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Centrica plc LNG Teach-in – 18 May 2023

Transcript

Chris O'Shea, Centrica
Thanks for joining the call today. I hope that you're all safe and well.

You'll have hopefully noticed that we have started providing some additional colour on our activities, with the teach-ins on both Rough and the EM&T Route-to-Market activities in the second half of last year. I'm delighted that we've got the chance to connect with you all again today on another important part of EM&T, our LNG Trading and Shipping business.

I'm joined again today by Cassim Mangerah, who is the Managing Director of Energy Marketing & Trading; Arturo Gallego, who is the Global Head of LNG for Centrica; and Russell O'Brien, who became the Centrica CFO in March.

I'm going to spend a few minutes on the role that EM&T plays as part of our balanced portfolio and its absolutely crucial importance to our Group. Cassim will then remind you of the scale and the capabilities in that business before Arturo goes into more detail on LNG. I'll then briefly summarise, and we'll have some time at the end to take any questions that you've got. Now, I would ask that you keep the questions focused both on EM&T and LNG more particularly, and not the wider Group results or outlook because we can't comment on those. I'd like to remind you that we've got a finish time of around about 3.30 this afternoon.

Let me remind you how I see Centrica today. We are a uniquely integrated energy company able to unlock synergies across three pillars of Retail, Optimisation and Infrastructure. We've got a diverse and balanced portfolio, and every one of our businesses is core to us. The strengths of each business complements, de-risks, and adds value to at least one other business in our group, making the whole greater than the sum of the parts.

We're the largest supplier of energy to domestic and small business customers in the UK through British Gas Energy and the largest provider of energy services to UK households through British Gas Services and Solutions. We have a number of other strong and recognisable retail brands in the UK and supply both energy and services to customers in Ireland through Bord Gáis Energy.

We've got valuable baseload power and gas production Infrastructure positions in the UK and Ireland, and we also have a growing portfolio of flexible electricity generation and storage assets, in addition to the UK's largest gas storage facility, the Rough field.

And all of this is supported by our world-class optimisation capabilities in Energy Marketing & Trading. We've always had physical trading and risk management capabilities to both hedge and support our Retail and Infrastructure businesses. But we've developed these capabilities, our proprietary digital platforms, and our team to allow us to add incremental value in related areas. We've been steadily building our expertise in LNG and in Route-to-Market to add to the capability we have in optimising storage and taking some measured risks in proprietary trading within energy markets. Some of this activity does, at times, utilise working capital or margin cash, but as evidenced by our strong EM&T results in 2022, any capital deployed into optimisation activity is expected to make a good return, with the rewards across the portfolio more than outweighing any additional risk that we take.

As I've said, today's teach-in will be focused on the LNG part of the business. This is a business that we're very, very excited about, and its potential, having built a strong and diverse portfolio over recent years. Arturo will cover LNG in more detail shortly, but first, let me hand you over to Cassim, who is going to remind you of the world-class capabilities across our Energy Marketing & Trading business. Cassim, over to you.

Cassim Mangerah, Centrica
Thank you.

As Chris has said, EM&T evolved out of our requirement to procure gas and electricity for our customers and manage commodity risk for the Group.

Over the years, we have built on these capabilities and grown our business to what we believe to be a leading position in our markets. Our scale today demonstrates the sophistication of our capabilities, and what we've created is very hard to replicate.

We are a 24/7 logistics and physical energy trading business, and this is at the heart of our business model. We understand energy markets very well and are able to manage system complexity to add value in all commodity price environments. By having the assets and the ability to move gas and power across Europe, we are able to capture value from our broad portfolios.

Our renewables Route-to-Market business has one of Europe's largest third-party renewable and optimisation energy portfolios, with nearly 16 gigawatts of assets under management and one of the most advanced, cross-European virtual power plants. To put this capacity into perspective, 16 gigawatts is enough to power around 9m UK homes.

We now trade across more than 25 European countries. All are connected. However, each country has its own unique supply and demand dynamics, and our contracted physical interconnector and pipeline capacity allows us to capture value from any regional arbitrage opportunities by moving gas and power to the highest-priced markets.

And in LNG, the focus of today's teach-in, we have built up a broad and diverse range of positions. To date, we have delivered LNG cargoes to 36 different countries and, in 2022, traded 284 cargoes.

We have a well-established operating model, with strong symbiotic relationships between the elements required to make it effective and add value for Centrica. These include leading physical trading capability and best-in-class risk management while having a scalable and digital platform able to operate across markets is key.

Our ability to develop a world-class capability in one element requires other elements to be reinforced. For example, developing leading risk management capabilities requires investment in a comprehensive trading platform, and the scale of our trading platform, in turn, underpins our ability to access different markets and products with confidence. This means we trade a wide range of physical and financial products, providing the benefit of diversification in our profit streams.

Having built up our capabilities over the past years, we think about the business in three main profit pools. We have delivered good gross margin growth across all of these activities, with additional returns delivered when prices are high and/or volatile, as we saw in 2022.

Gas and Power Trading across Europe remains an important and valuable activity for us as we utilise our optimisation capabilities, our wide range of contractual physical positions, and deep knowledge of European markets to make attractive returns. And, we have also focused on diversifying into alternative activities, creating two additional, and typically more stable, profit pools.

We covered Renewable Energy Trading & Optimisation, our Route-to-Market business, in our December teach-in. An increased proportion of renewables coming online across Europe creates a great opportunity for us, both due to growing the size of the market and the volatility in prices created by the increased intermittency of renewable generation.

And today's focus is on LNG Trading and Shipping. Here, we've built up a range of contractual positions across the globe, which, combined with our risk management capabilities, means we are well placed to benefit from the globalisation of gas. Arturo will provide more detail on our activities and strong positions and capabilities in this space.

Before I hand over, I would just like to highlight again how well-placed EM&T is to benefit from key global trends.

The drive towards decarbonisation will create significant opportunities for us, particularly for our Route-to-Market business, as a diverse set of energy owners invest in renewable energy across Europe.

Given our capabilities and range of contractual positions, we're also well placed to benefit from the important role that gas will continue to play as it replaces coal as part of the global energy mix. Arturo will elaborate on how this is playing in LNG fundamentals.

Security of supply concerns in Europe are only accelerating the above trends.

With that, I'll now hand over to Arturo, who will help provide more colour on some of these themes as well as why our positions and capabilities in LNG leave us incredibly well placed for the future. Thank you for your time.

Arturo Gallego, Centrica
Thank you, Cassim.

I will start today with a market view, explaining, as Cassim mentioned, how important LNG is going to continue to be for the world in the coming decades and help the transition towards net zero.

Then, I will dive into our portfolio, explaining how we have built it, why our business model has succeeded where others have failed, and what is coming in the following years that will continue to improve Centrica's portfolio.

And finally, I will explain how we manage our exposure in our long-term contracts and how we create value for shareholders by optimising our portfolio.

