centrica

Centrica plc interim results announcement – 28 July 2022

Transcript

Chris O'Shea, Centrica
Good morning, everyone. Welcome to our Interim Results presentation for 2022. It's absolutely brilliant that we're able to be here in person. We were just reflecting, this is Kate's fourth set of results, I think, as CFO, but the first face to face, and what a fantastic venue to be in. We're also delighted we've got some other executives and our Chairman Scott Wheway sitting here, so any really difficult questions, Scott is absolutely on point to take them. I'd like to welcome those of you watching this on the webcast as well. We look forward to seeing many of you over the coming weeks.

In total, the presentation today should last around 50 minutes. I'll cover the performance and the progress and our turnaround, and then Kate's going to look at the first-half financial performance, share with you our thoughts and capital allocation and the updated financial framework, and then finally, I want to spend some time talking you through our long-term strategy, including some of the evolving growth opportunities that we see across our retail, our optimisation, and our infrastructure activities as we look to capitalise on what I believe are unique capabilities and make the long-term investments needed to support our customers, play a leading role in the UK and Ireland's energy security, and help Britain reach net zero, all whilst delivering a return for our shareholders. Kate and I are then looking forward to taking your questions, along with Scott.

So, how did we do in the first half? It seems like right now every time someone sets the scene, they use the word unprecedented, but it really rather accurately describes the landscape that we continue to navigate right now. Regardless of how you want to describe it, our amazing team is managing volatility in the market incredibly effectively. They're helping to ensure our customers remain supplied, whilst de-risking, strengthening, and positioning Centrica for growth.

Performance has been strong. Financial and operational results from our energy infrastructure and our optimisation businesses were both improved when you compare them to last year. Operational performance in the retail businesses improved as we invested in enhancing customer service and absorbed both inflation in services and an increased bad debt exposure in energy. We expect the impact of higher energy prices and general inflation to dampen both energy demand and discretionary spend in our services business, but we'll continue to invest so that when economic recovery comes, as it will, we're in a far better shape coming out of the crisis than we were going into it.

We reported a strong set of financial results, with EPS, excluding Norway E&P, increasing to 10.2p from 1.3p last year, and total free cash flow was up by 23% to £643m. At the end of June, we had just over £300m of cash. We completed the

£1.1bn disposal of Spirit Norway, at the same time transferring over a billion dollars of decommissioning liabilities to the buyers in the process. We agreed with our partner in Spirit to refocus activities to production and net zero opportunities. Spirit is no longer engaged in exploration.

The 2022 financial outlook is positive, although, of course, there are significant uncertainties, particularly so in today's environment. I am really pleased that we're now in a position to restart the payment of dividends for the first time in three years. We declared an interim dividend of 1p per share and we intend to retain our historic policy to pay roughly one-third of the full-year dividend as an interim, with the remainder coming as a final dividend.

But we're acutely aware of the difficult environment many customers and colleagues are facing due to rising energy bills, and the wider inflationary impacts that we see in the economy, and we're going to continue to do all that we can to support them. We're investing more than £100m in customer service support and prices and we took on another 200,000 customers from failed energy suppliers in January of this year. That takes the total number that we've rescued to well over 700,000.

We're working hard to make sure the UK has resilience in its energy supply chain. You can see that by the multi-billion pound deal that we signed to increase gas deliveries to the UK over the coming three winters, while simultaneously working with government on proposals to re-open the Rough field as a gas storage facility.

One of the best things of my role is being able to create jobs. I'm delighted that in addition to the 1,000 new engineering apprentices that we'll have by the end of this year, we're also investing in 500 additional UK-based customer service roles in British Gas Energy. That's so that we can cope with the increased demand from customers and to be there when they need us.

We're supporting our 20,000 amazing colleagues through these challenging times and we're working hard to serve them well. We agreed the new pay deal earlier this year and that takes account of current inflationary pressures in the UK. I was also delighted to see a further increase in our colleague engagement to 63%.

We take our responsibilities to communities seriously as well. In January, we repaid £27m we received from the UK Government in furlough funding. We also provided £6m of funds for our most vulnerable customers through the British Gas Energy Support Fund. That's in addition to the £7m we've contributed to the British Gas Energy Trust, which helps fund debt charities and provide grants of up to £750 to help any customer – not just a British Gas customer, but any customer struggling to pay their bills. We believe that this is the biggest ever aid package in the UK energy sector and we're going to continue to review what more we can do in the light of future projected increases in the price cap.

I'd like to move on now to cover our continuing turnaround. You might remember this slide from February. It sets out the three overlapping phases to our turnaround. I'm really pleased with the progress we're making. We were clear that the most important building block was to simplify and de-risk the portfolio, and in the process, strengthen the balance sheet, building the foundation from which we can grow, to make sure that we were in control of our own destiny and had the space to make the right decisions rather than being forced to do the wrong thing at the wrong time.

The sales of Direct Energy and Spirit Norway together raised £3.5bn. This, coupled with our relentless focus on cash, means that we've now eliminated our net debt. But that's not all. As you can see here, we've removed over £6bn of liabilities in the past two years. You can see significant reductions in decommissioning liabilities, the technical pension deficit, and in future expected losses from the Sole Pit legacy gas contract. To put this into context, that's the equivalent of more than £1 per share in equity value.

Stage one is complete. The foundation is laid and we're on the way in our journey to deliver phase two. We've managed to stabilise the business. We're now focused on improving operational performance – in particular, in both the British Gas businesses. We're much more focused on customers now, with the restructuring largely complete. The restructuring removed management layers and it resulted in fewer and more focused business units and engaged and empowered colleagues, as you can see by the increase in colleague engagement to 63%. But we've still got further to go to be world-class in that space. I'm confident we'll get there. All but one of our business units today has top-quartile engagement levels. It's an amazing turnaround – a huge turnaround in colleague sentiment.

We continue to build the services engineer workforce to ensure that we can meet not only our customer needs today, but their demands in the future. We've recruited a further 600 qualified engineers and apprentices in the first half of the year. We're now increasingly turning our minds to phase three – not because phase two is finished, but because we've always got to be looking ahead.

The opportunities presented by net zero for our retail businesses are absolutely huge. We've got the largest field force in the UK, we've got the capability and capacity to further up-skill and cross-train colleagues, and that means that we're incredibly well positioned. I'm really excited about the future for the retail activities. That's why we're investing heavily in these businesses. We also said in February we'd look at options to deliver growth through investing more capital into flexible distributed generation, as well as developing options to repurpose existing infrastructure to support the energy transition, to turn it from hydrocarbon infrastructure into net zero infrastructure. We've made good progress here and I'm going to give you a bit more colour on that after Kate's taken us through the financials.

But today, let's look at the Group. Centrica is focused largely in the UK and Ireland. We participate selectively across the energy value chain. We've got strong UK and Ireland Retail positions through brands such as British Gas, Hive, Dyno, and Bord Gáis. We've got world-class pan-European Optimisation positions and capabilities in Centrica Business Solutions and Centrica Energy Marketing & Trading. We've got incredible Infrastructure positions in the UK and Ireland—in gas production and processing, in both nuclear and gas-fired electricity generation, and in battery storage. All of these activities are interlinked and each and every one of them have got significant growth potential. Now, that includes both British Gas businesses. They're currently focused on improving operational performance in order to position us well so that we can grow.

In British Gas Energy, we're focused on improving the areas we control. I was really pleased that we delivered organic customer growth in the first half of 2022, whilst NPS continues to improve. We remain focused on IT platform migration, investing in the lower-cost 'software as a service' platform. This is going to future-proof the business as the UK energy system develops, and there is an inevitable and substantial increase in electrification. Combined with more modern and agile ways of working, this is also going to allow us to offer a better customer experience, thus ensuring that our cost per customer remains competitive. For those of you that have seen these types of migrations, you'll know that it requires focused effort and also it can be bumpy, but we've now got almost a million customers on our new platform. We'll continue with a controlled approach as we scale up and migrate all residential and small business customers over time.

However, the current environment remains incredibly challenging for customers and for suppliers. As you know, more than half of UK energy suppliers went out of business in the past year. Those players like us who've got a responsible business model and a disciplined approach to hedging and risk management will be able to see out the situation. We think the regulatory focus has got to ensure that both the market and all suppliers are viable. We've been clear that there's been a huge regulatory failure, which required urgent intervention and financial services-style prudential regulation. That includes fit-and-proper-person tests, capital adequacy rules, well-monitored risk management activities, and full protection for customer deposits.

There's been a number of positive changes to regulation over the past six months, which include the introduction of regulations that should ultimately protect 100% of customer deposits, together with the market stabilisation mechanism, which should ensure that companies are not commercially disadvantaged by hedging responsibly when commodity prices start to fall.

Whilst we would always like change to be quicker, we are supportive of what we see coming out of Ofgem. We'll continue to engage on the future of retail energy markets in the UK to ensure that only well-run responsible suppliers are allowed to remain in this market and that they can make a fair return – that's very important as well.

We've been encouraged by positive action from the Irish Government in terms of direct support for customers rather than intervening in the market with potentially unintended consequences. The UK Government customer support package has been similarly encouraging.

Finally, in this section, let me cover British Gas Services & Solutions. Operational performance here is improving, and we've got significantly reduced reschedule rates and higher engineer NPS. We've also seen some improvement in our boiler and parts supply chain issues after the issues that we saw earlier this year, and our engineer recruitment drive is continuing apace. I'm really proud of the team, who have regrown this recruitment and training capability far faster than any of us had the right to expect. You can see in the chart how we've changed this. The team have been phenomenal. This investment obviously impacts on productivity in the short term because new recruits, when they're trained and then mentored by existing colleagues, that takes some productivity away, but it's absolutely essential for the long-term health of our business. We have to grow our own talent. We can expect this impact to last probably into early 2024 until the apprentice pipeline normalises. It's not going to go back to the levels of 2018, but it doesn't need to stay at the levels of 2021 and '22.

We're also seeing inflation and the cost of living crisis affecting both the cost base and our sales performance. Therefore, full financial recovery in this business is likely to be dependent on how long any economic downturn lasts. Therefore, it's probably going to be a bit slower than we would have hoped when we spoke to you in February.

