

Group Chief Executive's Statement



Chris O'Shea
Group Chief
Executive

When I wrote to you last year, I said it appeared that this decade may be one of the most eventful for a long time, one where we learn and adapt more quickly than we've done in the past. I'm sure you'll agree that 2022 was another year where the unexpected became the norm!

It's hard to look at a news site or watch a news programme without seeing a mention of 'global warming', 'climate change', 'net zero', 'energy transition' or 'decarbonisation'. And it's difficult to know what to think – is it a real threat? Is it exaggerated? What does it mean for society, and for your Company, both today and in the future?

My belief is that climate change is the biggest single threat facing civilisation today, and net zero is the biggest single opportunity we have at Centrica.

Climate change is real, it's here, and it's impacting lives across the planet. We can see that clearly with changing weather patterns. Reducing the carbon we put into the atmosphere is the best way to stop the march towards a climate catastrophe. Transforming how we generate, store and use energy can make a huge difference to reducing the warming of our planet.

Longer term, if the net zero transition is thoughtful and targeted, it can keep prices stable for customers and drive economic growth, especially for those companies and countries at the forefront of the transition.

Russia's invasion of Ukraine led to an energy crisis on a scale not seen in decades. Using our agility, skills and assets to support energy security in our core markets of the UK and Ireland and help customers navigate through the cost of living crisis has been mission critical.

Protecting vulnerable customers is also an absolute priority and we have clear processes and policies to ensure we manage customer debt carefully and safely. We need to strike a balance between managing spiralling bad debt and being aware that there are those who refuse to pay and those who cannot pay.

However, allegations around a third-party contractor were unacceptable. I was deeply concerned to hear how some vulnerable customers appeared to be treated in our name, this is simply not how we should do business. We will get to the bottom of this and where we got it wrong, we'll make it right.

No one else in the industry has put in place the level of support for those struggling to pay that we have. We were right to invest in customer care and to set up a £50 million support fund for vulnerable customers. We have taken the decision to suspend prepayment warrant activity and have called on Government, industry and the regulator to come together to agree a long-term plan to address the issue of affordability and the needs of vulnerable customers and, ultimately, create an energy market that is sustainable.

Uniquely integrated

Your Company is a uniquely integrated energy company operating primarily in the UK and Ireland, active in both energy and related services. We operate across the energy sector with distinct but complementary businesses.

- We **Make** it – Producing gas at Spirit Energy and generating electricity through our Nuclear stake and in Centrica Business Solutions
- We **Store** it – Both gas storage through Centrica Storage Limited and electricity storage in our Centrica Business Solutions battery projects
- We **Move** it – Our Energy Marketing & Trading team is one of Europe's largest wholesalers of gas and electricity
- We **Sell** it – Over 8 million homes are supplied with gas and electricity through British Gas and Bord Gáis Energy
- We **Mend** it – We install and maintain heating systems in more than 3 million homes

No other company is as comprehensively involved in the UK & Ireland energy markets and as well placed to both drive, and benefit from, the energy transition. In 2022, we have been busy dealing with the energy crisis in Europe and its impact on our customers, investing in improved customer service, simplifying our business, growing our workforce for the future, and empowering our colleagues to deliver for our customers – happy colleagues mean happy customers, which leads to happy shareholders.

When we set out on the turnaround of Centrica three years ago, we had a clear view of the three stages:

1. Simplifying the portfolio and strengthening the balance sheet;
2. Stabilising the Company and driving operational performance; and
3. Delivering growth and positioning ourselves for net zero.

Progress made in 2022

Every one of our eight business units has substantial growth opportunities, whether it's growing customer numbers and new customer offerings in our Retail businesses; expanding both our Liquefied Natural Gas (LNG) business and our Route-to-Market activities for third-party power producers in our Optimisation businesses; or growing both our gas and electricity storage and our electricity generation capacity in our Infrastructure businesses.

In order to capture these opportunities, we needed to make sure our foundations were solid so that whatever we build is sustainable. Some of our businesses are further on than others, and you can see from the results that 2022 has been a year of building on the foundations we laid in 2020 and 2021, and starting to show that we can grow again.

The glue that holds our Group together is our **Energy Marketing & Trading** business, matching our energy production to our customer needs and making sure we have access to additional third party gas and electricity where needed to make up any shortfall. Our operations are critical to security of supply across Europe, and the team did an amazing job in 2022, making sure that we had enough gas and electricity to supply our customers. They secured

Energy Movers by Nature

On Wednesday 20 July 2022 parts of East London came perilously close to a blackout due to surging electricity demand combined with a still day which meant wind farms were not turning.

Our Energy Trading & Marketing team did what they do many times a day and found a solution, which played an important role in ensuring that the lights stayed on and homes and businesses could continue with their daily operations. Because we operate across the continent, we were able to move electricity from Belgium, where conventional electricity plants were fired-up and the electrons propelled back across the channel. All of this happened in under two hours.

We provide 15% of the traded volume that the UK electricity grid relies upon. Every year we are playing a more significant role as the energy makers and movers that keep the wheels turning. We currently manage more than 15GW of third-party electricity generation assets, with everything from solar farms to grid-scale batteries helping to put power where it's needed. Our team in Denmark help to physically balance gas and power markets across Europe and our team in Belgium operates one of Europe's biggest virtual power plants, combining thousands of assets to provide the flexibility grid operators need.

gas from Norway and the USA amongst other countries, and electricity from the Nordics, Spain, France, Belgium and elsewhere, helping to maintain supplies for homes and businesses in the UK and Ireland. We put well over £1 billion of gas into storage across Europe to withdraw in 2023 when customers need it most, and we continued to play a major role in balancing physical gas and electricity markets across many European countries. This team of around 600 colleagues, based in the UK and Denmark, sit in the background quietly doing their work to make sure countries have the right amount of gas and power in the right place at the right time, moving gas around the world on ships as LNG or through pipelines in Europe, and moving power through the cables and interconnectors which connect different European power markets.