I first want to highlight the importance of gas and LNG in the global energy mix. As you can see on the top right, gas currently represents 23% of the global energy mix. But it is important to note that, according to external providers, gas will continue to play a major role in the global energy mix through 2050, allowing coal and oil to be replaced by renewable energy and lowering global carbon emissions.

In the graph below, we see the significant growth in LNG in the last few years, mainly driven by additional supply. By 2050, global demand for LNG is forecast to nearly double, driven by a move to cleaner fuels and the ability of LNG to reach any country in the world.

In Europe, the Russia/Ukraine crisis has completely changed the energy mix. Energy and security of supply have become more relevant. We are seeing a bigger focus on local renewables and imported LNG, with a significant number of new LNG regasification terminals being built in North-West Europe.

Looking forward, it is forecast that in the period 2030-2040, 20% of global LNG produced in the world will be supplied to Europe.

Moving now to the three key characteristics of the LNG market. One of the most distinctive aspects compared to, say, typical gas and power markets is that LNG is a physical product. We purchase it, load it into a vessel, ship it to the destination, and deliver it to our customers. It is critical that we ensure to our customers that we are arriving at the right time and with the right quality to their delivery terminal.

It is a bilateral market. There are no screens where companies can trade the physical LNG. Everything is conducted through conversations. This means that it's important to know and understand your counterparts and have a relationship with them – building that brand and relationships takes years.

And the LNG market is global. As soon as the cargo is loaded, the LNG can travel anywhere in the world. This means that localised factors such as Chinese demand or Brazilian hydro conditions can affect the global demand and supply of LNG and, therefore, its price.

The global LNG market is centred around three hubs.

First, the United States, a very big and liquid market whose main gas price reference is the Henry Hub. Most of long-term supply contracts from the US are indexed to Henry Hub, and the majority of LNG companies now have a contract buying gas from the US.

Next, Europe, a big but fragmented market that moved away from oil-indexed contracts to gas prices 20 years ago. NBP, the gas index for the United Kingdom, and TTF, the gas index for the Netherlands, are the main indices. As mentioned before, the Russia/Ukraine crisis means Europe is currently the world's premium market, attracting all available LNG.

Third, Asia, driven by the Japan/Korea Marker, or the JKM price, which is also the price reference for the Middle East. Asia is home to the world's main LNG importers, Japan, South Korea, and China. Asia has historically been the premium LNG market, with volumes flowing from the Atlantic to the Pacific to fulfil their energy needs.

These characteristics mean LNG is not an easy market to enter and succeed in. The build-up phase of an LNG business takes years. However, once you have built a portfolio of a certain scale, there are significant benefits which I will explain in more detail shortly.

When building an LNG business from scratch, the first thing to highlight is that takes a long time. Centrica started buying cargoes in 2008 to supply our regasification capacity at the Isle of Grain. We then launched our global LNG business in 2014 after signing our Sabine Pass contract with Cheniere.

By the time our new agreements commence around 2027, excluding the first 5 years when we were buying for the Isle of Grain, it will have taken 13 years to build the business.

We have substantially developed our capability, allowing us to better optimise our portfolio. When comparing 2014 with 2022, we have increased our number of traders threefold, the number of cargoes traded in one year by a factor of 10, and we concluded 17 charters in 2022 compared to 1 in 2014.

We have also more than doubled the number of MSPAs or Master Sale and Purchase Agreements. All these are key ingredients to optimise our portfolio.

We now have master agreements with most major market participants. Having these umbrella agreements means we only need to agree price, volume, and delivery dates. This gives us the ability to move quickly to capture optimisation value as they arise. On average, a master agreement may take one or two months to negotiate, so signing close to 150 takes considerable time, effort, and dedication. It also demonstrates the credibility of Centrica as a trusted counterparty in the market.

Since 2014, we have built the business step by step in a controlled and disciplined way. We started buying physical cargoes for the UK market through the Isle of Grain, then expanded into buying and selling cargoes around the world.

We have spent three years building a bigger physical portfolio and then started hedging our exposure with a dedicated financial LNG desk. In 2020, we received our long-term chartered vessels. We also needed to source other vessels to enable our optimisation activities, so we started our freight desk.

On the right hand of this slide, we have a sentence that summarises our approach. As a business model, we are building a diversified web of positions within a controlled risk environment and with embedded flexibility that can be monetised.

Let’s break this sentence up in its key ingredients.

Diversification is critical across any portfolio or investment. Diversification means reduced risk, more opportunities to monetise arbitrage and more stable cash flows.

Controlling risk is also critical. To that goal, we have a well-defined risk appetite and framework. The way we manage our portfolio means that we always try to be balanced. Being balanced means that we are always hedging a significant portion of our portfolio to ensure that we cover any potential downside scenarios, even if that means foregoing some potential upside in high-price environments.

And flexibility is a key differentiator of our business.

Let's have a theoretical example. Company A buys 20m tonnes of LNG ex-ship in their country, with no flexibility, and company B buys 1m tonnes with the option to send that volume anywhere in the world. Company A has a large volume, but there is no optionality to monetise. Company B can deliver significantly higher revenue if the global destination optionality is properly optimised. We are more like Company B, meaning that we can deliver more value with a smaller, flexible portfolio than a company with a portfolio 20 times larger with no flexibility.

I will provide a few examples of how we use flexibility to optimise as we go on.

We now have a truly global portfolio, which includes short, medium, and long-term positions spread across the United States, Europe, the Middle East, and the Far East.

We have two vessels on long-term charter designed and built for Centrica, the Gaslog Windsor and the Gaslog Westminster. These vessels cover our transportation needs from the US to the Isle of Grain for our Sabine Pass contract. Another important piece of our business model is the mid-term deals. We have been closing niche mid-term deals to balance our portfolio and hedge our exposure. At the same time, we were adding flexibility. Examples of mid-term deals are our multi-year positions in Dubai, Kuwait, and the US.

By adding our long and mid-term positions and our vessels, we have constructed a balanced portfolio that we are able to optimise for value in the short term.

But what was the starting point for this global portfolio? Our portfolio was originally anchored on the Sabine Pass contract and our regasification capacity in Isle of Grain, the largest import terminal in the UK.

The Sabine Pass contract is a 20-year Henry Hub-indexed agreement which started in 2019. We buy the LNG Free on Board, meaning the LNG is ours from the loading location, we are responsible to ship it and can take the cargoes anywhere in the world.

Two important points give us flexibility. First, we can cancel any cargo with two months' notice by paying a fixed fee, and second, we have a 10-year extension option fully at our discretion.

Our capacity at the Isle of Grain allows us to bring in cargoes, regasify the LNG, and send the gas into the main UK network. The contracts with the terminal give Centrica access to up to 70 slots per year and 4.2m tonnes of annual send out into the Grid. This is equivalent to 7% of the annual consumption of the UK. Our contracts are more flexible than the average regasification contracts in Europe, allowing us to discharge up to a Q-Max, the largest LNG vessel in the world, and store it in tank for several months.