Historically, in this environment, our approach would have been to make unsustainable cost cuts to underpin in-year profits. This happened in late 2019 when a substantial proportion of contractor labour was let go just at the start of winter, which impacted customer service from the fourth quarter onwards, and actually, only now are we recovering from that. You can see here that we carried out more than 400,000 additional service visits in the first half of this year when you compare it to the same period in 2020 and 2021. Both of those comparable periods were impacted firstly by Covid and secondly by industrial action. That actually masked the impact of the very short-term decision that was made in 2019. We won't repeat that. This business will only realise its growth potential if we continue to invest in our capacity, in our capabilities, in our technology, in our colleagues. We'll continue on the path that we're on to ensure that we capture the great opportunities that are presented by net zero.

We feel there's no contradiction between the planet and the profit when you talk about net zero. Look again at how we made our money this year. By managing 15GW of power across Europe, 80% of which is renewable. By sticking with low-carbon nuclear. The energy transition is an immense opportunity for us at Centrica. We want to be the ones to install the heat pumps or convert gas boilers to hydrogen;

who link up the solar farms and wind farms of the UK and Europe into one giant sustainable grid; who pioneer the new technologies, like carbon capture, that will take Britain and Ireland all the way to net zero. That aim is at the forefront of everything that we do.

Now, I'm going to hand you over to Kate to talk about the financials and I'll come back and talk about our strategy. Thank you.

Kate Ringrose, Centrica
Thanks, Chris. Good morning, everyone. Let me move straight on to the results.

Overall, financial performance was healthy in the first half of 2022. Revenue increased in all our business units, which reflects good operational performance against a backdrop of higher commodity prices. This also resulted in higher gross margin in our Upstream and Energy Marketing & Trading businesses. Operating costs increased by just over £100m. This is largely due to a higher bad debt charge and the £27m furlough repayment made to the government in February. We continue our focus on discipline in costs, whilst prioritising opex investment into our retail businesses to improve service levels and position for future gross margin growth.

Adjusted operating profit was up significantly to £1.3bn, although nearly half of a billion of this relates to the disposed Norwegian Spirit Energy assets. I'll cover the segmental detail in the next slide.

Net finance costs were lower, which includes the benefit from over £900m of debt maturities since the start of 2021. The Group tax rate increased to 46%, reflecting the increased proportion of operating profit made in the highly-taxed E&P businesses. This resulted in adjusted earnings per share of 11p, or 10.2p when excluding the disposed Spirit Energy assets.

Moving now on to operating profit, Chris talked to how we think about the integrated portfolio, and I'll follow that structure, albeit there is some overlap in our current businesses. In Retail, we include British Gas Services & Solutions, British Gas Energy, and Bord Gáis. Optimisation includes Centrica Business Solutions and Energy Marketing & Trading. Infrastructure includes our Spirit Energy, CSL, and Nuclear assets. A notable outlier from our overall strong performance in the first half was British Gas Services & Solutions, where operating profit reduced to £7m from £60m last year. That's where I'll start.

As you've heard from Chris, operational performance is improving. However, it is going to take time for this progress to be fully reflected in the financial results. You may recall we said last year that Covid and industrial action had cost us £50m in the first half of 2021. All things being equal, you would have expected this to reverse out in the first half of 2022. However, as we signalled in February, elevated absence rates continued into '22, while we also saw ongoing high levels of customer compensation following disappointing service levels over the last winter. We caught

up on our backlog of annual service visits, whilst the level of customer call-outs was higher than we'd expected, which we believe is a function of customers choosing to have non-urgent work that they had been delaying over the Covid period completed. These should be temporary factors, but they impacted the result by approximately £25m in the first half of the year.

We are seeing commercial challenges exacerbated by the current high inflation environment. Customer retention rates remain strong at above 80% as we remained mindful of the price changes customers can absorb. However, customer acquisition has been challenging, and we lost a net 157,000 customers in the first half of 2022. We are also seeing more customers trade down to lower-priced products within our home care range. This negatively impacted us by around £20m compared with the first half of last year.

We are making a number of choices to improve the resilience of our business, investing in service and pricing and ensuring our current propositions are attractive, and we're well placed as alternative heating solutions gain more prominence. This investment includes the recruitment of engineers and apprentices and the training of colleagues who have joined us over the last 18 months, as more experienced engineers mentor new joiners. We continue to invest additional opex in our core IT systems to improve our productivity, particularly in planning and dispatch and modernising our supply chain, and in building our net zero capability.

We are seeing increasing costs in a high inflation environment, including our own employee costs as we look to support colleagues through the cost of living crisis. Mindful of this difficult time for customers, we are choosing to invest in our pricing by not fully passing these inflationary costs on to our customers. This investment totalled around £50m, and although this will create a drag on profit in the immediate term, we believe these are the right short-term choices for the long-term health of a business which can play an important role in helping households transition to net zero.

Finally, on services, heating installations were up 13% compared with the first half of last year, in a market which reduced in size. However, the average sales price was lower, with customers again tending to choose lower price boilers. Global supply chain issues earlier in the year resulted in higher costs and reduced productivity. Combined, these factors drove a negative impact on profit of £10m compared with last year.

Moving on to British Gas Energy, where operating profit reduced by £74m to £98m. The current market environment continues to make the forecasting of customer numbers and demand challenging. Given the tariff default cap remains cheaper than nearly all fixed-price offers available in the market, we saw a continuation of the trend from Q4 last year, with a higher number of customers moving onto the default tariff than we had purchased gas and power for. We now have 83% of our portfolio priced on a capped product. This resulted in us having to procure additional

commodity at high market prices, with Ofgem allowances for this unexpected cost only kicking in from April. This was a negative factor in the first half financial result. Offsetting this, warmer than normal temperatures in the first half naturally reduced demand, but meant we were able to sell surplus gas and power back into a high-price commodity market and resulted in a net positive impact overall from weather. These were large swings moving in opposite directions which almost netted out.

In opex, we recognised a roughly £65m increase in our bad debt charge, linked to both elevated revenue and emerging pressures on customer wallets. This took bad debt as a proportion of revenue to 2.3%. We also made the £27m furlough repayment I talked to earlier.

Finally, for Retail, Bord Gáis energy operating profit increased from £19m to £33m despite a challenging environment for energy supply, with good trading performance, and the Whitegate CCGT back online following a major outage throughout the first half of 2021.

Next, on to Optimisation. Centrica Business Solutions contributed £20m of operating profit in the first half, compared with the £24m operating loss in the same period last year. Within this, we saw a recovery in energy supply, with no repeat of Covid-19-driven demand reduction seen in H1 2021, and warmer weather allowing us to sell excess gas and power back to the market. The loss in New Energy Services halved, reflecting improved commercial performance and lower operating costs as we re-focused this business.

Switching now to Energy Marketing & Trading, which made an operating profit of £278m compared with a loss of £40m in H1 2021. As we mentioned in our May Trading Update, EM&T has managed the commodity markets well. Our portfolio of physical contracts and associated capability, technology, and data are well placed in this commodity environment. This portfolio, which includes PPAs, storage, and LNG, delivered a strong optimisation performance across the European markets in which we operate.

The long-standing legacy gas contract for Sole Pit contributed an operating profit of £25m in the first half, as we used optionality around the timing of gas offtake. We currently expect the contract to broadly break-even for the full year, after which the contract only has another two and a half years before it expires. At current forward commodity prices, we expect the contract to lose around £150m before it ends, albeit the phasing of the losses is uncertain.

Lastly, I'll talk to the Infrastructure, or Upstream businesses. After excluding the Spirit Energy assets sold in May this year, pre-tax operating profit was £421m, compared with a small loss last year. The retained Spirit Energy assets delivered operating profit of £59m, with strong operational performance at Morecambe and Cygnus, and higher achieved prices despite the impact of forward hedging. This was

partially offset by higher depreciation rates as the result of impairment write-backs last year.

CSL operating profit increased to £76m, as operational performance was robust and enabled us to optimise production from the Rough asset. Production was up compared with the same period last year and the achieved gas price was higher.

In Nuclear, reliability exceeded our expectations given our 2021 experience, with volumes up 11% despite the closure of two stations since June of last year. Operating profit was £286m in the first half as a function of the higher achieved prices, and lower opex and depreciation following the closure.

Finally, touching briefly on the disposed Spirit Energy assets, which contributed £485m of operating profit. With the valuation date for the transaction set as of 1 January 2021, we've isolated this contribution.

Moving on to cash flow. EBITDA increased by £1bn, while tax payments of £367m were made, compared with a net rebate received in H1 last year, reflecting the increased profit. We used a lot more working capital this half, resulting in a cash outflow of £438m. This was largely in British Gas Energy, for two main reasons – the impact of taking on 'supplier of last resort' customers, which will unwind over the next nine months, and the impact of higher commodity costs, as we typically pay for the purchase of commodity in advance of receiving payment from customers.

Growth in Energy Marketing & Trading activity also resulted in a working capital outflow in this business. Net investment was flat versus last year, while exceptional cash flows were again lower as our 2020 restructuring programme comes towards an end. As I've highlighted before, any opex investment we make like those in British Gas Energy and British Gas Services & Solutions to improve operational performance will not be charged as exceptional items.

Overall, free cash flow was £643m, up from £524m from the same period last year.

Switching to the right-hand side of the slide, pension payments were reduced as we saw no repeat of redundancy-related accelerated payments from 2021. We also saw a reversal of our margin cash position over the first half.

A core capability in managing our business risk is how we balance market, credit and cash liquidity risk. The potential exposures to these individual risks are particularly acute in this current environment, and our strong balance sheet and access to liquidity ensures we have good options to manage this trilemma. It is very possible our margin cash position could increase further as an effective risk mitigation lever. Our cash position gives us good choices in how to balance this trilemma and is one of the reasons we will continue to run a conservative balance sheet. You can see the £233m minority dividend paid to our Spirit Energy partners following the completion

of the Norway disposal. The net impact of all of this was a net cash position of £316m at the end of June.

