Centrica plc 2024 Centrica Energy and MAP teach-in 10th December 2024

Chris O'Shea, Centrica

Welcome everybody it's super to see all of you here and also to have everyone that is with us online. I'm very grateful that you've taken the time to join.

I'm also delighted to see that we've got our new chairman, Kevin O'Byrne here with us as well. We will be doing more of these events as we go forward, helping you to understand more about the important areas of Centrica and how we drive value creation.

So you've heard me speak before about the key dynamics that will shape the energy market of the future. There'll be more electrification, there'll be more intermittency and there'll be more consumer engagement. Today's session will focus on two parts of our business that stand to benefit from those trends. You've got Centrica Energy, and our meter asset provider, our MAP. These are great businesses in their own right, but they're even more valuable as part of our group.

Centrica Energy is ideally positioned to create value from intermittency and system complexity and Cassim and John will share how we build our capabilities into a very hard to replicate asset backed optimisation business, underpinning our confidence in delivering consistent profitability and creating options for future growth.

A little bit after that, you'll hear from Dan and Gareth, sitting in the front row, about the new meter asset provider, which is a fantastic low risk business with contracted and regulated returns that creates the foundation for consumers to take control of their energy use.

At face value these two businesses may seem very, very different, but I think today you'll see just how much they have in common. Both are asset backed, both deliver exciting future optionality, both can maximise the options which arise as a result of being part of the Centrica group.

You'll have an opportunity to ask questions following each session, so we'll have two separate Q&A sessions, and we're also joined by our superb CFO, Russell O'Brien, for any of the trickier questions that you may have.

Today I'm increasingly confident in the outlook for our business and you'll see that hopefully reflected in the trading statement that we issued this morning. All of our businesses are expected to deliver 2024 earnings within our medium-term range two years early, with the exception of Services, which is still improving and it remains on track to deliver by 2026. We've

extended the lives of our nuclear reactors again, our Capex is ramping up, albeit more slowly than I would like, and our balance sheet remains very, very strong. It's against this backdrop, we announced a further £300 million extension to the share buyback program, which will be completed by September.

We won't talk about the trading update in detail today, but Russell and I are very happy to answer any questions that you might have and if you could keep those questions to the end, so we'll have the first Q&A session about John and Cassim's session and then the second one, Gareth and Dan, and then we'll take some questions on the trading update if you've got it. But before I hand you over to the Central Energy team, I want to give you a very quick reminder of our strategy, what we are doing to create value and options across the group.

Earlier this year, we launched a new purpose, which is energising a greener, fairer future. This embodies what we're doing for our colleagues, what we're doing for our customers and what we're doing for the broader energy system, it's why we get out of bed every morning. All of the countries we operate in have ambitious decarbonisation targets. These ambitions present big opportunities for, and big challenges to, the energy sector.

In January we'll be launching an updated climate transition plan, which will reveal more on how we will achieve these ambitions. But to capitalise on these opportunities, we have a really simple, focussed approach. Firstly, we're maximising the value of our existing businesses and driving operational excellence. Secondly, we're challenging ourselves to deliver the most attractive commercial offers to our customers. I think we've shown progress in both of these areas, but there's still a huge amount of work to do and there is still a huge amount of opportunities for us to go after in both these areas. A great example of this is the flexible energy, or demand side response capabilities, that we've got, which will help our customers to make the most of their energy use and to reduce their bills.

We're already working on how we embed these capabilities into our customer tariffs, and it's not going to happen overnight, but we have the platform, we have the technology, we have the people, we have the ability to deliver for our customers when the time is right. Thirdly, we're investing for value. Now we're often asked, what does that mean? The capital base that we have provides crucial support to the rest of the group. So as our existing assets wind down, there is a clear strategic need for us to reinvest to secure the future, but we will maintain discipline and remain disciplined to ensure our investments generate value focusing on returns. We won't focus on some ideological commitment to specific asset types, which we think has led to some pretty poor capital allocation across the industry, although not in Centrica, in the very recent past.

We've also said that will favour regulated and contracted assets that can make us a more predictable and more boring business, and to allow us to generate multiple returns on single assets. And we want to invest in assets that create future options. So when I look at the pipeline,

I'm increasingly confident that we can meet all of these objectives. Investing up to £4 billion, whilst delivering a return of capital in excess of 20% throughout the investment cycle.