To maintain a balanced portfolio and reduce our risk exposure, our base case scenario is that we ship our cargoes from Sabine Pass into the Isle of Grain terminal. However, as mentioned before, we have the right to take the cargoes to other markets in response to price signals, hence generating optimisation value.

As I mentioned before, one of the key pillars of our sustained growth is a controlled risk environment and how we hedge the exposure generated by our long-term contracts, in particular for Sabine Pass.

We hedge exposure in two ways, through physical and financial hedges.

Physical hedges are a critical tool to manage the exposure. We sell the cargoes to a third party, reducing our physical and financial risk.

We can sell the cargoes either Free on Board or Ex-Ship. In the latter case, we are still responsible for shipping the cargo to the destination and therefore retain more flexibility. Usually, these are mid-term deals where we can hedge the exposure for up to 5 years.

We also use financial hedges. We hedge the difference between our selling and buying prices financially. In the case of Sabine Pass, we hedge the difference between the NBP price in the UK and the Henry Hub price in the US. By doing this, we guarantee a base case and retain the possibility to optimise the cargoes physically.

When looking at the next few years of Sabine Pass, you can see in the graph that we have hedged our exposure for 2024 and a significant portion for 2025 and 2026 through a combination of physical and financial hedges. These hedges are at a positive margin on average when compared to the Sabine Pass contract.

We continuously review market opportunities, screening for the right opportunities that allow us to continue to de-risk Sabine Pass at the right price positions. We can then deliver incremental optimisation returns on top.

In addition to our existing portfolio, we have three major new contracts coming onstream in the coming years, which will be game changers for our portfolio, significantly increasing our diversification and flexibility.

First, Mozambique LNG. This contract is unique. It’s the first long-term contract jointly signed by two buyers, Tokyo Gas and Centrica, with completely different base markets, Europe and Asia.

Our portion of the joint contract is equivalent to 20 cargoes per year. This contract is not Free on Board, but taking advantage of the location of Mozambique, that is equidistant to the UK and Japan, we have built a similar degree of flexibility as if we were buying Free on Board and managing the vessels.

The contract price is indexed to European gas and Brent. When considering the risk/reward of this deal, it is very balanced in our favour. We will be able to deliver all the European Gas-priced cargoes to Europe with no risk, or profit by taking them to any other market that could pay above European gas.

And for the Brent-indexed cargoes, we have hedged our portfolio by agreeing an oil-indexed contract with Shenergy in China. The Shenergy contract has significant embedded flexibility that will allow us to deliver between four and eight cargoes per year. As a reference, a standard in Asian contracts will be around 10% flexibility and even less than that in the Atlantic contracts.

As mentioned before, we started negotiating this contract with the aim of maintaining a balanced portfolio after signing Mozambique. The Shenergy contract ticks all the key values of our business model. It diversifies, it maintains the portfolio within a controlled risk environment, and it has plenty of flexibility.

The third new agreement is with Delfin. We signed a Heads of Agreement with this US project for 1m tonnes, and we are currently in the final stages of negotiating a 15-year contract.

We chose Delfin because of the price formula. Most US projects are only indexed to Henry Hub, similar to our Cheniere contract, but in the case of Delfin, the cost is indexed to the gas price in the US and to the gas price in Europe. This is good for us as it reduces our price risk exposure and allows us to optimise cargoes by sending them to other markets.

Furthermore, the Delfin contract is due to have a very low cancellation fee, which is beneficial in a worst-case scenario of European gas prices falling below Henry Hub.

Finally from me, let me detail some strategies we can deploy to capture value from optimisation.

First, market plays. As we have said, our base case is to sell our Sabine Pass cargoes into our Isle of Grain terminal. When hedging that exposure, we guarantee a minimum contribution.

However, when price dislocations occur, for example, between Europe and the Middle East, we are able to buy back our hedges in Europe, ship the cargo to the Middle East, and capture the difference between the two markets.

This is a pure physical optimisation. But having a diversified portfolio and a financial desk means that instead of committing to a firm physical sale in the Middle East, we will sell the JKM financially.

If the price stays as it was, we will ship the cargo to the Middle East and will sell it indexed to JKM, guaranteeing the profit.

But if the price in Europe turns higher again, we will buy back the Middle East hedge and sell the LNG into the UK again. Each time we optimise in this way, we can add additional value. In a very volatile market, this difference can turn several times, allowing us to capture the spread several times.

Next, floating plays. In our contracts, we lift our cargoes on a regular basis during the year, but this does not mean we need to sell them on a regular basis during the year.

Let’s consider one cargo that we are buying at Sabine Pass in early October. Sabine Pass to Isle of Grain takes 13 shipping days, so this cargo would deliver in the third week of October in the Isle of Grain. Then the vessel would go back to Sabine to load an early November cargo.

However, if the November price is higher, we can capture additional margin by floating the cargo and delaying delivery. To enable it, we will charter another vessel to lift the November Sabine Pass cargo.

Then, volume plays. Within our portfolio, we have purchase contracts with larger and smaller cargoes, and we have sales contracts with different prices. Having flexibility in these sales contracts allows us to deliver the bigger cargoes to the highest-priced contract, leaving the small cargoes for the lowest-priced contract.

Although all of this might sound relatively simple to do, in practice, it requires strong capability, technical expertise, industry reputation, and relationships.

Let me provide a couple of specific recent examples of how we have added and captured value through optimisation.

The first one is from Denmark last winter.

We saw the opportunity to add value through floating a cargo from Sabine Pass. However, the vessel was not ours, so we had to discharge the cargo and return the vessel empty to her owner.

We needed to transfer the cargo to a different vessel that we could float, but there were no vessels available at the right time and location. However, by using our portfolio, we were able to free up one of our long-term vessels and charter a new one for Sabine Pass.

We also had to find the right place to do the ship-to-ship transfer as well as locating the equipment. There are only a few kits available globally. One was in Singapore. Our Marine department was able to use relationships to source the required equipment, negotiate terms and transport it on a plane from Singapore to Denmark.

This example demonstrated the benefit of having a full end-to-end LNG capability. Our capacity at Isle of Grain allowed the floating play, our Operations and Marine teams had to organise and perform a safe operation, our freight desk had to reorganise and charter the vessels, and our financial desk was able to hedge the exposure and guarantee the optimisation upside.

The second example is from the Caribbean and demonstrates the value of strong relationships.

We were contacted by a counterpart in the Dominican Republic who needed to reload half of a cargo to make space for another cargo that was arriving. We concluded that the best option was to transport that additional LNG to their sister company in Panama, but they had no vessel.