I'm pleased with the progress we've made on the balance sheet over the last two years. A strong balance sheet and strong investment grade ratings remain important to us and the benefits of this are clear during periods of extreme commodity volatility like that we are seeing at the moment.

As regards pensions, recent increases in corporate bond yields mean that we now have an accounting surplus of £747m. However, it is the technical provisions deficit which determines the future level of cash contributions that the Company has to make. Here, we have just reached agreement in principle with the pension trustees regarding the March 2021 technical deficit valuation at £944m. I am pleased that on a roll-forward basis, the deficit is around £600m today, reflecting changes in real gilt rates and deficit contributions since the valuation date, and a solid covenant rating. Deficit contributions are expected to remain at around their current level of around £175m per year.

Pensions have been an unpleasant source of volatility in recent years, as Chris said, reaching over £2bn a couple of years ago. We have been heavily focused on de-risking our net pension liabilities. As you can see from the table on the right, the overall level of interest rate and inflation hedging, as applied to the asset base, has increased from 36% three years ago to 95% today. This means the volatility of our pension deficit should be much reduced in future.

Before I move on to cover our updated financial framework, let me address the outlook for 2022. Financial performance so far this year has been good, which positions us well as we head into the second half. We will continue to invest in, and drive, operational improvement over the second half of the year, particularly given the uncertain economic environment, which creates challenges for British Gas Services & Solutions and also increased bad debt risk for our energy supply businesses.

If forward commodity prices were to stay around current levels and asset performance remains strong, it is likely that full-year adjusted earnings per share could be at, or even above, the top end of the current sell-side consensus range. However, as always, there are a range of external factors that we cannot control, most significantly weather and wholesale commodity prices – the risks from which are elevated in the current commodity environment.

As a reminder, we start hedging our upstream production and generation rateably 24 to 30 months ahead of delivery. On the right of this slide, you can see the amount of gas and power we have already sold forward in our E&P and Nuclear businesses, which should help you with your modelling. We also have exposure to European power prices through our PPA and route-to-market activity in Energy Marketing & Trading.

Finally, let me turn to our updated financial framework approach which will underpin our strategy moving forward. It should come as no surprise for me to start by talking about the balance sheet. Maintaining a strong balance sheet will be key to our continued success. We are currently in a net cash position but remember this figure does not include the £1.5bn of gross Spirit Energy and CSL decommissioning liabilities, nor the £0.6bn current roll-forward valuation of the technical pension deficit.

We've talked to the significant cash swings and the in-year uncertainty, and Chris will provide more colour shortly on how we see the investment opportunities ahead of us. With current levels of volatility and economic uncertainty, I intend to maintain a prudent balance sheet which provides cash agility, resilience, and the ability to respond to opportunities whilst maintaining meaningful headroom to maintain our strong investment grade credit ratings, given their importance for our energy procurement and optimisation activities.

Let me now turn to dividends. Importantly, we are now in a position to reinstate cash returns to shareholders, starting with the 2022 interim dividend payment of 1p per share. The full-year dividend will be progressive, and over time, we expect the cover ratio to move to around two times, recognising the ratio is likely to vary each year dependent on the business cycle.

We will continue to invest in our people and technology, whether that's through opex or capex, and this will underpin further improvements in customer service and productivity, and in turn improved customer retention. Our balance sheet approach also means we're able to support increased working capital capacity should attractive opportunities arise in our optimisation activities.

Next, we have the opportunities to invest in a value accretive way in flexible and lower carbon assets to accelerate the energy transition and improve security of supply in our core market. Chris will lay out the robust framework we will consider each opportunity against, but you would expect each one will need to deliver appropriate returns commensurate with the risks taken. Such investment will also help us retain a diversified and balanced portfolio as our existing E&P and nuclear assets naturally reduce in scale over time.

Finally, we will continue to focus on the efficient use of capital, and while the current volatility of the market and uncertain timing of our potential investments mean we can't yet give clarity on timing, this does include the potential to return any surplus structural capital to shareholders.

I'll now hand back to Chris.

Chris O'Shea, Centrica
Thanks, Kate. So, now we've stabilised the Group, we've reshaped the portfolio, and we've put in place our operational improvement plan, we can share our long-term strategy and outline the growth potential. For those of you that know me, you know that I prefer to let my delivery do the talking, but on this occasion, I'm actually really quite excited to share a little bit more.

How do we see Centrica today? We're evolving into a new type of integrated energy company. It's not about investing in upstream assets to hedge the downstream activities. That is, as my kids would say, so last century. It's about balance. It's about balance in our portfolio. Balance in an increasingly imbalanced energy system. It's about investing in net zero, investing in the retail business to deliver new net zero propositions, investing in flexible assets, which will enable a net zero electricity system, and using our optimisation capabilities to help de-risk the Group and add value to the retail businesses that we've got in the UK and Ireland. It's about investing in net zero infrastructure, which will capture carbon and it will produce net zero gas. It's about our unique combination of strong Retail, Optimisation and Infrastructure businesses. The strengths of each of our businesses reinforce and de-risk the other elements and this makes us a stronger company.

Our markets are dynamic. Our de-layered organisation allows us to respond quickly. We won't invest to get the best returns for the ideas that we've got, we'll only invest where the risk is compensated by the returns. We expect to have a mix of merchant and regulated assets. We're market-led. We're not going to invest material sums into primary research and development. That's not our bag. We will invest in our proprietary optimisation technology, and we will deploy new technologies faster than our competitors can. These are the principles that guide our strategy, the principles that guide our approach.

We've worked hard to get into this position where our portfolio makes sense. Where each part complements another. Where we've got growth opportunities. Where we've got balance. The great thing is that we've got growth opportunities across the entire value chain. We can choose where to invest. We can choose the mix dependent upon the circumstances. We've got choice.

Firstly, let's look at the growth opportunities that we see in the Retail businesses. I talked a lot in February at the Prelims about how well positioned we are for the transition to net zero. This hasn't changed in the past six months. I'm as excited, actually more excited today than I was then, by the growth potential of both British Gas Energy and British Gas Services & Solutions. We're the largest energy supplier and the largest related services company in the UK and Ireland. We've got more than 10m customers. They're served by the largest energy services field force, with well over 7,000 engineers, and as you saw earlier on, it's growing.

We've got another huge competitive advantage – our award-winning in-house training academies. They already allow us to both train and to certify our own

apprentices and to up-skill engineers to install everything from heat pumps to EV charging points, from smart meters to hydrogen boilers. These are the people that are going to deliver the UK's net zero future. The people that will allow us to capitalise on the opportunities presented by decarbonisation. It's what allows us to confidently participate today in hydrogen village trials and to install heat pumps whilst other people talk about it. All of the parts of the training journey are in our hands. Our competitors would love to have something similar.

The regulatory environment in UK energy supply is actually heading in a more sensible direction. That means that suppliers like us focused on improving customer service levels should be able to make a fair and a sustainable return. The decarbonisation of heat is going to drive substantial demand for new heating systems. This is a huge opportunity for us. There are 28m homes in the UK and more than 2m homes in Ireland. Each and every one of those homes will require some form of change to their heating systems, probably over the next decade, to ensure that net zero is achieved.

We don't know what the exact technology mix is going to be, but it is almost inevitable that both heat pumps and hydrogen will have a massive role. We plan to be the leader no matter what the technology is. The timing of the switchover to lower-carbon heating is also quite uncertain. I would argue it's not helped by the current cost of living crisis, but whatever the mix, whatever the timing, our job is to be well placed and we are. But we clearly need to get match-fit to be able to access those opportunities. That's why we're investing so much in improving our operational performance and our customer service across the British Gas businesses to capture the huge opportunities that will inevitably come in the next decade.

We stand at a very interesting point in time. The changes coming in the energy landscape in the next decade will be monumental. Like changes that we've never seen before. The energy system will become much cleaner, much more complicated, much more volatile, and much more intermittent. Those with the skills to optimise such a system will have a competitive advantage.

Now, we've always had a requirement to manage our commodity exposure and the risk in our core markets given the scale of the retail and the infrastructure positions that we've had historically. The expertise that we've gained through doing this is incredibly valuable, as we're seeing at the moment in our results. When commodity prices are high, in a regulated downstream business, you typically don't make more money, but the risk profile increases materially. Our world-class power and gas trading and optimisation capabilities help to mitigate this, and they are a genuine differentiator for us. We use the knowledge and the expertise that we gain through doing this to put a modest amount of risk capital into commodity trading. The main point here to note is we're not taking speculative punts – we're optimising a wide range of positions to make a return. This has turned something that would otherwise be a cost centre into a profit centre for Centrica.

Over time, energy markets have also become increasingly international. Gas has moved from being separate local markets to one which is now an inter-linked European market. It is actually now becoming much more of a global market, with LNG playing an increasingly important role. Electricity markets across Europe are inter-linked. Our optimisation activity is generally underpinned by contractual positions, including within our route-to-market business, and that provides market access and optimisation services for customer-owned assets. We've grown this. Now, we manage 15GW of third-party assets, with about 80% renewable technologies, mainly across eight countries, principally in the UK, in Germany, and across Scandinavia.

A typical example of one of these types of deals would involve us receiving a fee from a renewables asset owner to take on the balancing cost. We can then utilise our intraday trading capabilities to make an additional return. For more flexible assets, such as combined heat and power units, or CHPs, we can also help them schedule when they run to optimise the return, and also to participate in demand side response.

We've shown on this slide how the 15GW of assets break down by technology. The majority relates to wind, to solar, to CHP, but at a small scale, we're also optimising other technologies that will be important in the future. For example, we're involved at the moment in optimising about 200MW of green hydrogen production from electrolysis in a number of trials. We've got proprietary technology deployed. We're always learning, always gathering data, understanding the markets more, changing, evolving.

We also manage a global LNG portfolio. You're probably familiar with the Isle of Grain capacity we've got in Kent, and the long-term LNG contract we've got from the Sabine Pass plant in Louisiana. We've also been building up a number of medium-term positions that de-risk and optimise Sabine Pass and our overall LNG portfolio, and over the past two years, we've transported almost 300 LNG cargoes across the world.