So the obvious question is how are we doing? We've made good progress this year, including our best operating metrics for many, many years. Some of you might have seen the recent Ofgem market data, which shows that over the last two quarters, British Gas Energy has had lower complaints than Octopus, lower complaints than EDF, lower complaints than OVO.

This is testament to the great work under way, but we're not declaring victory. We will not be happy until we are the best and we're going to continue to make improvements. We've also launched several new customer propositions which are gaining traction in the market. I'm really pleased that we've been able to deliver recently our service promise. What that says basically is it guarantees you same day boiler repair if you call us before 11 o'clock with no heating and no hot water. This is an offer that no one else can replicate, and it's because of our unique engineer network. It's great for our customers and it's leading to encouraging signs both in terms of customer retention but also in terms of new customer acquisition.

Most importantly, though, this has given the team in services the confidence to be even more ambitious. The operational performance is in the right place, it's doing really well. But we've got to step up in the commercial side to support the next phase of growth. And this is something that I'm sure my colleagues would agree that I am laser focussed on. So you should expect to see our brands much more prominently in the future with more attractive propositions, and we look forward to welcoming each and every one of you who are not currently customers as customers.

I think we're also demonstrating how we can deploy capital effectively. As you're going to hear, the MAP has made quite an incredible start, deploying not far off £100 million of Capex this year from a standing start. The Irish peakers remain on track for commissioning next year and we were really pleased to complete the acquisition of Ensek, the software company, the software we use for the energy business. This will deliver value in its own right, but it will also expand the range of commercial options for us to generate future value.

So we've already told you that we'll be in our sustainable operating profit ranges for all of our retail supply and optimisation businesses this year, two years ahead of schedule with the recovery in Services delivering by 2026.

Now as a reminder, the midpoint of these ranges gets to around £800 million of EBIT, which is roughly £1 billion of EBITDA. We've said this morning that were in line with consensus for 2024. If you look forward to 2025, we expect EBITDA from infrastructure assets of around £600 million, subject of course, as usual, to asset performance and commodity prices, albeit that we've already hedged the majority of the 2025 production. Now as part of this we expect Rough to

make an adjusted operating loss of between £50 million and £100 million next year. Rough is absolutely critical in my view, to the UK energy supply and security mix and it can be a crucial part of the future hydrogen economy, but it's clear that making material losses is not something that is either sustainable or will be sustained by us.

We're working with the government to see if we can find a regulatory model to support the asset and unlock investment of up to £2 billion, creating about 5,000 jobs in the construction phase and converting this to be the world's largest single hydrogen storage facility.

If you permit me, if we fast forward to 2028 and do just a little bit simple maths. So the MAP and the Irish peakers should deliver up to about £170 million of EBITDA by 2028. The MAP will continue to ramp up beyond that and Dan and Gareth will tell you how it will do that, about £170 million. Add to that, roughly £1 billion at the midpoint for Retail and Optimisation. You get to just shy of £1.2 billion EBITDA by 2028. You then add on £200 million from assets that we have today, mainly Spirit and the existing nuclear business and you get to just shy of £1.4 billion. And then if you assume that we deliver the IRR's we are targeting, and that is a very safe assumption because if we don't see the IRR's we don't sanction projects, then you'll see that we will add another £240 million or thereabouts of EBITDA by 2028.

So you can expect EBITDA in 2028 of around £1.6 billion with the vast majority, over 85%, coming from activities that are either in operation today or have already been sanctioned by us. I've got advisors here, even one in the front row, keeping a very close eye, this is not a forecast and neither is it new guidance. What we're trying to do is to actually help you understand and do the maths of some of the guidance we've already given you. But £1.6 billion EBITDA in 2028, the vast majority in flight or sanctioned already today. This brings us on to the focus for today. We've spoken a lot about each part of our integrated business, adding value to the other parts of the group, and allowing us to earn potentially three returns from a single asset; the return on the asset itself, the optimisation opportunity and underpinning the Retail business.

The MAP is, I think a perfect example of our strategy in action. A low risk, contracted return which is a really attractive standalone business. It also builds an asset base that supports the Group's balance sheet, which in turn supports profitability in both Optimisation and Retail, and it helps to support commercial innovation for new tariffs and data insight. But before we speak about that, I'm going to pass you over to Cassim to talk about Centrica Energy.

You've heard me say before, Centrica Energy is the glue that binds our group together. Through the procurement and route to market services it provides to Retail and to Infrastructure. It really helps us understand the energy system, identify an opportunity to deploy more capital and allowing us to create more attractive products for our customers, both corporate and retail. As the energy system evolves, the services we provide to third parties are helping us accelerate the energy transition, offering a growing set of options for Centrica.