We were due to deliver a cargo to Jamaica, but discharge would take 5 days, so our vessel would not have been there in time. However, we were able to agree with our buyer in Jamaica that we would only discharge half of our cargo. Then we would go to the Dominican Republic, load their cargo in the two tanks that we had emptied, and transport them to Panama. This allowed us to capture the significant premium our counterpart was ready to pay to fix their prompt physical problem.

The enablers of the deal were the strong relationship with our Jamaican counterpart, as we did not have the contractual right to do a partial discharge, having the master agreements in place to be able to act quickly, and our Marine expertise to be able to manage partially loaded vessels, which is not a standard in the industry.

I hope these examples illustrate Centrica’s expertise, both technical and financial, our knowledge, our experience and flexibility. All these enable Centrica to find opportunities to maximise our profit in the global market.

I hope that you have found the presentation helpful, and it has helped you understand our LNG business better. Let me now hand back to Chris.

Chris O’Shea, Centrica
Arturo, thank you very much.

You’ve heard from Cassim about the capabilities and the positions that we’ve got and how we’re well placed to benefit from key global trends. As well as providing risk management services and helping deliver gas and power to our customers, this has evolved into a significant profit centre in its own right. We’ve developed world-class optimisation capabilities, and we’re playing an important role in storing, transporting, and balancing energy supply and demand across Europe, all whilst facilitating the transition to net zero.

As global commodity markets converge, utilising the strong capabilities across the three pillars of Gas and Power Trading, Route-to-Market, and LNG within our EM&T business will be key to our future success. A good example of how these pillars work together was seen last year when additional LNG volumes were needed to balance the European gas market, making LNG the price setter for both gas and power markets. The flow of information between the LNG team and our gas traders proved invaluable, and it would have been difficult to have been as successful as we were if we weren't active in both of those markets.

Arturo's provided a lot of colour on our LNG business. It is a business that has grown its capabilities significantly in the last ten years, having developed a flexible and diverse portfolio and a platform for future growth.

The Mozambique, Shenergy, and Delfin contracts will further strengthen the portfolio, and we'll continue to seek other opportunities to grow in a disciplined way, including potentially longer-term in nascent energy transition markets, such as clean ammonia, where LNG expertise will prove incredibly important.

Thank you very much for listening. Cassim, Arturo, Russell, and I now look forward to taking your questions.

<u>Question 1</u>

Ajay Patel, Goldman Sachs
Good afternoon and thank you very much for the presentation. I have a couple of questions. I'm just trying to understand maybe how this picture fits in from the perspective of me looking at screens and differences. For example, I know you probably won't give us a profit forecast for LNG this year and next, but if I was thinking about last year and just looking at the spreads that were available from Cheniere, how much of what was on screen was actually capable of being locked in?

Then in terms of the way that those profit opportunities can be locked in, so the optimisation on top of just what you would see on the spreads, how much duration can you have for that? For example, could you have locked in a lot of these benefits for two or three years, and we should be thinking a little bit more of a premium to the spread in terms of what you may capture, or was it a case of when you look at screens, those are just not realistic, and we should be taking a haircut?

Then is there any kind of rough, and I know this is going to be really difficult, a sense of order of magnitude of what the optimisation benefits could bring relative to ones that would be directly from the spread? Lots of questions there, sorry. I can repeat if you need.

Chris O'Shea, Centrica

Ajay, thanks very much. It's Chris here. Basically, profit forecast for the year, really asking about how far out we've locked in the benefit and how you think of the optimisation for the spread. I'll ask Arturo to talk about how you think about getting the optimisations on top of the spread and also how we lock them in, but first thing is, you won't be surprised, no profit forecast for '23 or '24, but you should be applauded for trying.

The second one, just before Arturo comes in, I would say that, obviously, across the entire business in Centrica, we take the risks that we manage very seriously. So we hedge in advance. The spread that you saw last year – and I think the maximum point was where the gas price blew out, was it £5 or £8 a therm? If you could load a Cheniere cargo and simultaneously discharge it at Isle of Grain, you'll have loaded it for about $25-30m, and you will have discharged it for about $300m. We don't go naked on prices like that. The people that would have been able to lock that spread in would have been people that had an excess unhedged cargo. They would have looked like geniuses that day, but they would look like fools on other days. We lock in volumes in advance, and it's one of the beauties I think of the team that we've got and the linkage we've got between EM&T Gas and Power Trading, and LNG is despite the fact that a lot of the cargoes that we picked up last year would have been hedged prior to last year, we were still able to turn quite a bit of profit out of that by optimising.

I'll ask Arturo just to talk you through the duration that we look at when we hedge cargoes and also just to talk a little bit about how you would think about the base spread and the optimisation, but just bear in mind that you can't just look at your screen and see the spread and think we're going to lock that in because our business is not sitting on a naked price exposure in any of our businesses. Whether it's Rough storage, whether it's LNG, whether it's selling gas and power to our downstream customers, or producing gas and power in our Infrastructure businesses, we manage the risk quite a bit in advance. But with that, I'll ask Arturo to talk a bit about how to think about that.

Arturo Gallego, Centrica
Thank you, Chris. Building on what Chris was saying, I think that the key thing for us is that we're hedging our portfolio in advance. We're not just waiting for the very last minute to see where the market goes. I think this is important because that gives us that potential view on what we're going to be doing rather than just waiting to see what the market decides to do. I think a great example is what happened in 2020. In 2020, the market was the opposite to 2022. Looking at the results of the business and the results of our risk management deliver us similar amount of money in both years. I think this is the kind of approach that we're taking to the market. Kind of a conservative approach, you could say, in which we are just protecting our minimum base load, I would say, and just trying to optimise on top of that.

Then when looking at optimisation opportunities. I think it all depends on how the market moves and how quickly we can adjust to capture them. When looking at last year, for example, the difference between different markets moves a lot. That helps us just to take more optimisation value on those movements. Somehow, what we're doing is hedging ahead, just making sure that we're just wanting a base case, and then we just optimise as the market comes, and we just add additional value on top of this.

Chris O'Shea, Centrica
Arturo, thank you very much. I think it's safe to say that what we've hedged over the past 12 months or so, we have locked in an already positive margin on longer-term contracts with Cheniere. Our expectation is we'd be able to optimise and create more value from that. Hopefully, that helps answer the questions, Ajay.

Ajay Patel, Goldman Sachs
Thank you.

Question 2

Jenny Ping, Citi
Hi, good afternoon. A couple of questions from me as well, please. Firstly, just going back to your point around optimisation based on the stuff that you've locked in today. Clearly, you can create more value above and beyond that, but just based on what you have locked in, that positive margin, are you able to give us a sense, are we talking about tens of millions here or hundreds of millions? Something maybe a bit more meaningful. Because I think, at the moment, everybody is struggling to get a sense of the scale of the profitability for this business. While I appreciate you don't want to give and be pinned down to absolute numbers, exact numbers, but just a sense of scale would be helpful.