We've got a world-class team, with a deep understanding of the LNG market and its logistics. We'll continue to seek options to de-risk and potentially grow the portfolio, which is enabled by our stronger balance sheet, our ability to act quickly and decisively, and our deep knowledge of global gas markets.

Hopefully, this demonstrates the strong optimisation positions that we've got today. We've been building our capability and market knowledge over the years. This means that we understand the direction energy markets are heading. Why is this all important? We already build and maintain customer assets as well as our own today through Centrica Business Solutions.

Combined with our world-class optimisation capability, this is core for future growth. We spent years gathering the data on how European energy markets operate. What

we've got is unrivalled. It's something our competitors don't have. We see things that they don't. That's not because we're smarter than them, we may well be, but it's because we have the data they don't have. We have the knowledge that they don't have. It's also because we don't stand still. We keep moving; we keep improving. Even if they try and catch us, we keep moving forward. All of this gives us the knowledge to compete across the value chain and the confidence that we know where to invest Centrica's capital in flexible assets.

How are we going to deploy that knowledge? How will we monetise the data that we've spent years building? Investment in the UK and Ireland energy systems is expected to increase materially over the next decade, you can see here, to nearly £200bn in total. This might be conservative but it's going to be driven by government decarbonisation targets in the UK, and the need in Ireland to address the intermittency that they're seeing, together with the push for increased security supply we've seen in both countries and elsewhere.

A combination of technologies is going to be required, and it will create opportunities for companies with strong balance sheets, flexible business models, and detailed knowledge of these markets. Companies that don't have a legacy portfolio to defend will be able to move quickest. Companies like Centrica.

The majority of the investment is projected to come from intermittent renewable technologies, such as wind and solar. We don't know what the precise mix is going to be – nobody knows. But you can see from the chart on the right here that the proportion of the UK's electricity generated from intermittent technologies is projected to more than double from below 30% in 2020 to around 60% by the end of this decade.

So what? You might ask. The increased intermittency is going to result in a growing need for distributed rapid response electricity sources. It will demonstrate the value of having strong optimisation capabilities. With security of supply also remaining important, assets – such as gas peaking plants and gas storage, are also likely to play an important role.

How do we know this? You look at the top 20 countries in terms of electricity generated by wind per capita. We're active in 12 of them. We know how the system is working in Denmark; we optimise a large part of it. We know how the system is working in Ireland; we have a material presence there today. Whether it's wind or solar, it doesn't really matter. What matters is how do you optimise an intermittent energy system. As the UK looks to double its energy from intermittent renewable energy sources this decade, if it succeeds, it will become more like Ireland, or if it overachieves, it will become more like Denmark. Both countries where we've got a lot of experience and a lot of data.

The opportunity for Centrica is significant and we've got a clear view on where we can participate. We're weighing up those opportunities using a robust framework,

which takes account of: the size and growth rates of the market; the appropriate levels of return commensurate with the risk taken, including whether the asset might be regulated or merchant; what competitive advantage we have – specifically, why are we better at developing and running an asset than competitors; how an asset complements the existing portfolio. As an example, investment in flexible distributed energy assets provides offsets with intermittency relationship-related volatility in wholesale prices, which can feed into our downstream businesses – our Retail businesses.

Clearly, technologies are going to develop, and new opportunities will arise. But at this point, we see the main areas of investment focus are likely to be in batteries, gas peaking plants, solar, hydrogen, and Carbon Capture, Utilisation and Storage, or CCUS as people call it. The focus for our investment will be on the UK and Ireland markets, where synergies with our retail positions and capabilities are the most obvious, but we could consider other countries where we have a strong optimisation position.

Of course, we will remain focused on improving the operational performance of our retail businesses. But owning the right type of flexible assets will help to de-risk the overall portfolio and utilise our leading optimisation skills, both of which provide us with a great opportunity to help with, and benefit from, the transition to net zero.

We've got a good mix of current projects, near-term opportunities, and longer-term options. Although we might see variability in capital expenditure between years, the phasing should be controlled, so we can comfortably afford this spend within the boundaries of our financial framework. The majority of these projects should be relatively small capital commitments. Short cycle rather than multibillion-pound, multi-year projects. Flexibility for us is key – having choice.

Potential investments in smaller scale, flexible generation will be aligned to existing capabilities. We already own operational assets in the UK and Ireland. We've got a battery at Roosecote, a 50MW battery in the North West of England. We've got a gas peaking plant at Brigg, and we've got the Whitegate combined cycle gas turbine power plant in Cork in Southern Ireland. But we've got the ambition to grow a bigger portfolio of flexible distributed assets, and we're already developing a number of projects across a range of technologies.

We've got a great legacy. We're not starting from scratch. The opportunities have become clearer as we've stripped the Group back of the bureaucracy and complexity which has plagued us. We've got sites at Roosecote, which is adjacent to the Barrow gas terminal; we've got a site at Brigg; a site at Barry in Wales. Each of these previously housed major electricity generation activities. In Ireland, we've got a number of sites which we believe are suitable for various types of power generation, not to mention the Whitegate station in Cork.

We're currently building an 18MW solar farm at Codford in Wiltshire. That will cost around £15m and we hope it will be operational around the turn of the year. Maybe not great because there might not be too much sun around the turn of the year, but it should be operational. We recently made the final investment decision to build another 50MW battery on the site of Brigg, beside one of the gas peaking plants we've got. We expect this to be operational in the next year to 18 months.

As I mentioned in February, we were successful earlier this year in the Irish capacity auction with bids to offer up to 200MW of capacity. We're now moving towards final investment decision on the build of two separate 100MW gas-fired plants, which would cost around €250m. These would support the growth of renewables and maintain stability of energy supply in Ireland — remember, twice the intermittency that the UK has got.

Including these projects, we've got brownfield sites across the UK and Ireland that could support well over 1GW of new flexible generation capacity over the coming five years. That includes the Barrow and Easington gas terminals. They could support further investment in power generation assets. It's worth noting that the investment that we're looking to sanction in Ireland will initially run on methane, but we expect to be able to convert them to run on zero-carbon hydrogen. That's going to be the aim for all of our future gas generation investments.

We would expect all of these projects to deliver asset returns in excess of 5%. This is before we include any optimisation upside that the unrivalled capabilities I've spoken about should allow us to achieve. These short-cycle projects, typically taking no more than two years from initial investment decision to being fully operational, will limit the amount of pre-productive capital deployed at any one time. Again, retain flexibility, retain choice. Overall, we're very comfortable we should be able to make returns on these investments that create substantial shareholder value over time.

What about the Infrastructure assets? The benefit from the balanced portfolio that we've got is clear in the current environment, it's clear in these results, providing diversification for the Group and generating good levels of cash flow. However, their lifespan is necessarily limited, particularly so now that we've stopped exploration in Spirit. The retained Spirit portfolio is expected to decline at between 10 and 20% each year and that's fairly typical for a gas production business.

At Rough, the existing reserves will, by and large, be exhausted over the next two years if we simply produce the remaining gas. Two of the remaining five nuclear plants are due to close in 2024, with another two expected to be closed by around 2028, but we expect the Sizewell B nuclear power station to be granted a 20-year life extension and ultimately run until 2055, so for more than an additional three decades.

Our challenge is to reinvest these cash flows into new net zero assets, which continue to provide the balance our portfolio benefits from today and create shareholder value.

As you would expect, we've been working hard on this. We've got two great assets in Rough and Morecambe, and we've owned them both for decades, so we know these assets very well. We've been working to maintain optionality, to extend their lives, and to utilise them as net zero assets, ultimately to maximise the value of these assets. Both are currently producing gas. Rough has got a couple of years of production remaining, as I mentioned, whereas Morecambe could conceivably, depending on prices, keep producing for the rest of this decade.

Now, as you know, we've been looking at the possibility of repurposing Rough to store gas, initially methane, which would support the UK security of supply, but subsequently storing hydrogen: the world's largest hydrogen storage facility, which would support the UK's hydrogen strategy, which recently aimed to double hydrogen production from 5GW to 10GW by the end of this decade. Hydrogen should play an important role for Centrica in the future. That doubling of the capacity is, I think, the thing that means that Rough is required. Rough's potential as the world's largest storage facility is a real enabler to allow us to achieve those aims. It is, in our view, impossible that this target can be met without hydrogen storage capacity. Once you start to use it, you have to have an uninterruptible supply.

In our current estimates, the project would cost in the region of about £2bn, including the cost of converting it to store hydrogen. We're highly unlikely, I'm sure you'll be glad to hear, to invest in a project of this scale in such a nascent market on a merchant basis. We're looking for a regulated return model. We're not looking for government money. We can fund this either ourselves or with partners. We're simply looking for a model such as that which is used for existing strategic UK energy assets.

We're due at the moment to start decommissioning Rough in the next two years. That would cost about £300m. If we can repurpose this asset, that could delay some or a substantial part of that cost for decades. We remain in active conversation with the UK Government on the role this asset can play in the future of hydrogen, and we're very encouraged by the discussions.

The newly-refocused Spirit Energy gives us the opportunity to repurpose the large-scale Morecambe field ultimately into a CO2 reservoir. It could be the world's largest such facility. I've been reliably informed that it could store more molecules of CO2 than there are grains of sand in the Sahara Desert, which would make it essentially to me, as a non-technical person, like the world's largest SodaStream. It's in very early stages, but we're going to continue to look at the various options as to how we maximise the value of this asset. We've got more time with Morecambe than we have with Rough, given the remaining life of gas reserves in the field, but it's an incredibly exciting option for Spirit Energy, for our partners, and for Centrica. Like

Rough, any investment could defer material decommissioning costs, whilst a regulated model would offer low-risk returns, as well as de-risking the overall portfolio that we've got.