So you've heard me drone on enough now, I'm going to stop, I'm going to handover to Cassim and John, who will help you understand a lot more about how we deliver value from these options. Then I'll come back before we do the Q&A. So Cassim over to you.

Cassim Mangerah, Centrica

Thanks, Chris, and good afternoon to everyone and thank you for the opportunity to talk about Centrica Energy. My name is Cassim Mangerah, I'm the manager director for CE. I've been in the energy industry for almost three decades, across five different companies and prior to that qualified as a chartered accountant and also joining me today, as Chris said, is John Park, our CFO.

In today's session, we will explore three things; how we generate value as a trading and logistics business, how we've built the core capabilities we have and some of our future growth options. We will also explain how these capabilities support our earnings guidance and create upside opportunities.

There is a compelling and enduring opportunity within the energy value chain for our physical trading and logistics business. This opportunity is fundamentally driven by the complexity in the flow of energy from source to sink and the continuous need to balance supply and demand. As the decarbonisation of the energy system accelerates, the need to transfer energy and to balance intermittent generation with demand will continue to grow. The inherent financial risks associated with the movement and the balancing of energy is also going up.

Global events and changing weather patterns can significantly alter these flows and balances, resulting in distressed and volatile markets. Downstream and upstream players will always need to manage risks in the face of market volatility. This requires counterparties with the right capabilities to help them achieve their financial goals and ensure reliable access to the energy they need. We are one of these counterparties, and these factors present huge opportunities for Centrica Energy across the value chain.

Moving forward, the landscape will continue to be shaped by the energy transition, technological advancements, policy changes and geopolitical developments, and we will evolve accordingly. We have fundamentally built CE to take advantage of the fundamental mechanics of the energy markets. This results in what we consider to be a hard to replicate model that generates asymmetric upside opportunities.

Let me explain what I mean by that. First our model, in a nutshell, we have a portfolio that is anchored in physical assets, diversified across the entire energy value chain and its geographies. We trade a comprehensive portfolio of commodities with long term growth potential, and we see huge benefits from participating across all of them. Our business model is

also underpinned by world class capabilities that ensure the effective implementation of our strategies.

These include our deep market expertise, a scalable in-house digital platform and sophisticated risk management capabilities. Furthermore, we are constantly developing these capabilities, giving our fantastic teams the tools they need to succeed. This in turn helps us to deliver innovative products for our customers, which ultimately creates value we can capture.

Now, coming back to what I said on our model, generating asymmetrical upside opportunities. The fundamental value drivers of a physical trading and logistics business are based on creating a network of physical assets spread across a diverse geographic footprint. For example, when securing physical asset capacity, the initial cost of the investment is known. A baseline return is also, to a large extent, locked in at that point, but the ultimate return from this investment is skewed asymmetrically to the upside.

If the markets move in our favour, we can lock in further gains. But if it doesn't, we still secure our base return. The larger the network of physical assets we have available and the more geographies we can optimise those assets in, the greater the opportunity to extract value. This extensive network and our expertise enable us to add value to a broad spectrum of counterparts, including other energy companies, exchanges and grid operators across Europe by providing a range of professional services.

When taken together, our model and capabilities provide us with substantial competitive advantage and sets us apart from other trading houses you may be familiar with. Our operating model is simple, but the market we operate in is complex. Building this knowledge and the wider capability is hard and as Chris already touched on, it is also highly complementary to the wider Centrica strategy.

We haven't always had this range of capabilities. Developing our current model has required time and effort achieved through both organic and inorganic growth. Initially, we focused on managing internal commodity risk for Centrica. The precursor to Centrica Energy was established in 2010 with a primary scope centred around the UK gas sector. Over time, we have evolved our model by strategically expanding into adjacencies and developing a competitive advantage, leading us to where we are now, pan-European gas and power trading with the leading renewables route-to-market business and a global LNG portfolio.

Our expansion into new markets or products follows a consistent, meticulous approach, where we adhere to a key principle. We start small to test and learn, with limited risk capital and progressively expand towards developing full capabilities. For example, when entering a new geography for power trading, we start with small, short-term positions using standardised

products. Once we develop a good understanding of that market, we expand the time horizon and the trading and risk management strategies.

As our presence matures, we move into longer term renewables, corporate PPA’s and batteries. This incremental growth approach is capital efficient, because we leverage the scalable platform we have built and we consistently explore strategies that have synergies with our existing portfolio. This approach also enables us to grow whilst managing risk prudently. If conditions are not favourable, we can reverse our decision with limited impact.