Also, I guess, longer term, again linked to the profitability point, how should we be thinking about the extent of growth for this business? If I look at slide seven, that physical cargo traded chart, your year to date is quite impressive compared to where you were in 2022. Is that trajectory a good way to think about profitability in my very simple mind, or how else should we think about the growth of this business?

Then just very lastly, around risks. You talked about working capital and margin cash being tied up. Are you able to give us some sense of what is the typical capital at risk for this part of the business? Thanks very much.

Chris O'Shea, Centrica
Jenny, thank you very much. What I'll do is I'll try and take the first couple, and I'll ask Russell to talk about the working capital and the capital at risk. It's neither tens nor hundreds of millions, but I would say over the next few years, we would expect this business to return a nine-figure sum. £100m plus from the LNG business. It's not in the tens, but it's also not in the hundreds. Now, we have a very good team that optimise this, I think, very well. Therefore, it could be more. That should be the base load as we lock in volumes over the midterm.

In terms of your question on the trajectory of growth, obviously, if that's about EM&T, I'd love to say, yeah, we're going to grow from the £1.4bn pre-tax profit last year. If we saw the same absolute level of prices and the same volatility, and I'm looking at Cassim, he's nodding, we'd expect to make the same amount of money, if not more. We haven't seen that this year, so we wouldn't expect to see that level of prices. You've got to look at more of a normalised level. We'll probably get some more information as to how would you think about EM&T through the cycle when we present our results in the first half and our strategy there, but obviously, what we do expect to see is an upward-sloping trajectory, but not off a 2022 base. Maybe on the working capital/capital at risk, I'll ask Russell to give you an answer, Jenny.

Russell O'Brien, Centrica
Yeah, thank you. The question was, how much capital are we using, working capital, on the LNG business and any guidance there? I can't give you a number today, but I can describe some of the moving parts and the dynamics. Of course, we manage capital margin risk across Centrica very tightly. That's something we're very proud of. It's a core part of the EM&T business because we do take risks every day, and we manage that very, very carefully. We allocate capital in a way that we, first of all, make sure it has an adequate return, but it's a risk-adjusted return. That is the core part of the framework that allows us to allocate, whether it's working capital, margin capital, and the other. The other thing to bear in mind is it's not linear. The amount of capital at work any day in LNG or, in fact, across the whole EM&T portfolio can move around because we make choices. We have flexibility. We trade off market risk, credit risk, and liquidity risk, and we do that dynamically. We choose the strategy that best fits the situation of the day. That then dictates how much capital is at work.

Chris O'Shea, Centrica
Thanks, Russell. Hopefully, that helps Jenny.

Jenny Ping, Citi
Yes, sorry, just going back to the first part of the question. Can I just then follow up by asking another way? When you look at your hedges that you say is in the positive margin territory, am I right in saying that effectively that positive margin is in an upward sloping trajectory, i.e., '24 would be higher than '23 would be higher than '22? Is that a fair statement?

Chris O'Shea, Centrica
No, I don't think it is. I think it really depends on how we've hedged it, whether we've hedged it physically or financially, and the point at which we've hedged. What we don't do is we don't go naked, but we don't also sit and look and say, that's an amazing piece of business, let's put everything on at that price because we try and layer it in. I probably wouldn't want to go any further than to say we would expect in the midterm for this business to be turning a profit of at least £100m. The LNG part of the business. As you look out, we've got all of '24 hedged, we've got the majority

of ’25, a slight majority of ’26, and then probably about a quarter of ’27 hedged. There’s still quite a bit of open volumes because you’ve got to have the liquidity bit.

As Russell mentioned, you’ve also got to manage the credit risk as well. If we do physical hedging, then we flip market risk into credit risk, and that can be great as long as the counterpart can perform. We’ve got to manage this really dynamically, pricing and creditworthiness, but I don’t think it’s enough to say we expect ’23 to beat ’22 and ’24 to beat ’23. However, and I’m looking at Arturo just now, that is the target every year for every year to be better than the previous year, but it takes a lot of work. A lot of active management.

Jenny Ping, Citi
Brilliant, thank you very much.

Chris O’Shea, Centrica
Thanks, Jenny.

Question 3

Mark Freshney, Credit Suisse
Hello, thank you for taking my questions. Firstly, if I could ask about something you haven’t really spoken about, which is the Qatar contract, which is one of the oldest ones, which I think rolls off shortly or has rolled off. As I understand it, a lot of the gas didn’t reach the UK. The admin fee was paid, or the admin fee per cargo, but can you talk about how important that contract was for your profit mix?

I guess, secondly, I remember just three years ago, or four or five years ago, when similar sort of scale businesses, like those at ENGIE or Ørsted, had LNG businesses that they sold for a marginal price, or even paid someone to take. That was before the energy crisis, and the optimisation was quite small. Energy is falling back now, hasn’t gone back to pre-crisis levels, but as the differentials fall, can you envisage a scenario under which the optimisation gains become de minimal, and there’s more LNG tankers, etc., and more floating LNG facilities in Europe hit the market? Because this is not a business that sees one-way profitability trends. Thank you.

Chris O’Shea, Centrica
Mark, thank you very much. I’ll try and take the second one about the portfolios and the like, and Cassim will talk about the Qatar contract. I would look and say that there are many different forecasts about the tightness of the gas market as we go forward. As you know, it’s a global business, so the impact of some activity in China can impact the power price in Europe by virtue of the LNG that comes into Europe. It’s not really about the absolute prices, it’s about the relative prices, as you know, so the thing that we look at on the Cheniere contract is the delta between the Henry Hub price and the European gas prices, although we can take it elsewhere.

I would look and say we're very comfortable with how the Group is set today. EM&T is a core part of the Group, and I think LNG is a core part of EM&T. I said this all along though. I have no emotional attachments to any of our businesses. I enjoy very much working with Arturo, but he would be the same, if somebody came along and offered us a multiple of what this business is worth to us, it's in our shareholders' interest to take that money. It's one of these things where nothing in the Group is for sale, and everything is for sale at the same time. That's just how you run a business. It's the same as the LNG cargoes. Even the LNG cargoes that Arturo's hedged, they're all for sale if somebody comes along with a bigger price. I would look and say the portfolio we've put together has taken us quite some time. We really quite like that.

I think floating LNG in Europe, that's great, but that's just another store. You still have to fill it up. I look at that as being more about Europe has more gas storage capacity and therefore can better manage the short-term fluctuations in prices. As we mentioned, we don't really go naked in the short-term fluctuation in prices. We hedge anyway, so whether they're taking LNG in through the bridgehead through the UK and sending it into Europe through the interconnectors or whether it's a German floating LNG receiving terminals I'm not sure that really has that much of an impact. It just means that you won't have these really volatile days in the UK where the interconnector goes down, and the gas price goes negative because there's nowhere to put the gas.