In summary, our diversified Group has served us well throughout this crisis. There are four main messages I'd like you to take away from this session:

1. We've significantly simplified, de-risked, and strengthened Centrica.
2. We're driving improved operational performance across the Group, particularly in our British Gas businesses, as we look to get them match-fit so they're positioned to capitalise on the huge opportunities presented by the move to net zero.
3. We're focused on delivering sustainable value over the long term, empowering colleagues, growing our business, growing jobs.
4. We'll continue to focus on delivering sustainably, simply, and affordably for our customers, whilst delivering stable and attractive returns for our shareholders. I am really pleased that we've been able to restart the dividend today and I am personally very grateful, and I know our board is grateful, for the patience that has been extended to us by our shareholders.

Centrica is evolving into a new type of energy company – a new type of integrated energy company. We're using our strong, established positions, our capabilities, and our unrivalled data across Retail, Optimisation and Infrastructure. After a period of extreme market volatility, we're turning a corner, we're emerging stronger, and I hope you agree, much more focused – and I think, just in time.

Britain and Ireland are crying out for long-term investment. We're putting Centrica at the centre of that. We're backing it by our capabilities and our financial strength, which will allow us to invest in attractive opportunities that align to the energy transition and the move towards net zero. I hope that you're as excited about the future as I am. I guess we're going to find out, as Kate and I look forward to taking your questions. Thank you.

Q&A session

I think it's going to be a hybrid thing. I don't know if we've got people online. Is that right, Martyn? This is a bit of a voyage of discovery for us as well as you. Ajay, how are you doing?

Question 1

Ajay Patel, Goldman Sachs
Hi, it's Ajay Patel from Goldman Sachs. Can you maybe help with a few things? Firstly, on a conservative balance sheet. Clearly, we have quite uncertain times and there are requirements on the balance sheet for margin cash and working capital moves, which have been quite sizeable, but also maybe for gas storage coming up.

In this type of environment, what type of net debt to EBITDA leverage would you look to run, or would basically net cash be a good place to start until maybe some of the market conditions and certainty start to form?

Secondly, I know that the Company has highlighted that it doesn't really want to expand on the exploration side, but is there any opportunity on the exploration licences that Spirit Energy own that could be sold for value, or is there any merit in maybe developing some licences to get the incentives that the government have highlighted recently? Then, when I piece together what you've put together on the capex outlook in regards to solar batteries and gas peaking, and then put that to potential cash flow that you could generate over the next three years, I'm just wondering, there seems to be some further opportunities there. I'm just wondering, is that more towards M&A, and if you would, what would be the criteria for M&A? Or is it more to consider the excess capital – in regards to a capital structure, could it be returns of value, and what are the thought processes for such decisions?

Chris O'Shea, Centrica
Ajay, thanks very much. I'll take the second two and then Kate can come back and talk about the balance sheet. On the exploration licences, we won't explore. It's not a core competence. We weren't very good at it in Spirit, to be open. But it's also not aligned with a company that is looking to deliver net zero, to go and find new gas and oil resources. So, we focus on gas. Around some of the fields that we've got, if there are existing proved gas deposits, we'll develop that, if it makes sense financially. What we won't do is to go out and do primary exploration. Those days are gone. We're disbanding the exploration department. That's not an option. But if we've got existing value, fine. If there's existing value in exploration licences, the way it works is if you don't drill it, you give it back to the regulator and they give it to someone else. We have very little, if any, exploration licences. If we had some where we thought there was huge value, we would have drilled them already. If you remember, we drilled West of Shetland, didn't find much, and spent quite a bit of money. We're going to focus on what we're good at – not just in Spirit, but across the Group.

On the capex and the cash flow, obviously, you see, as we lay out the investment in the flexible assets, that's one thing. You've then got potential for Rough and potential for Morecambe. They're more binary. Either we'll get the yes or the no and either we'll get the right regulated model that will support the investment, and we as a Board will make that decision. Firstly, is it an investment we want to support? Then secondly, how much do we want to support? There are some fairly big fluctuations there.

Kate will probably come on and answer the third question on net debt to EBITDA ratios, but I would ask if we can have just a little bit of patience. We're really happy that we've got the dividend started and what we want to do is to take one step at a time. You'll see that the financial framework lays out how we think about it. Whilst I would never rule out M&A, it's not on our agenda at the moment. We're always

looking for value. We would look at an inorganic opportunity in the same way as we look at an organic opportunity. Inorganic, I think, brings more risk than organic, but it's all about value.

Kate Ringrose, Centrica
Ajay, thanks for the question. I understand the dynamic in terms of how one looks at relationships between net debt and EBITDA, but if I just come back to the trilemma that I talked about with regards to margin, credit, and cash. Those risks are very accentuated at the moment and having cash that is available as a lever to manage those other two material risks is a really big enabler to helping us ensure that we're realising the potential that the Group and the positions have as a whole. I don't know how long this environment is going to last and I don't know what that's going to mean for margin outflow in particular. Then when you look at the very accentuated EBITDA positions that we have that are, again, somewhat tied to that, a net debt to EBITDA ratio is very difficult to look at as a mechanism right now. I think it's a question of let's see how this runs through, but really understand the dynamics and the purpose that that conservative balance sheet serves in the here and now.

Ajay Patel, Goldman Sachs
Do you mind if I have one follow-up just on Rough and Morecambe Bay? What sort of timing do you envisage to get a decision? Is it something that could happen over the next two or three years, or longer or shorter?

Chris O'Shea, Centrica
So on Rough, at the moment, you'll have seen we've been granted a storage licence for Rough, which was necessary, but it's not sufficient to restart it. The discussions over Rough are around, can we have this reopened this winter to store gas? It's a phased return to storage. Rough could have a capacity of up to 200-bcf of storage. This winter, you're probably talking about 30 – about nine LNG cargoes. You could have investment next year to double that, and ultimately you can make a choice whether you want to take it up to the 200-bcf. 200-bcf would be the largest storage facility in Europe. There's nothing bigger than this. It's critical for the UK, but it's actually quite important for Europe.

For Morecambe, Morecambe's got a production profile that goes out to the late part of this decade and is not really suitable for gas storage because it's so huge. If you put gas in, you're going to have to pump it in for about 30 years before you get any out, so it's not really all that good. It is very suitable for CO_2 storage. The Morecambe licence has been included in the current licensing round for carbon capture and storage, so we're starting to have a conversation about that. That's, I think, a far slower burn. There's some upsides and downsides. Morecambe is not beside an existing industrial cluster, which in some ways can make it more difficult because you don't have sources of CO_2 right beside Morecambe where it's located in North West England. However, it could be suitable to ship CO_2 in. It may not compete with other existing industrial clusters. It could be a very different revenue

stream, both for us and for the UK, but these are very early stage. I would say Morecambe is in a far slower burn.

Rough, I would guess, if it is reopened, will be initially reopened at a smaller level with a short-term agreement, pending future agreement, because the Government haven't yet published the hydrogen business models and they still want to have those conversations. Rough as a hydrogen storage facility could well be captured by that. There's almost a two-track thing there.

Question 2

Mark Freshney, Credit Suisse
Hi, Mark Freshney from Credit Suisse. Kate, a follow-up on capital structure. I accept that net debt to EBITDA is very difficult, but if we were to look at the absolute reported level of cash, presumably that's a bit misleading because a lot is within Spirit, which is ring-fenced. You're advocating and pushing Ofgem, which they seem to be following, to ring-fence customer balances, then you've got to take out margin cash. And then there's the pension fund as well. I don't know whether there are any Scottish limited partnerships or other things that you've done in the past, so what would be the true net debt number that's free to you?

And just as a follow-up, you've given the investment opportunities, Chris, but what about the investment appraisal? What kind of returns would you be expecting?

My final question – again, back to you, Kate – is just on what was formerly the British Gas Residential business. There was the £234m credit last year, which was for SoLR costs. What would be the net credit in the first half? Because last year, it was severely loss-making were it not for the credit, right? What would the underlying level be this year?

Chris O'Shea, Centrica
Thanks, Mark. Let me take the returns question and then, if I can, I'd like to touch on the Spirit stuff before passing on to Kate. What we said was we would expect to make a minimum 5% asset return, but it depends really on whether it's regulated or not. The regulated models can be a simple RAB model, or it can be a cap and floor, or you can have CFD models, so really it does depend. But we would expect to make a minimum 5% on these smaller, flexible assets.

Kate will talk more knowledgeably on the net debt. But I think rather than say what is the true net debt, Spirit is a controlled entity; we own 69% of it. The shareholders' agreement that we've negotiated – and it took a long time to negotiate it, our General Counsel, Raj, is here, he's got the scars from it – we wanted it to be right. What that does is it holds cash within Spirit until it covers 150% of the anticipated decommissioning cost. Kate talks about credit risk and market risk – what that does is it means that we don't have any risk of our partner not funding that. Now, we have a great partner, and we don't think that they would look not to fund it, but we didn't

want to strip cash out of that joint venture. I would argue that the net debt number you see today is a true net debt number. There's about £200m ring-fenced for customer credit balances, but you've got to look at all sides of Spirit. You've got to look at a decommissioning liability that's in excess of £1bn and you've got to look at the fact now we've got an agreement, which means the cash is within that joint venture to do it. The only restriction is actually on the dividends that can be paid to the minority shareholder.

Then the last one, the BGR – and Kate might touch on this – it's not actually a loss. The SoLR cost that you reclaim, if you remember – we went through a lot, it's easy to forget – when these companies collapsed, they had customers that you could only price to the cap on. Assume the cap is £1,000 and, at that point, it may have cost you £1,500 to actually buy that stuff in the market. The way SoLR works is you buy that stuff in the market, you submit essentially a big expense claim to Ofgem and say, we're going to sell X at £1,000. That's the cap. We bought it for £1,500. They do an audit, and they say that your expense claim is approved. I wouldn't want to think that anything to do with SoLR made an unprofitable business profitable. The SoLR customers carry no profit at all. No gain, no loss, so you're kept whole for the first period of having them. I just wanted to say that before Kate comes in and probably gives you the right answer on debt.