We did this in France, withdrawing from third party asset management after realising we couldn't deliver acceptable returns at the time. We have also grown inorganically, such as when we decided to accelerate the building of our valuable renewables route to market business through the acquisition of Neas Energy in 2016. This measured approach to growth has worked out well.

As we look forward, the next expansion opportunity for us is in the US market. This is the world's largest liberalised energy market, a key player in an increasingly interconnected system and the market we are already familiar with from our LNG business. Recently we conducted our first trades in short term U.S. power trading, and I might add, we made a profit. We are starting small in line with the iterative approach I just laid out with the goal of eventually expanding to full physical trading and logistics services.

So moving on now to how we are set up. The business is organised into four verticals and John will shortly explain how we generate value in each. First, gas and power trading, which is the foundation upon which we have built the businesses we have today. The key value driver here is in the need to move energy through the system to match supply and demand. Through this we have more efficient markets, managing gas transportation across borders, trading power across interconnectors and optimising our storage positions. This vertical is now operating in 28 countries, executing over 11 million trades per year.

Next, we have renewable energy trading and optimisation, or RETO. With increasing decentralisation of power generation, many asset owners do not possess the required trading and risk management capabilities to optimise returns on the investment. And crucially, they don't have the desire to build these capabilities which are hard to develop.

We provide the valuable route to market services that allows them to get their energy onto the grid. With approximately 16 gigawatts of assets under management, we are also able to match our managed generation and flexible capacity to downstream customer demand. This helps corporates decarbonise through power purchase agreements, i.e. PPA’s, another service we can extract value from.

Our LNG business has also been built by connecting production to consumption. We began by procuring a few cargoes for our out of grain regasification position, followed by risk managing our Sabine Pass contract. By identifying and building around these two initial positions, we have gradually expanded to trading 260 cargoes in 2023, supported by a flexible portfolio of contracts. And to date we delivered to and from 39 countries globally.

Finally, there is the support we provide to the wider group. This includes risk management optimisation services across upstream and downstream. And more recently, we have been playing a crucial role in identifying investment opportunities based on our extensive knowledge of the energy system.

Now, looking at all four pillars together, I would like to highlight three points. First, all four verticals are managed with a highly disciplined approach to the deployment of risk capital and resources. Second, there is a portfolio benefit in building these verticals together. For example, the movement of LNG often interacts with the pipeline and gas network, adding an extra value dimension. Finally, as we have developed these verticals, we are seeing an increasing balance in the earnings of the business, further enhancing our resilience and underpinning our confidence in the delivery of our £250 million to £350 million operating profit range.

That's enough from me for now. Let me come over to John, who'll take you through each business in a bit more detail.

John Park, Centrica

Thank you, Cassim. I joined Centrica Energy just over two years ago from a 20-year career in energy trading businesses across investment banks and private equity, and I jumped at the opportunity to join Centrica Energy and the team.

You have had the overview of Centrica Energy now and our journey to date. Let me take you through our business in a little bit more detail. I want to explain why we believe that our unique portfolio can consistently deliver our operating profit guidance.

First, gas and power trading, an area that has been the foundation of our capabilities since inception. As Cassim outlined, today we have a gas and power trading business across 28 markets in Europe and now the US. We trade a broad range of products and strategies. The business is backed by our transportation and gas storage positions. Our physical trading allows us to extract value through time and location spreads, supported by our geographical diversification.

This also creates a unique opportunity for financial trading with analytics underpinned by us being a physical market participant. To give you a sense of scale, we currently have 25 contracted gas storage locations in nine countries, with 500 million therms of capacity under contract. This is enough to heat over 2 million homes over the winter. We are also a leading player in the power markets flowing electrons in 2024 across 40 European market borders.

Let me give you an example of how our power trading capabilities can support grids in times of need, in this case the Hungarian power grid over this past summer. On the 9th of July, the Hungarian power grid saw a number of issues combining, resulting in a distressed system. There was a heat wave with temperatures above 37 degrees, there was low rainfall, which reduced output from hydro plants, daytime had very high solar production, pushing conventional production out of the generation mix and there was also a curtailment on the interconnector cable between Hungary and Serbia. This created a big problem during the evening when solar production ramped down. We had to act fast to balance the system and capture value from our services.