But it's a cyclical business. Last year, in EM&T in general, we saw the biggest profits we've ever seen. I doubt we'll see profits at that level this year. Could we see them again going forward? We absolutely could if you have the same spikes in the energy market. That's why what we'll do is we'll provide a guide for people, which is through the cycle, what do we expect EM&T and our other commodity price-exposed businesses to do through the cycle? You've really got to look at it on that basis. With that, I'll ask Cassim to just talk about the Qatar contract.

Cassim Mangerah, Centrica
Regarding the Qatar contract, it used to be actually really important to our portfolio. When we first set up the LNG business, and we had the Isle of Grain regas facility, and the tsunami happened, then Europe wasn't competitive on LNG. At that point, Qatar had a real value proposition for us. If you look at the role of Qatargas now, actually, it's not a significant contract from a P&L contribution perspective, from a portfolio perspective, but it's also playing to our longer-term objective, which is to diversify our contracts. What we are trying to do is to make sure that no one contract dominates our portfolio. As we look ahead, we have choices in terms of how we manage our portfolio, how we procure different contracts, under what industries, etc. Qatargas as a contract is becoming less and less significant, but we'll continue to evolve our portfolio. In the future, it may play a bigger part. We'll look at that from a market opportunity perspective. Hopefully, that answers the question.

Mark Freshney, Credit Suisse

Yes, thank you.

Chris O'Shea, Centrica
Thanks, Mark.

Question 4

Harry Wyburd, Exane BNP Paribas
Hi, thanks, everyone. Hi, Chris, and thanks a lot for the presentation. Two from me. First, sorry to labour on the numbers, but I wondered if I could put some numbers to you. On slide 15, you're basically half unhedged on your Sabine Pass contract, and looking at the futures prices and running it through the numbers on shipping and regas costs and so on, that sort of suggests about a couple of hundred million pounds of margin for the whole contract. If it's half unhedged, you'd be looking at high double-digit million pounds worth of profitability from that 46% unhedged portion. I wondered, are we looking at potentially an uptick here in 2026 when this specific contract comes unhedged? How does that play into the numbers that you mentioned Chris earlier talking about triple-digit million profitability on an ongoing basis?

Then just a second one in terms of growing this business. How do you see the business actually growing? Are you just going to grow in line with the growth in the size of the market, or is this something where you think you can actually take share by, I don't know, maybe hiring more traders? It's notable that you're making a lot of money out of just eight people. I wondered what scope there was to actually take share. Then also, one other thing you've got, I guess, is a lot of cash. For instance, could you buy vessels or enter into new time charters that give you a bit of a competitive edge here and also use some of your balance sheet? Thank you.

Chris O'Shea, Centrica
Harry, thanks very much for your question. On the profitability, I've already got into trouble. Russell is sitting to my left, and he's already given me a bit of a slap for giving numbers. I can't give any more numbers. What I would say is, remember, the chart that you look at just now in a month's time will look different. It's not that we keep 46% in 2026 open and then we decide in two years to hedge that. We always are looking for opportunities. We hedge our upstream portfolio on a rateable basis; we don't hedge this on a rateable basis, but we do keep in mind how much we've got open, so it's no coincidence that the further out it goes, the more we've got open. It really does depend on the market conditions. It's all about risk management. Now, we could sit and have a fundamental view that 2027 is going to be very tight in the gas market and keep 73% of these volumes open. Then we could get out that way and find out we were wrong. That would have been a very expensive mistake. Even with our fundamental view, we will take risks off as we see a profitable ability to do that.

On your growth question, I would say, I think we've got eight LNG traders. There are a lot more people that sit around that business to do the work. They're in operations. This is a logistics business. We've got 700+ people in Energy Marketing & Trading, principally in the UK and Denmark but also in Singapore, in Hamburg, in Belgium. This is a huge business. There's a lot of effort around it, and we've got a great team. The growth that we can see, obviously, we've got the Delfin contract, we've got Mozambique contract coming on. The other midterm contracts that we can take on, they might need other shipping capacity. But how we think about growth is if you think about the three-legged stool that the Group is, with Optimisation, Infrastructure, and Retail, we always think about keeping a balance. We could go out today and do another five LNG deals, but it would make the Group a bit more imbalanced, and it's not really what we want to do.

What we'd like to do is to find a way to grow, and all of our eight business units have got growth opportunities. We'd like to grow them over the midterm in lockstep. Now, at some point, you'll have binary deals to do, but we're focused on growing all of our businesses because they all help and de-risk at least one other business in the Group. The LNG growth will come from a number of areas, but if we can get more traders, fantastic. If we can see more well-priced ships, then absolutely. That gives you option value. We've just got to make sure we can get the extrinsic value out of those options, but I would hope that we can grow these as we go forward. I wouldn't expect any more long-term LNG deals until we see more material growth in the Infrastructure and in the Retail businesses though because that makes the Group slightly more lopsided. Please, no more questions on profitability, or I really will get a punch in the face from Russell, which you might hear. There's a sensitive microphone in here.

Harry Wyburd, Exane BNP Paribas
Okay! Well, I apologise. Thank you very much.

Russell O'Brien, Centrica
On the question of investments more generally and do we have capital available for this business? Yes, we do. We are in a strong position with the balance sheet. But everything in Centrica is measured against risk-adjusted returns. Capital would only be going towards this business, whether it's new storage, new vessels, new opportunities, if we've got comfort that it meets the hurdles that we've put in place for the business, and we make sure that the risk is well managed. That's how we would approach new opportunities, but if Arturo were to come to Cassim and I with an opportunity, we would look at it, we are looking at it, and we want to grab value where we can.

<u>Question 5</u>

Pavan Mahbubani, JP Morgan
Good afternoon. Thank you for the very insightful presentation and your answers to the previous questions. I have scratched out all of my questions on profitability,

Chris. I'll just leave it to a high-level question on gas prices, please. Clearly, warm weather and lower-than-expected demand in Europe and Asia has put downward pressure on gas prices. I was just wondering what your view is on whether you see more upside or downside risk to prices today and what areas you think the market should be focusing on going into the rest of this year and also next. Thank you.

Chris O'Shea, Centrica
Pavan, let me try, and I'll see if Cassim has got anything he wants to add to that. I'm sitting on the fence here. It's possible that gas prices will go lower, and it's possible that they'll go a lot higher. I think what we're seeing just now is economic growth in China, or the demand in China hasn't really come back as we expected, so there's more LNG coming into Europe, which is depressing the prices, but the tightness in the market still exists. The lower prices are not driven by a glut of supply; they're driven by depressed demand. If that depressed demand stays, and we don't have a supply shock, you would expect places to stay roughly where they are. If the depressed demand disappears, and we don't have a supply shock, you'd expect prices to go up from where we are. If the depressed demand disappears and we have a supply shock, you'd expect prices to go through the roof.