Kate Ringrose, Centrica
I think I said when I was talking about the net cash figure of around £300m that there's a gross decommissioning of £1.1bn. As Chris says, there's around 90-odd per cent of that has got the cash within Spirit against that. It is balanced, and also remembering the cash generation potential of that business going forward as well. With regards to the pension, again, we talked about the £600m. I am alert to the dynamics around the British Gas Energy ring-fencing of customer balances. That is a figure that we put aside, also just looking at what kind of frameworks over time may come out of the regulator to recognise the risks that come with being a very large energy supplier, in terms of how they would look to us to ensure that we have an appropriate balance sheet that we could demonstrate. What the mechanics of that are remains to be seen.

As Chris said, I think the net cash figure *is* the net cash figure, but you're quite right in how I look at the prudent balance sheet, how I look at headroom. As you'd expect I sensitise this for all sorts of different commodity environmental factors to ensure that we are in a strong and robust position when it comes to credit rating and being able to meet our obligations, whilst also being able to have choices in the opportunities that we want to take advantage of.

Just onto the British Gas residential business, I think Chris has talked about it, but just a few numbers perhaps that may help you. You'll find these in the notes later on in the pack. We've put in a claim. Overall, the costs are north of £500-odd million and we've claimed for over two-thirds of that. We've got around £100m of that back already; we'll get the rest of that payment back by April-ish time 2023. We'll be

putting in a further claim, and then that amount for that last third will come through in ’23 or ’24. There’ll be a degree of working capital overhang that will come back in this year, but there’ll be more to see in 2023, and a little bit more in ‘24.

Chris O’Shea, Centrica
In the interests of applying new technology, I see that we’ve got three questions on the call. Can we maybe take one of the online questions? Bear with us because I don’t know how this is going to work.

Question 3

Martin Young, Investec
Good morning to everybody. Hopefully, I can just ask what are hopefully three quick questions. In terms of the Market Stabilisation Charge that you mentioned, Chris, obviously there’s the Ofgem consultation to extend this through to March of next year. It’s possible, probably probable, that that MSC won’t be triggered by that time. Do you think we need to move this to an enduring feature, or does Ofgem just limp along, kicking the can down the road every six months?

Also, on the issue of affordability, I and others are predicting quite a significant increase in the tariff cap come October, and then a further increase come January. I think it’s pretty clear that the Government has been slow to act in the past with the packages that it’s brought forward. What do you think government needs to do to help offset the devastating consequences for many people out there of energy bills of this magnitude?

Then, finally, on Sizewell C and the possibility of investing in new nuclear, nothing was said about that in today’s presentation. I would say that given the reputational risk of getting involved with projects that could overrun on a cost basis and overrun on a timing basis, it’s probably not where you want to go, but I just wondered if you could confirm that you’re not looking at it, as I’m conscious that there have been press reports recently suggesting it was potentially on your radar screen. Thanks.

Chris O’Shea, Centrica
Martin, thank you very much. On Sizewell, as you know, we are obviously involved in Sizewell B. Sizewell A stopped producing a while ago. We own the land on which Sizewell C would be built, along with our partner EDF. We had the opportunity to go into Hinkley C. We decided against that. We’re happy that we decided against that. We look at every investment opportunity as it comes. I’m sure EDF would rather finish the negotiations with the Government to figure out what the overall funding model and the regulatory support model is for Sizewell C. Once that’s done, if we think that there’s an opportunity for us to make an investment which makes sense for our portfolio, helps to de-risk our portfolio, and is aligned, then we’ll discuss that as a board and make a call. It has to add value.

In terms of the affordability question, there are loads of people giving politicians advice. The last thing they need is additional advice from me on what they should do. The two candidates for Prime Minister have both noted that they intend to do more to help energy customers. We welcome that. We welcome the fact that the UK and the Irish governments have already provided support to energy customers, and we should wait and see where the price cap comes out. If it comes out at the levels that people are predicting just now, then it's not unreasonable to expect there will be more help from government.

On the Market Stabilisation Charge, I'm sure your ex-colleagues at Ofgem would be delighted to hear you saying that they're kicking the can down the road. I don't know what they're looking to do. I think that this is one of the examples of quite quick implementation of regulation which helps to cover a potential risk in the market. We've seen quite an uptick in wholesale prices over the past three or four days, which would suggest that the Market Stabilisation Charge is not something that's going to kick in, or be needed, before March 2023. I don't know what Ofgem's intentions are, whether this will be a permanent feature or not, because there is a bit of controversy about it. What I would say is, for those that have been involved in the energy industry for any period of time, you've just got no idea as to where energy prices are going to be in the next month or two. I'm quite comfortable for us to wait and see. But Ofgem, I think, have done a good job on the Market Stabilisation Charge.

Martin Young, Investec
Thanks.

Chris O'Shea, Centrica
Excellent. We've got two questions in the room and then maybe we'll go to John and Jenny online.

<u>Question 4</u>

Pavan Mahbubani, J.P. Morgan
Yeah, thanks, Chris. Pavan Mahbubani from J.P. Morgan. I have two questions, please. Firstly, there were some headlines I think from a media briefing this morning on £600m of windfall tax. Would you mind just clarifying what that figure was, and over what period, and how it's calculated?

Then secondly, I appreciate that the energy profits levy, again, that's had some changes. I just wanted to get the latest on whether or not you can offset any of the tax with decommissioning costs. Also, is there going to be any impact on your deferred tax assets as a result of that levy? Those are my questions. Thank you.

Chris O'Shea, Centrica
Let me take the first part and then Kate can talk about deferred tax because I could never even figure it out when I was doing finance. The £600m windfall is the energy profits levy. The windfall tax that people don't want to call the windfall tax. It's expected to be in place until the end of 2025, which is when there's a sunset clause. It's calculated based on the prices at a point. When we looked at the numbers, the prices have gone up, so it could be more than £600m. You can't offset decommissioning and you can't offset brought-forward losses. Again, in the current contest for Prime Minister, one of them said they'll keep it and one of them has hinted that there might be some changes, so we continue to look. But that was the best estimate I think at some point on one day, but they're the same thing. The windfall tax that I referred to this morning with the media is the same as the energy profits levy. Deferred tax?

Kate Ringrose, Centrica
I think, as Chris said, because you can't do things that are historical, it's the future dynamic, and the future decommissioning that you can take against the deferred tax assets. There's some change, but it's pretty restrictive in terms of its application in our current read of it.

Question 5

Verity Mitchell, HSBC
Good morning, Verity Mitchell from HSBC. Just a couple of questions. The first one is, I'm very interested in your plans for Rough and Morecambe. Would that change the decommissioning costs for both assets if you're thinking of developing them, and maybe change that pricing dynamic?

Secondly, on British Gas Services, you're spending essentially about half of your operating profit on services and pricing and yet you're not projecting an enormous exponential growth in decarbonised home products. What's the payback going to be for that level of investment, given that there is pressure on households for conventional gas boiler servicing?

Chris O'Shea, Centrica
Verity, thanks very much. There's a couple of things in the Services business. 28m homes in the UK. Our analysis is that 5.5m homes can only be decarbonised with heat pumps, and there's 6m homes that can only be decarbonised with hydrogen, and there's 16.5m homes in between. The debate sometimes focuses on, is it hydrogen or heat pumps? Which we think, I think, is the wrong debate, because my view is, why don't we just start on these two bookends and the bit in the middle will figure itself out. The current increased energy prices could give a bit more incentive to people to have a more energy efficient boiler. Unfortunately, heat pumps just now are not more energy efficient.

But the other cost of living squeeze could cause people to be less likely to invest money in heat pumps. That's why we said, we actually don't know when this is going to come. The investment we're making is not to turn thousands of gas engineers into heat pump engineers. The investment is to make sure that we've got a multi-skilled workforce that will install all of the new hydrogen boilers or as many as we can, and as many as we can of the heat pumps. We already do hundreds of heat pumps a year through our PH Jones business.

The investment is about making sure that we are ready to service and install the largest amount that we can of 28m heating systems in the UK and 2m in Ireland, whether heat pumps or hydrogen. On the Rough and Morecambe numbers, the decommissioning, obviously, whatever kit you can reuse, you don't decommission. You push it out for however many years. If you take Rough, for example, at the moment the investment is not huge and over the next couple of years it wouldn't be huge. But to go to hydrogen, that's when the investment comes up to probably the £2bn number. You're likely at that point to require a new platform. The legs will be fine – it's called the jacket, that's all fine. You take the topsides off. But the jacket is not that expensive. The expensive parts are all the processing kit.

Likely, you'd probably decommission a lot of that anyway and put some new stuff in. We would expect to see a good amount of deferral, but you wouldn't defer the entire amount, you would still replace some of the kit because what we're looking to do for both Rough and Morecambe, if it works, is to have these assets for another 40 years. Thankfully, when they were designed, they were designed at a time when lots of these things were over-engineered, but some of the kit just won't be suitable. Hard to give a number there, but we would expect to defer a good proportion of it, but not all of it.

Excellent. Thank you. If we go to John Musk online and then we'll come back.

<u>Question 6</u>

John Musk, Royal Bank of Canada
Hi, everyone. Hopefully, you can hear me. Two questions from me as well. Firstly, sorry, going back to Rough. If you do go ahead and look to bring that back online for winter storage this year, can you just explain who's on the hook for the gas that you may put into that? I think you mentioned 30-bcf. Is that something that you would be fully paying for, or is there some form of government subsidy that's going to look to help with that?

Secondly, you gave us some indication on hedging around the nuclear position and the upstream position, but can you also run through your hedging on LNG and how those contracts now look because, on my calculations, those are looking extremely profitable as we put in forward prices?

Chris O'Shea, Centrica
John, thanks very much. Let me take the Rough question and then Kate will talk about the LNG hedging. There's already about 14-bcf of gas in Rough at the moment and therefore, you would look to inject more in there. The model is not yet agreed with government. I would just emphasise we're not asking government for any money at all. What we're looking to do is to get this thing back storing gas. The easiest model to have is it simply responds to price signals, which is when the price is very low, you inject gas; when the price is very high, you withdraw gas. Part of our offer is that we are happy to fund the working capital to do that, but that requires a very straightforward model. If there's a desire to have something that's more of a strategic reserve, which is not within our control, even if I wanted to, I'm not sure I could persuade our CFO that that would be a good use of our money. Those are the kinds of things that we're still discussing. So, you'll forgive me if I don't give you an answer because frankly, I'm not really able to. We just want to make sure that it makes sense for us because we're convinced that it makes sense for the country.