This is where our capabilities truly shone. It started with our ability to predict events like these. We have developed a number of machine learning algorithms that combine weather data with information from our extensive physical presence to spot these patterns. This allows us to move faster than the market to capture value from these distressed market events. And in this case, our models had predicted pressure before the distress became apparent to others. Using our grid of interconnector capacity, we were able to flow power into the Hungarian power grid during the evening hours. This helped to alleviate the pressure and limit price spikes on the distressed system. And of course, we've earned an attractive return for our services.

It is important to understand that very few market participants can do what we do. CE can only do this because we have a comprehensive portfolio of physical positions with a wide geographical footprint. We have a scalable 24/7 trading and operations setup that continuously monitors the market. We have sophisticated trading capabilities to manage risk, backed by deep fundamental market knowledge. And of course, we benefit from being able to deploy the group balance sheet and credit rating.

Let's move to RETO, our second pillar. There's been a massive renewable rollout in Europe and the UK. The total installed capacity for wind and solar alone was almost 570 gigawatts at the end of 2023. This is an increase of over 170% in the last ten years. This will continue to grow as renewables have become one of the lowest cost new build technologies across most major European markets.

Centrica Energy has grown along with this trend. We’ve increased from 2 gigawatts of capacity under management in 2015, to around 16 gigawatts of renewable and flexible assets today. This already makes us one of the largest independent renewable portfolios in Europe. We are

expecting strong growth going forward, reaching approximately 28 gigawatts of renewable and flexible capacity by 2030.

As Cassim touched on many renewable asset owners and investors do not have the ability to balance themselves on the grid. There are material financial consequences for them, including grid suspension, if they have imbalances with the grid operator. With our capabilities and market knowledge, we can step in to solve this problem for them, earning ourselves an attractive return. We can provide a route-to-market for the renewable generation. We can balance renewable energy and indemnify asset owners against penalties for imbalances. We can participate in ancillary markets on their behalf, further increasing the value for the asset owners and therefore the value that they are willing to pay us for our services. And of course, we can provide bankable products for developers to help their products or projects onto the market.

Meanwhile, on the consumer side, we move renewable energy from generation to off-takers who want to decarbonise their operations while managing their risk exposure. Our ability to package up uninterruptible renewable power from our diverse portfolio is a unique value proposition that only a few market participants can match. This dynamic has obviously come to the fore recently with a growth in power demand from data centres. Our capabilities make us an attractive partner and in 2023, around 35% of our corporate PPA's were executed with the tech sector.

It also key to understand our markets continue to grow. As cheap renewables transform our grids and thermal generation is retired, the production stack becomes more intermittent. This creates an opportunity for flexible generation and storage to be deployed at scale. This is an area of focus for us for growth. Our battery portfolio under management is currently at over 400 megawatts and we are turning a profit on this portfolio today.

Overall, these dynamics mean that we have a business with a highly rateable earnings profile. Around 70% of our asset contracts extend beyond 2026. We offer an essential service that the market will pay for. Therefore, a significant part of this business has fee-based revenue streams. All of this means this is a business set up to succeed in all market conditions.

To bring this to life, then let's look at an example in Finland of how we adapted our offerings to compete and win. The Finnish market is an interesting and challenging one, as more and more renewables are deployed, there is not enough flexible consumption in the system. This increases the risk of high imbalance cost. Also cold winters often cause icing issues, taking down some of the renewable generation and further stressing the system. We saw this as an opportunity to innovate in how we manage risk for our customers.

We were the first in the market with an offering which included protection against financial losses in times of extreme imbalance cost. In addition, we enabled renewable assets to participate in ancillary service markets. This is where assets are paid by the grid operator to be on standby for energy generation or consumption. We also strengthened our physical trading capabilities in Finland to capture additional value from the distressed market. These innovations made us a highly attractive counterparty, which is reflected in the fact that we have been able to double our operational renewable portfolio in two years towards 1.2 gigawatts by the end of 2023, while delivering very attractive returns on our risk adjusted capital. Finland is one of our newer market entries and one of our top performing markets in 2024. This demonstrates how we can profit from renewable rollout across countries. We were able to achieve this growth in Finland because of the scalable platform we've developed over the past years, and we are using the same capabilities to further grow our RETO business.

Let's move on to our global LNG business, our third pillar. Stepping back for a moment and looking at the wider market, LNG has had a transformative effect on the global energy system and is the key driver behind the globalisation of gas markets. In under ten years between 2014 and 2023, global LNG trade grew almost 70%. We see the importance of LNG continuing to increase. Demand is expected to approximately double by 2050 compared to 2020, as LNG is used to replace coal and we see a lot of new LNG supply coming online.