How we think about it, as Russell and Cassim and Arturo said, it's all about risk management. How do we manage the risk that we carry? I think our results over the years have demonstrated we manage it actually rather well. I think it's an area of real expertise in Centrica. My personal view is that the market is really quite tight, and something will happen. I think it's been really benign, and then when that happens, and I can say this because I'm not really a market participant in the likes of the traders, I think markets get complacent. I think there's a bit of complacency at the moment, and I think there is a real risk that if something changes on the supply or demand side, you will see quite an overreaction because there isn't much spare there. But Cassim, I don't know if there's anything you'd want to add to it.

Cassim Mangerah, Centrica
No, that's brilliantly answered, Chris. I couldn't add anymore.

Chris O'Shea, Centrica
Thank you.

Pavan Mahbubani, JP Morgan
Yeah, that's very insightful. Thank you very much, Chris.

Chris O'Shea, Centrica
Thanks, Pavan.

Question 6

Martin Young, Investec
Good afternoon to everybody. I am going to ask a numbers question, but it's more about what is already behind us. Obviously, 2022 was arguably a bit of a special situation, but if we think about the ballpark number that this activity would have contributed in the past, are you able to give some sort of rough indication of where that might be?

Secondly, on slide 15, on the right-hand side of things, can you just talk me through again how you can still get optimisation when you're delivering physical cargo ex-ship to a buyer? Thanks.

Chris O'Shea, Centrica
Martin, thanks very much for the questions. I can't really give you any more colour on the numbers. Obviously, we're only about four and a half months into the year, and Arturo will come on and talk to you again just to explain how we can get an upside on a cargo we've already sold but not yet delivered. Remember, we've got seven and a half months left of the activity that Arturo is just about to describe to you, so could it be better than last year?

Martin Young, Investec
This was more about where we might have been in 2020 and 2021, just to get a sort of feel for how this business has potentially significantly upsized relative to where it was earlier in its history.

Chris O'Shea, Centrica
All I can say is it's better than it was, and I hope that we can make it better than it is, would be the best. Again, part of it is really around – and this is where I think that it's maybe underappreciated by the market what we've got, we have a material LNG portfolio, we have the ability to move incredibly quickly, and we are different to deal with than the really big companies. There are companies that don't want to deal with those that have massive LNG portfolios because they're not as straightforward to deal with; they're not as quick to deal with as we are. You remember when we did the PPA teach-in, we pointed out that we could do a PPA in – or the Route-to-Market teach-in. We could do a power purchase agreement in six weeks, and the competition would take three months. But we weren't happy, and we got the six weeks down to one week. It just gives you the idea as to how quickly we can move against large competitors in any market that EM&T is in. I think there's a lot more that we can do here, and I think we continue to push to make this business better. But I don't know, Arturo, if you want to explain how we can get that additional optimisation off the cargo that we've already sold.

Arturo Gallego, Centrica
That's fine. Thank you, Chris. I'm going to just share one example of something that we did last year several times. We have one contract in the Middle East; Henry Hub

index. Basically, that hedges completely our exposure for Sabine Pass. The base case, again, is instead of taking that into the UK, we just take that into the Middle East. What happened last year is that the price in the Middle East, that is, as we were saying before, is indexed to JKM, was below the prices in Europe because the EU was a premium market because of the geopolitical situation. What happened was that we could take our Sabine Pass cargo into Europe and, as we had the flexibility to replace the cargo that we were shipping to the Middle East, we bought another cargo in the Middle East. The profit that we made was the difference between the JKM price that we could achieve on the cargo that we were buying in the Middle East and the price that we were getting by diverting our Sabine Pass cargo into Europe. It's similar to what we were saying before. This is why having an exit sale with enough flexibility, if the market moves, allows us just to replace those cargoes somewhere else and divert our own cargoes to the premium market.

Chris O'Shea, Centrica
Thanks, Arturo. Martin, I would just add on to that the benefit is being able to move quickly means you can get it before your competitors. Being easier to deal with means that those that have got those spare cargoes will be keener to deal with us than maybe with some of our competitors. That's not the same for everybody, but I think it is the same when you're looking at optimisation. I think it's the more flexible people then that you want to deal with. Hopefully, that helps.

Martin Young, Investec
Thank you.

<u>Question 7</u>

Sam Arie, UBS
Thank you very much for the great presentation. We really enjoy these events, so I appreciate you putting them on. Let me say hello to my old friend Cass as well, and thank you, Cass, for your part today. I have a couple of questions.

First of all, very easy, Chris, you danced a bit around this idea of guidance. At one point, you talked about through-the-cycle guidance, you talked about the hundreds of millions. Harry played that back as if it was a firm comment, and then you sort of seemed to be saying, no, wait a minute, it wasn't. Can I give you the chance to be clear on whether you were giving us through-the-cycle LNG guidance at a level we could rely on or not? I'd just love to clear that up.

Then secondly, my wider question is, if you just think about your LNG activity on a standalone basis, I'm interested who you think your closest peers are in the world who are doing the most similar thing to you, who's got the most similar setup and sizing to you. Then, if you think of that LNG business as nestled within the rest of EM&T and EM&T sitting within the rest of Centrica, with the downstream and upstream activities around it, but in a situation where last year it was creating half the EBIT. I just wonder if you think that structure is mirrored anywhere else, obviously, in the world. If we just think of anybody else having the same sort of overall setup of an LNG business sort of nestled in a wider business in the same way. Obviously, the business has got tonnes of optionality, and you've got an amazing capability, and there's brilliant cash flow, and so on, at the moment in the right conditions, but I'm wondering if there's some elements of the setup at Centrica that remain a little bit unusual and whether you see that as an advantage or an issue to resolve over time.

Chris O'Shea, Centrica
Sam, thanks very much for the question. Let me try. I'll ask maybe Arturo and Cassim to talk about where we might see individual competitors in parts of the business, but I think that, on the first question, I didn't say it was hundreds. I think the question was, is it tens of millions or is it hundreds of millions? What I said was it's neither really. It's several tens, which will get you to, in the midterm, maybe £100m. I said slightly north of it. It's not hundreds, and it's not tens. It's kind of in between. I think what I was trying to say was I would expect a nine-figure sum in the midterm, but that's not going to be hundreds of millions. We'd expect it to be several tens, and that should add up to over 100, but there are different things that can add here, and I'd like it to be higher as we go into the optimisation activity that Arturo spoke about. The market can be volatile, and although we've hedged cargoes in, Arturo just described is we've obviously got an assumption on optimisation. We can have hedged in numbers and still have optionality of extrinsic value that we estimate will be there. If the market conditions don't provide that, then we can't realise it. If they do, I'm confident that the team will get it because of the past performance.