In **British Gas Energy**, we grew our customer numbers organically for the first time in many years. We now have more than 2 million customers on our new cloud-based IT platform and I'm looking forward to accelerating the transition of customers during 2023. This is not only to give our customers better service, but to allow us to use an integrated system which will allow households to dynamically manage their energy use and earn new revenue streams by what is known as Demand Side Response (DSR).

British Gas Services and Solutions completed the first year of its turnaround. We made material investments in improving our customer service, and whilst this means that this year's financial performance is disappointing, we leave 2022 with our operations in a stronger place than they have been for many years. In 2023, our efforts will be on maintaining the operational improvements and rebuilding commercial offerings to our customers, focused on what they want to buy. Undoubtedly the current cost of living crisis has had an impact on customer demand in 2022, and whilst this is expected to continue into 2023, we believe that longer term, this business will be at the forefront of the UK's journey to net zero.

The building blocks are being put in place with the formation of the British Gas Net Zero Ventures team, which is already delivering greater flexibility for customers through the launch of Peak Save, as well as installing the electric vehicle (EV) charge points and heat pumps that put our customers at the very heart of residential decarbonisation, and in greater control of their energy future.

Bord Gáis Energy performed well in the year, demonstrating the value of vertical integration as we invested some of the additional profits from our Whitegate power station in keeping customer prices as low as we could. During the year we took the decision to invest €250 million in two new hydrogen-ready gas-fired electricity plants to bring much-needed flexible and readily available electricity to the Irish market.



Demand Side Response

When there's not enough electricity on the grid, consumers can be paid to reduce demand, thus helping balance the grid.

Centrica Business Solutions delivered a profit, made material progress towards building out its 900MW target of flexible generating assets and has an exciting, diverse pipeline of projects.

In our Infrastructure businesses I was delighted that we were able to return the **Rough** gas field in the North Sea to storage operations in September, and withdrew the first gas from storage for five years on 30 November. Whilst only at 20% of its previous capacity, this is a critical first step to underpin the return to full capacity, and an investment of up to £2 billion to build the world's largest hydrogen storage facilities right here in the UK. **Spirit Energy** had a strong year in gas production, while also beginning to prepare for a carbon-free future by submitting an application for a carbon storage licence for the huge Morecambe Bay gas field in the East Irish Sea. This is the first step towards building what could be one of the world's largest carbon storage facilities. And our **Nuclear** electricity generation business had a strong year, delivering higher volumes and profits in 2022.

Managing responsibly for all stakeholders

Companies have a responsibility to make sure they are a constructive and responsible part of society, and at Centrica we are focused on delivering for all stakeholders – including colleagues, customers, communities and our shareholders.

We are supporting our 20,000 colleagues through these challenging times, including through the payment of two significant one-off cost of living payments. For customers, we provided by some distance the largest ever energy support package in the UK and Ireland. And we'll continue to review what more we can do as times remain hard for many customers, having committed to donate 10% of both British Gas Energy and Bord Gáis Energy's profits to help until the current crisis is over.

We donated £4.5 million to a number of charities, including over £1 million to the Disasters Emergency Committee Ukraine fund. We also took the decision in January to return £27 million received in 2020 from the UK Government under the furlough scheme.

I also feel it's important that we continue to be good neighbours in the communities we serve. This has seen us commit to give 100,000 volunteering days into local communities by 2030, as part of our People & Planet goals. All of our colleagues can use 15 hours of their time each year to support local communities.

And we also delivered for our shareholders – restarting dividend payments and commencing our £250 million share repurchase programme.

Reflecting on our 2022 financial performance

While a detailed breakdown of our financial performance is within the Group Chief Financial Officer's Report on pages 14 to 20, I would like to briefly reflect on a year which has seen us expertly navigate volatile trading conditions.

The Group's adjusted earnings per share from continuing operations reached 34.9 pence, up from 4.1 pence during the previous year, as we delivered strong performance in Energy Marketing & Trading and our Upstream businesses. Free cash flow was also up significantly, and we closed the year with £1.2 billion of adjusted net cash.

Continuing what we started

Last year, I noted that our people had started to adopt a winning mindset, and I have seen that our passion and determination to succeed continued to build momentum throughout 2022. We have a plan of action underpinned by our Purpose, and customers are at the heart of it.

We'll continue to focus on the end goal; by doing that, we'll put ourselves in the best position to drive further improvements in our performance and ultimately deliver long-term shareholder value.

We'll continue to do all we can to support colleagues and customers through difficult, uncertain times. And we'll continue to see the opportunities where others see the obstacles, moving faster than the competition to deliver an energy transition which leaves no one behind. I expect to see material progress in growing our market share in the residential net zero arena with heat pumps and EV chargers, as well as the expansion of the demand side response part of our business, from one which primarily focuses on B2B customers to one which ultimately sees a huge proportion of our customers being able to earn money for turning down their electricity demand. This is the future for energy markets – smarter, more interconnected energy systems. And your Company has everything needed to deliver this system and make it simple, sustainable and affordable for our customers.

It is a huge privilege to be your Chief Executive, to lead an incredible team of 20,000 colleagues, to serve over 10 million amazing customers and to work for over 450,000 incredible shareholders. I'm so very grateful for your support, and your patience, as we continue to transform your Company.

Chris O'Shea, Group Chief Executive

15 February 2023