Kate Ringrose, Centrica
Just on the LNG, it's probably helpful for me just to remind you of a few things that we've said before with regards to LNG and specifically Sabine Pass. The pricing of that dynamic, that Sabine Pass portfolio is just under $300m that we'd need to make good in market prices. Through activity that we do in advance, we hedge that in so that we can ensure that we're not carrying those losses. That's what we've done coming into 2022 and those hedges would have been put in place some years back. Similarly, you would be expecting that the degrees of those cargoes would be hedged into 2023. However, how we've demonstrated today, and Chris has talked to the LNG portfolio, it's more than Sabine Pass. There are degrees of other opportunity that comes with that LNG portfolio that we're putting to good use. That's why we're confident in its profitability in 2022.

Chris O'Shea, Centrica
Thank you very much. We've got a question at the back. We've got two here and then we'll go to Jenny online.

Question 7

Chris Laybutt, Morgan Stanley:
Thanks, Chris. Thanks, Kate. One question just on Sizewell. Did you suggest earlier that you had effectively a first right of refusal over investment into Sizewell? I'm just wondering if you decided to invest in nuclear in future under a RAB model, would you need to acquire into that project, which could be a competitive process, or do you have rights to participate? Just a point of clarification.

Very quickly, just recently, there's been some press articles mentioning MP comments about relative price caps again. Just your views on how seriously government may be taking those suggestions and whether you think that might be a part of the landscape in future. I know we're revisiting old territory there.

Then thirdly, if you were to ask us whether we would be expecting a first half skew or a second half skew this year in your EPS, given the challenges you faced in retail, first half challenges in Services, and then your hedge books rolling off as you progress through the year, we would have suggested a second half skew. I'm just wondering whether there could be material upside to the upper end of consensus if things progress as planned in terms of production, and energy prices remain broadly in line with where they are now. I guess trying to give some quantitative scale to the upside if things do progress well.

Chris O'Shea, Centrica
Thanks very much. I'll take the first two and then I wish you well in getting anything out of Kate in terms of the H1/H2 skew. The one thing I would remind you of is that the hedging policy in Spirit was rateable but had a 12-month cliff edge. The policy, which is changing now, it basically saw that 12 months before the start of the year, you had your full production lead in, so it's not the same impact in Spirit, obviously, where the same volumes are, which is why you see a difference in price between the price hedge for Rough and the price hedge for Spirit. But I do wish you luck in getting some clarity there on the skew.

On Sizewell C, I think the best thing is for us to let EDF as the operator and the government agree what the overall model is. I don't think they're yet done. Obviously, as part-owner of the land, we might have a view and others may have a view. However, I don't think that that's really all that relevant if I'm being honest. I think we value our relationship with EDF very much. They're a very good partner. It's quite clear if you read the reports that between them and the government, they're looking to bid in 40% or so of that. They need 60%. I wouldn't see it as being something whereby you necessarily have to be part of a competitive bidding process, but if you do, and it makes sense, excellent. If it doesn't, fine, good luck to them. We don't have any ideological positions in terms of where to invest. It's all about value. It's got to be aligned with our strategy, but it's got to be value.

In terms of the price caps, the comments are coming out of the BEIS Select Committee. They did a report into the energy market. We contributed to that and gave evidence in person. We've been quite clear that we think that help should be targeted at those that need it most. Conceptually, some kind of relative price cap, or some kind of social tariff, which they also mentioned, is not something that we would violently disagree with. However, I think that the devil is in the detail on any of this, and the point we continually make, and will continue to do so, is if we're going to have any change to price regulation, let's spend the time to work out how it's going to work. Let's agree the objective and get the best way to do it. Rather than comment on, does this one make sense? Does that?

I think that arguably that's why we're in some of the situation we are with the price cap, which is there are unintended consequences in the price cap. Some will tell you they were foreseen; some will tell you they weren't. That doesn't really matter, but it's

clear there are unintended consequences. I think we have to take our time and make sure we design any revised price regulation properly. But we can have targeted intervention in the way that we've seen the government in the UK and the government in Ireland taking to help consumers with their bills. We'll see. Over time, we continue to contribute to the debate. Anyway, I'll leave you to question three.

Kate Ringrose, Centrica
On question three, we've given a lot of information today and I'm sure it'll take a little bit of time to digest the implications of it. I'm comfortable with what we've said with regards to outlook. I would work that through and draw your conclusions. The only thing perhaps that may be a little bit more helpful is just to recall that within Spirit, there's more outage in the second half of the year than in the first.

Chris O'Shea, Centrica
Excellent. We've got another question here and then we'll go to Jenny, who's waiting patiently online.

Question 8

Anna Webb, UBS
Clearly you've got some balance sheet headroom now, and you've started setting out investment opportunities, but can you discuss what level of annual capex maybe would be sustainable? Assuming the investment opportunities are there, what kind of level of growth capex would you be comfortable with?

Chris O'Shea, Centrica
Do you want me to have a go and then you can correct me?

Kate Ringrose, Centrica
You have a go and I'll add.

Chris O'Shea, Centrica
Excellent. Perfect. I think the annual capex, as we said, will vary over time. The projects we're talking about, the flexible projects, they are shorter cycle, they're smaller projects, so it really depends on when we sanction them and when we move through. I don't think it will be linear. Then you've obviously got the big thing, which is if we get an agreement on Rough, that's a substantial proportion, so what we'll then do is to sit there and say, okay, how does this look on our overall balance sheet? How much do we want to fund? Do we want to fund it all? Do we want to fund a small part? Do we want to bring in equity partners? Do we want to bring in debt partners?

I think one of the key things hopefully you got from the presentation is we want to be in control of our own destiny. We never want to overextend ourselves. We want to retain the flexibility so that every time we've got an investment, we'll have some

choice like we were talking about with Sizewell C. I think it's quite hard to say that, and with a commodity0exposed business, then some years the profit is going to be a bit higher, you can dial up your capex, and some years, it's going to be a bit lower and you can dial it down. That's the beauty of the portfolio for us. The flexibility in capex because a lot of commodity exposed businesses have to launch into multi-year, multi-billion dollar projects. If you're caught on the wrong side of a price movement, that can be catastrophic. We don't have that problem. It's one of the unique things about our portfolio. We're not reinvesting in these huge oil and gas production things, so I think there'll be a bit of variability. Also, by and large, it depends how much we can persuade Kate to give us.

Kate Ringrose, Centrica
That neatly tees me up. With regards to the capex profile, it is very difficult to give you a dynamic of a linear click rate. It would be largely opportunity driven. We've talked about the criteria that are important to us. What's our portfolio? How would an opportunity manage within the portfolio? How does it benefit the portfolio? What are the risks around it? What are compensating returns for it, and how does that fit? There are high degrees of cash generation potential this year and next year, and what we're looking for is ensuring that we can create a portfolio that fits for us, as we have today.

Chris O'Shea, Centrica
We're going to go to Jenny online, who is hopefully still there.

Question 9

Jenny Ping, Citi
Hi, morning. Yes, still here. Most of my questions have been answered, but I still have a few. Just returning to the potential for cash returns and more specifically focused on timing, I guess, given the need for working capital, etc., and investments, assuming we hear from government later this year or beginning of next year, is it fair to say that really the next opportunity for you to look at cash return is probably going to be a year from now? First question.

Second one, with regards to organic customer growth, which I think you've talked to, clearly there is no churn in the market at the moment, and arguably the market stabilisation mechanism is making it less likely that we'll have a competitive market going forward. How do you think longer term the retail market will plan out? Do you think there's going to be further Ofgem or government intervention to try and create a competitive market and we see churn starting up again? Thank you.

Chris O'Shea, Centrica
Jenny, thanks very much. Let me take the question on the competitive market. On the cash returns, I would say, your questions are always super in that they're a good try but let us be happy that we've restarted the dividend and not pin us down to comments on potential capital return. The key thing to take away is we're really

focused on the fact this is the shareholders' money. The shareholders own the business. We work for the shareholders. Secondly, we want to be agile and have choice. I think that would be one that we wouldn't be drawn on, but rest assured, it's something that occupies my thoughts regularly. It occupies Kate's thoughts. It occupies our chairman's thoughts. It's something we think about a lot as a board – how do we manage the shareholders' money? All in good time. You'll clearly be the first to know.

On the market, you're right, there's not much churn. Retention is about 98% just now. That's why I'm delighted that we've managed to grow organically. It's not huge, but it's good. Will Ofgem look to intervene to drive more competition? We all want a competitive market. We don't worry about competition. We don't fear competition. But what you can't have is a return to the illusion of competition and the illusion of savings for consumers. We had that over the past few years, where Ofgem's sole focus, by and large, was on customer churn. The chief exec of another energy company, I thought it was quite interesting, they said, "It's a weird market where the regulator has a single success measure, which is dissatisfaction of customers." I thought that was quite profound, actually.

What we can't have is a return to what we had before, which is you let anybody into the market and they basically have a 'heads, I win, tails, you lose' bet. Everybody, every single household, the poorest people that you see, are paying £88 just now in their electricity bill to pay for those people that came into our market and blew up their businesses. We can't go back to that.

What we've got to see, and what some companies are fighting against unfortunately just now is – energy retail in the UK is a risky business. Therefore, what we believe in Centrica is – as I say, we manage shareholders' money. It's the shareholders' money that's at risk. If we get it wrong, the shareholder loses out, which is why it's quite right that if we get it right, the shareholder gets a benefit. These companies that don't have adequate capital, and they still exist today in our market, if they go under, each and every one of us in the UK is going to pay that. If they make money, they get richer. If they don't, every single person you see in the street pays for that.