On the, who looks like Centrica? This is a question we've had a lot, and it makes your job more difficult, I think, as analysts. I think that how we think of our portfolio is, and this is true, that all eight of our business units, every one of them, de-risks the Group and makes at least one other business unit better. If you take EM&T, for example, I've said before, that's the glue that holds the Group together. It's there to hedge the downstream books and to hedge the upstream production, and it's grown over time into a business in its own right. If we didn't do LNG trading and the like, would we still have EM&T? Absolutely, we would, but it wouldn't be as good. The beauty of this business and the other businesses in the Group is the more that you can – I mean, think about extracting extrinsic value from a cargo you've already hedged, like Arturo described. That's how I think how you grow this business, which is we exist because we've got a large downstream book and a large upstream production portfolio. As you put a bit of risk capital to work, we can grow. Our activities grow, we can attract better people, we can attract more people, and you get this really positive cycle. Then when you do that, you can then hedge your downstream book better. You can improve the downstream business. You can hedge your upstream book better; you can improve that business.

Then if you think what I said about the three-legged stool, then as those businesses grow, you can then grow your activities in Energy Marketing & Trading. I struggle to think of another company that has all of the activities that we've got, and the balance we've got. If you look at last year's results, gas production and electricity production much the same in terms of the profitability, so there will be some companies that have lots of electricity and some gas or lots of gas and some electricity, but I don't think anyone's got that balance necessarily there. The scale of the customer book. There are probably one or two other companies that have a customer book of that scale embedded with infrastructure businesses, but the infrastructure businesses probably do offer it. I think Total have got about 6m customers in France, but it's a really small part of their business, and it's a big part of ours.

I don't think there's anyone else that's in the market that we're in and in the in-home servicing business. I don't think there are many that look like us, but the in-home servicing business is an area in which we are developing the integrated home energy management of the future. If you think of that, that will be kit that we install, EV chargers, Hive thermostats off which you'll run your integrated home energy management system, and we'll sell you energy, but we'll also have demand side response. The people trading in demand side response will be in Cassim's team, in Energy Marketing & Trading, so even when you look and see there's a link between Services and Energy Marketing & Trading.

I don't think there is anyone else that looks like us. I think that we've got businesses that de-risk, and when you see higher absolute prices, there isn't a direct de-risking from the upstream business to the downstream business because we've got price caps, but the higher the absolute price, the bigger the risk in the downstream business, but also, the bigger the profits in the upstream business. If you've got the volatility as well, as we showed in EM&T, we can capture that. I can't think of any big corporate competitor, but I don't know, Arturo, whether there's one or two in LNG that you think of as competitors or Cassim in Trading. Feel free to say no because I know sometimes we don't want to either flatter or antagonise people.

Cassim Mangerah, Centrica
If I just start with EM&T first and then Arturo, please feel free to talk about LNG more specifically. If I think about EM&T and the three pillars that we talked about. There is Gas and Power Trading, there is LNG, and then there is what we call the Route-to-Market – the renewables business. I can confidently say that for renewables itself, we are the biggest third-party provider in Europe, if not in the top three. We've got some benchmarking data around that. If I look at Gas and Power, I think we are one of the prominent traders in Europe. But the really interesting thing for us is when I look across the portfolio at the three pillars, I think we are one of the most balanced trading businesses out there in Europe. Therefore, if I look at the relationship between Gas and Power, LNG, and Route-to-Market, they actually play a very good portfolio sort of dynamic around it, and the diversification of that actually really helps us manage the three legs of that business really well. But Arturo, in terms of LNG, what's your perspective?

Arturo Gallego, Centrica
I'm going to build into the same comment. When I compare to peers in LNG, I would say that we are somehow unique. The main differences are that most people have

historically built their businesses based on volume, and most of them fail. We have done something different. That is building that based on flexibility. I think that we are well ahead of any other companies on that approach. I have colleagues that come to me having some other companies and saying, how have you done this? What is your vision? Now, we're comfortable to share that we have done those based on flexibility because we're well ahead, we have our portfolio that is flexible, and we have our new contracts that are coming that are flexible. It's difficult to compare us with someone else. I think we've always found niche opportunities, flexible opportunities, and that's been our goal compared to other companies. I think most likely, in the future, we will see more companies like us or trying to be like us, but I don't think that I could just name one company now that is similar to us.

Sam Arie, UBS
I appreciate that. Chris, do you have time for a quick follow-up, or are we at the end?

Chris O'Shea, Centrica
It'd have to be very quick. I'm going to get in trouble here, but if it's very quick, and as long as you're not asking for a profit forecast.

Sam Arie, UBS
No, I was just going to ask you, from your point of view, you have the tricky job of then thinking all this cash flow that's coming from the trading activities. How do you think about that when you're back at the utility level thinking about your dividend policy?

Chris O'Shea, Centrica
I don't think of it that way. I think of the Group. Obviously, we manage our businesses. Our businesses have clear goals and aims and objectives. I think what we're doing a lot better in Centrica over the past few years is there's a lot more collaboration across the businesses. We work a lot more closely together. But we set the Group up to be a balanced portfolio. We like the three pillars of the three-legged stool. We like to keep that in balance. In some years, some parts will do better; then, in other years, other parts will do better. That's the main challenge. Russell will lay this out in July when we talk about strategy and our capital framework. The challenge is how do we give people – and these sessions are part of it – how do we give people more comfort and more understanding of what the business is? More comfort that although we are in a volatile business, there is an element of repeatability to our earnings. We try and bring the risk down as much as much as possible to stabilise the earnings, but there's always going to be volatility in there, and we just have to be cognisant of that when we set our dividend policy.

Hopefully, we've shown by the £550m capital return that when we have excess capital, we'll return that to the shareholders. Now, that's again got to be looked at through the cycle. It's not about we have a formula and we say at the end of June, we've got some excess capital, right, let's have a buyback. It's around saying, what are the plans? What are the finance like? How do we think about the shareholders and the ride they've had for the past few years? Where does the dividend policy come out? Everything that we do is really a collection of conversations when we look at it in the round. I'm delighted to have such strong performance last year. It won't be as strong this year, I don't think, but other parts of the business this year will be stronger than they were last year. That's just the nature of having this diversified business but focused on energy.

Sam Arie, UBS
Okay, very good. Thank you, Chris.

Chris O'Shea, Centrica
Thanks, Sam. Thank you.

Closing remarks

Chris O'Shea, Centrica
Thanks everybody for joining. Hopefully, you've found this session useful today, and you've come to appreciate a bit more about the quality that we've got in LNG and just how we make money in this business. It's a core part of EM&T, which is a core part of the Group, and it's a business that I am very happy that we've got, and really proud of the team and the work that they've done over the past 10 years or so to build something that was a bit of a glint in somebody's eye into a material profit generator for the Group, and another foundation from which we can grow. I think that that's probably the last event we've got until the results, which are towards the end of July, so look forward to seeing you all in a couple of months. Thank you very much.

END OF TRANSCRIPT