Centrica Business Solution contracts which is to be expected when you are in a time of extreme uncertainty, you don't necessarily want to commit capital. So we saw that pull back, we saw a great performance in terms of order intake in June, even to the extent that it cost one of my colleagues a bottle of champagne because in the middle of June, it wasn't clear that we would actually deliver that, that team at Centrica Business Solutions were very, very confident at the time, and our colleagues delivered. But they know the business really well, they know the behaviour of the customers and they can anticipate how the demand moves.

But, I think, as we go forward it was clear that one of the things that was learnt through Covid is the impact of a severe reduction in carbon emissions. And I think you hear Governments talking about that, and certainly the UK Government talking about it more. And you hear people are more in tune to the impact of climate change and just what can be done as you want to reverse that. Centrica Business Solutions is there to reduce and help companies decarbonise and help them to reduce. As well as help them be more efficient and there can be cost savings there as well. So my view is that, if anything, what we have seen through Covid should strengthen the demand for Centrica Business Solutions products as we go forward, to help organisations with companies or government bodies to both reduce both their carbon emissions and their costs. And so I think that there will be huge demand for that as we move forward. We have to be incredibly disciplined and we have to make sure that we have a clear path to that business turning a profit. So June was a very very strong month and one swallow doesn't make summer, but I do think there is quite a lot of demand for that. We will see how we progress in the second half of the year. If we see a further issue with regards to Covid, I would expect that to impact on the order intake of Centrica Business Solutions as well. Because again in times of uncertainty you don't really want to commit.

So hopefully that answers your question on Business Solutions and then I will ask Johnathan to talk about the gas asset book, what we saw in the first half and what our view is going forward.

Further answer: Johnathan Ford
So on the gas asset book I think we previously indicated that we were looking at loss of between £50 and £100 million. We are still in that range albeit the results recently have been a little better because there has been some flex in the contract. Just a reminder the pricing on this is complex, with some indices no longer quoted.

Bartek Kubicki
Thank you.

Q14. Alex Leng, UBS
Hi everyone, good morning. Just two quick questions from me. Just coming back to the technical pension deficit firstly. You mentioned the £2.4 billion based on a roll forward at the prior methodology. I am just wondering what are the factors by which that methodology can actually change in March 2021. Is it just inbuilt assumptions like inflation, mortality rates, etc. or could there be something else, potentially more material?

And secondly, could you give a quick recap of plans around Connected Home *(Centrica Home Solutions)* and Distributed Energy and Power *(Centrica Business Solutions)*? Apologies for the prior names they are still stuck in my head that way. But it still over £60m EBIT drag in H1 and you said you had several approaches for the US businesses. So, I was wondering if you had any approaches for these businesses? Thank you.

Answer: Chris O'Shea
Okay. So, let me see if I can answer your technical provisions question. You know, for anybody who has been involved in accounting for pensions, there are a huge amounts of inputs. The biggest ones are mortality, so how long people are living. Then you have also got the discount rates in terms of risk free rates in bond market, including government rates. You have got inflation and could have RPI and CPI, I don't know which one you have got in ours. And then you have also got a view on how strong is the covenant of the company. So that can lead trustees to take more positive or more negative view and legacy pension schemes, tend to put the trustees, were written in a way that a lot of power is in the hands of trustees. So, you would never enter into a contract like that today, but they are what they are.

And also, you have got to remember that evidentially staffed by actuaries who don't tend to be the most optimistic of people in any way. There is a whole bunch of things that can move So, if you look at the mortality table, if you look at the interest rates and you look at inflation, that is relatively good proxy for that. You have also got to look at how the asset portfolio works. So the first part related to that, the second part on the asset side.

On CBS and Hive, again I would rather tell you what we have done than tell you what we are going to do. And I wouldn't want to disclose each different individual approach that we have had. CBS and Hive are quite different, Distributed Energy & Power which is now Centrica Business Solutions, and Connected Home which is now Hive, they are very different. So Hive is a product within British Gas. We believe that drives a great customer experience and there is benefit there. Time will tell if that is not true and then we will no longer invest behind that. If that is true then we will happily invest behind it. But it is not a business unit. Centrica Business Solutions is a very different kettle of fish. We do think that that is a standalone position, we have now included the UK and B2B energy supply business in there so there is more substance I think to that business. So together the customer interfaces, as we mentioned earlier on. So I do see that that business is a path to profitability, but they have to work hard in order to demonstrate that. And also they have that business has not been immune to the delayering. So it has been set up. And when you set up a new business in a large company that either had or feels like it had a lot of money, you may not do things in a particularly thrifty way, thus business is readjusting to do things in a more thrifty way so they have to compete for capital. And I think that this business will prove ultimately to be a very strong business. If it doesn't it will not be in our portfolio.

We are probably going to have to wrap up after one more question. So I think we could go to the next person we have got, and I think we have got three others who have follow-up questions in the queue. In the interest of time, I suggest that those with follow-up questions we can deal with them off-line and I am trying to act on feedback. They always tell us our presentations are too long. So we cut the presentations to about 30 minutes, but our Q&A has gone on quite long So we think one more question and then if you do have follow-ups please follow-up with Martyn in the Investor Relations team in the first instance, and Johnathan and I are available as is Scott, so Scott's around as well So we will absolutely answer your questions. So maybe you could go to the last questioner.

Q15.   Andrew Moulder, CreditSights
Thank you, great to get my question in. Just a couple of bond specific questions. I heard the earlier answer on the hybrid bond. But could you just please confirm that you would be able to call the hybrid if you wanted to, even if the transaction has not been finalised by the call date. I think I saw in the announcement that the backstop date is currently something like the middle of July 2021. So could you confirm that please?

And also you have got sterling, euro and US dollar debt, could you just confirm that within all of that debt there are no covenants that would be triggered by the sale of Direct Energy, which is after all a pretty significant subsidiary? Thank you.

Answer: Chris O'Shea
So yes, confirm the answer is yes, you could call the hybrid and no there are no covenants there.

Andrew Moulder
That was an easy answer. Thank you very much.

Closing Remarks

Chris O'Shea
Thank you very much everybody for coming along and it would be great to get your feedback on how this format works, through having the video and then the Q&A session on the phone. Hopefully it is easier for you all not having to travel

I'd just like to leave you with a final thought which is this is a turnaround story. That Centrica is a turnaround. It is going to be challenging and it is going to us take time. But I am increasingly confident, and I have seen this over the past few months, that we have all the levers we need to deliver the turnaround for our stakeholders. Our colleagues are fantastic, and they are able to deliver this and you have got a team here, with myself and Johnathan and Scott, with the wider Centrica team, and with the Board. We are all working together very well but all pulling together, and we are absolutely determined to deliver this, and I am increasingly confident that we will be able to. So, thank you very much. I look forward to speaking to you either individually or when we get to the next set of results.

Thanks very much everybody.

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