That's the thing that we've got to be really careful about. Our work with Ofgem is to say, make sure that this is a market where there is moral hazard for companies that are involved in it. Make sure the companies are adequately capitalised and then let us all compete, and we'll compete as hard as anyone else. But the competition that we had, the customer switching, that wasn't true competition. That's left us with a bill that runs into the billions and billions and billions of pounds. It is possible that it could happen again this winter, undercapitalised companies being in our market today, so the big thing we've called on Ofgem to do is to make sure that every single company in our market has adequate capital before the winter starts. They don't all have it at the moment.

Excellent. Okay. Any other questions? Thanks, Jenny, thank you. Any other questions in the room? You don't have to ask one. You guys have got a busy day today!

Question 10

Ajay Patel, Goldman Sachs
Ajay from Goldman Sachs again. You mentioned on the energy side of the business that you're approaching 1m customers on the new platform. What sort of savings are you seeing on the cost to serve? How fast can you continue that migration? What can I expect in, say, three years' time, in terms of how we get there and the transfer over?

Chris O'Shea, Centrica
We'll see the true savings on the platform when we've got all the customers. At the moment, we've got dual running, so the cost is actually a little bit higher than we'd otherwise expect, but it's a long-term investment. The pace at which we can migrate depends on a couple of things. One is the speed at which we build the features in the new system. The new system still has features that need to be added in. The speed at which we and the providers can build that, and then the speed at which you can pass customers through the industry backbone.

The limit before was for transferring customers and this was a problem as we went into SoLR. The one good thing that's come from this SoLR process is that you can see that you can actually push more customers through the industry backbone because you had to, we've had about 4m customers being displaced. The speed at which you can migrate is actually quite a lot better than it used to be, but the pace of the development of the features is probably the rate-limiting factor at the moment. What we've got is this constant focus and pressure, which is, let's do it as quickly as we can, but let's not do it just to move customers onto a new system, which ultimately is not the right thing for customers, so we've got this constant battle. I would hope that in three years we're on one system. That would be my aim.

Ajay Patel, Goldman Sachs
Do you mind if I just follow up? I know that you're running maybe at higher cost because you have both systems, but once you've finished that process, how much of a benefit to cost to serve would you have, relative to the point on which you didn't have two platforms?

Chris O'Shea, Centrica
I would say you've got overall cost per customer rather than cost to serve because our cost to serve right now is actually relatively competitive, but then you lay in the systems cost and some other things. We're aiming to get that down. I wouldn't want to give a full target, but it's about £94, including bad debts. We'd be aiming to get that down by about £10-20 or so.

Our overall aim is to make sure that our cost to serve is competitive. Another thing you'll find from SoLR is, as some companies had a homogenous customer base, they could have a lower cost, but they couldn't grow into the other customer segments. If you've got larger energy suppliers, which I think we do now, who have a less homogenous customer base, then they have the same complication. One of the complications we've got is we have customers from every single thing. We're the biggest prepay business. We've got 1.2m customers on prepay meters, but a company that is only focused on prepay can probably have a lower cost to serve. Our system has to cover all types of customers. With other energy companies being in the same position then you might actually see their cost to serve going up a little bit. I know they've got pressures as well with people calling them and the like, so we'd see a bit more of an equalisation, but we would expect to shave £10 plus, maybe even £20 off our overall cost per customer.

We've got another question online. Sam?

Question 11

Sam Arie, UBS
Chris, good morning. Can you hear me?

Chris O'Shea, Centrica
Yes.

Sam Arie, UBS
Excellent. I'm sure we're getting to the end of the questions, and I think we covered most of the topics, but I thought I'd just try one last one, which is related, again, to all these investment opportunities that you've set out and the kind of potential future capex focus. Maybe just the first comment from my side is that I think the focus you set out on energy assets across the different areas is very welcome. I think contrast to conversations in the past around Centrica investment in insulation and electric vehicle charging and so on, which a lot of people think are quite tough markets. At least from my point of view, the focus you've set out today makes a tonne of sense.

What I hoped I could do here is just get you to answer a question that clients ask me a lot. It's about the Centrica track record on delivering investments with a good spread of return above WACC. People look historically and, okay, this goes way back before your time, Chris, but into the gas, power stations, North America, even some of the early capacity market stuff, the retail IT investments. There have been quite a lot of capex programmes at Centrica that have been difficult over the years. If you were in the room with me when I got this question from clients, what examples would you point to that show the best examples of Centrica creating value through growth capex? Can you talk at all about the kind of level of returns that have been achieved in the value creation spreads?

Chris O'Shea, Centrica
Wow, that's a big zinger right at the end, Sam. I think, undoubtedly, you would argue that we have had problems in some of our investments. West of Shetland exploration, a couple of hundred million dollars, didn't make it. I was here during that, so I'm not going to sit and say a big boy, or a big girl did it and ran away. We as a company have had some very successful investments and some less successful, but one of the most successful – it's not truly an investment, but a decision – is when we decided not to sell the nuclear business. You can see the value of that today.

We've got a super battery storage facility at Roosecote beside Barrow, which is the Morecambe terminal. I was there a couple of weeks ago. We took a decision three years ago to turn Rough into a seasonal storage facility to maintain the optionality to allow us to convert it into a storage field. Had we not done that this thing might actually have already started decommissioning. It might be beyond recovery.

The reason I share those is I would say that the way to think about it, and you're going to have to judge us by what we deliver, the way to think about it is we don't take an idea and run with it. You could maybe criticise us for that in the past – we had an idea, we fell in love with it, and we ran with it. Every single decision we make is focused on value. Every decision, whether it's optionality around Rough, whether it's about let's not sell the nuclear business, we're always looking at value. I promise you that I feel that pressure acutely. Either pressure that I put on myself or pressure that I have from our Board. We are all focused on delivery. We're all very cognisant of things that have happened in the past.

But I'd also then say that our business is a long-term business and you've seen massive impairment write-backs through our books. The Spirit assets and the nuclear business today are worth more than we paid for them. Two, three, four, five years ago, we might have sat and thought, this is actually not that great. I think that as you look at a business like ours, this is why we want a mix between regulated and merchant businesses because merchant businesses in the energy production industry are probably a bit more volatile than we would like. We don't want to fill our balance sheet with them. There's a place for them. They're very stable, regulated businesses. Lower return, but very stable, and have a place for us. But the impairment, write-backs show that what we paid for Venture Production, the assets are worth more than it. What we paid for British Energy, it's worth more. That's after quite a few years of pain.

I would say trust us. Trust that we're focused on having a balance, trust that we're focused on creating value, and trust that we're only going to invest where we can see an acceptable return which compensates for the risk involved. Hopefully, that helps answer your question, Sam, but I really look forward to answering that over the coming years.

I would also just draw your attention, I'm sure you saw, but on slide 40 one of the things we said is we've got to rebuild our power generation muscle. We're not saying

we've got a great idea, let's go into more power generation. Let's just pile in. Kate, will you give me some money? I get the nod from the Chairman, and we just run into it. We've got to rebuild that muscle because it's atrophied a bit. We've still got very good talent in it, but we've not got as much as we would like. We want to make sure that that's there before we sanction investment. We're learning a lot through the work to bring the Irish peaking plants to sanction. We're learning where we need to grow the talent that we've got. We'll be disciplined and we'll be balanced, and we'll be focused on value.

Sam Arie, UBS
I'm sorry it was a zinger of a question, but it was a zinger of an answer. Very helpful.

Chris O'Shea, Centrica
That's very kind of you. I was just about to finish, but Jenny's got a follow-up question and then we'll finish because you guys will have other things to go to. I do appreciate your patience on what is a very busy day.

Question 12

Jenny Ping, Citi
Thanks very much. Sorry, hopefully a quick one for Kate. Well, two parts. One, just on the net cash of £300m, how much of that is margin cash? I realise you've paid out somewhere around half a billion of margin cash during the first half, but I just wondered whether more of that cash is earmarked for outgoing in the second half of the year.

Then Chris obviously talked about having a mixture of RAB regulated versus merchant assets. I just wondered if you do take on regulated assets, such as one of Rough, how much credit agency balance sheet capacity does it then free up? Obviously, they have a tendency to favour regulated assets over merchants. I wondered whether you can give us a sense of the scale there. Thanks.

Chris O'Shea, Centrica
Jenny, I can touch on the credit agency thing before Kate comes in. I just want to share something which is when I've worked in previous companies, our credit rating in oil and gas was limited by the fact we were in a risky oil and gas business. When I came to Centrica and met with rating agencies when I was CFO, they warned me that if we sold the oil and gas business, if we sold Spirit, our metrics would go up because we'd increase the risk of the Group. Credit rating agencies are clearly quite amazing people, and they do a super job, but it is really difficult I think to say, if you put this in our portfolio, what does it do to the metrics? Because you have to just sit down and redo the whole thing again. I think that's probably a really difficult question to answer, but if you've got one, I'd love to hear it.

Kate Ringrose, Centrica
I think just to answer the net cash question, it's of the order of around £100m, but that figure does move around a lot, so I'm sure I'll have a very different number for you one way or another at the end of the year.

With regards to credit metrics, I think just to remind people where we're at the moment is BBB with S&P Baa2 on negative watch with Moody's. We eagerly await Moody's review on the negative watch. We've been on negative watch for a while, but that is more reflective of the industry and the broader economic environment. That's what we're waiting for, and there's a real balance, as you know, that's placed between business industry risk and the metrics, and the metrics are very, very strong right now.

Jenny Ping, Citi
Thank you very much.

Chris O'Shea, Centrica
Thank you very much, everyone, for coming. Hopefully, you understand a bit more now about why we are so excited about the future, but you also see that we're going to be disciplined in what we do. We're going to be disciplined about the pace, we're going to be disciplined about the returns, and we recognise front and centre that we manage the Company on behalf of the shareholders. We manage the shareholders' money. A lot of your clients are managing shareholders' money as well. If we can't add value to that money, we give it back to the shareholders. We let them take it. We think we've got enough ideas that will add value and keep us busy for the coming while, but if not, then we know whose money it is that we invest.

Let me just say thank you very much. Maybe see you over the next few weeks, but if not, we'll see you back in February. Thank you.