The LNG impact on the global energy system is the reason why we got into the LNG business. Today we have a mature LNG portfolio we grew from a business that traded 27 cargoes in 2014 to 260 cargoes in 2023, as Cassim mentioned. Expanding our capabilities has been crucial. This is fundamentally a bilateral physical activity where credibility is key. That includes having the right team and processes in place as well as group financial support.

As Cassim mentioned the original portfolio was anchored around two contracts: the Sabine Pass LNG offtake and the Isle of Grain Regasification capacity. That was a solid start, but it meant that we were heavily exposed to the particular dynamics of those assets and markets. So over time we've added to our portfolio with a combination of short-, medium- and long-term positions in the US, Europe, Middle East and Far East. Our new long-term deals grew the portfolio while diversifying our risk and increasing optionality.

On the buy side, we've added Delfin and Mozambique, while on the sales side we've added Shenergy, all with common threads of flexibility and optionality. Our optimisation activities are supported by two long-term vessel charters alongside a range of shorter-term shipping capabilities. These capabilities meant we can optimise our portfolio through a range of strategies, including, for example, cargo diversions, adjusting delivery timing, or executing on partial deliveries.

Let’s now take a real-life example to illustrate further. In July this year, we took a cargo from Sabine Pass, with a base case delivery to the Isle of Grain. However, market conditions shifted,

and our traders found an opportunity to shift the delivery to the Far East, selling the cargo indexed to the Asian market, which was paying a higher premium at the time. This gave us an uplift of $5 million which we could only achieve because of our capabilities across trading, analytics, operations, and the flexibility we have in our portfolio. Crucially, we captured this additional value without carrying any further price risk, as we immediately transferred our hedge positions from Europe to Asia.

We also continue to focus on prudent risk management to underpin our portfolio and returns. Looking at the next few years of the Sabine Pass contract, we are largely hedged, and we have also recently taken further steps to offset our Sabine Pass price exposure to physical supply deals in the US, with Coterra starting in 2028. This deal hedges around a third of our annual Sabine Pass offtake for ten years. Importantly, these hedges generate a positive margin, and we retain the physical optionality as I just described to improve our returns when market conditions move into our favour. Besides direct LNG hedging, we can also use our capabilities in the physical gas markets to support the LNG risk management.

Finally, as Chris mentioned, we use our capabilities and platform to create value for the wider Centrica group. This includes the procurement and risk management of our energy supply business, and route to market and hedging services for our infrastructure assets, in a similar way as what we do for third parties through our RETO business.

Equally, we can use our knowledge and experience in physical grids to support more informed investment decisions for the Group. As a rough guide we can generally add around 2% incremental returns on investment decisions through optimisation.

A great example of this came in September this year when Centrica announced the acquisition of a portfolio of 'ready to build' battery projects in Sweden. Identifying that opportunity started with our long-term experience in the Swedish market, where we have been trading since 2009. We saw a structural undersupply in frequency control products in a specific region of Sweden. That led us to work with our colleagues across the broader Group to deliver this investment, which is expected to create attractive returns, while also strengthening our expertise in managing batteries in the Nordics.

As we've gone through these examples, you will have seen how our business is anchored in physical assets. As Cassim said, this gives us a fundamental different risk profile relative to other trading businesses. We are further supported by the Group's financial strength. This gives us the trading capacity, credit lines and liquidity to capture value under all market conditions and you saw the value of that in 2022 and 2023.

That does not mean our returns are guaranteed - pricing and volatility impact the size of the opportunity set for us – but it adds predictability to our earnings base.

We have a more diverse business today, with greater capabilities and a track record of growth. You can see this in our financial performance. In 2019, before COVID and major market volatilities – we delivered £140 million of adjusted operating profit. In 2024 and 2025 we'll deliver within our £250 million - £350 million range, demonstrating our strong organic growth over this period.

We have also more balanced gross margin contribution across our balance over the last couple of years, in particular as we've grown RETO, we've added a more sustainable earnings profile to our business. Looking forward, we remain confident in our £250 million to £350 million operating profit range under normal normalising market conditions. And if you saw the same market conditions as in 2022 and 2023, we are confident we can deliver a similar or better performance as what we did while still operating, operating within a controlled risk environment.

This will not be due to luck, but by the design of our business as we've outlined today. Additionally, our strategy and performance are underpinned by powerful market trends in globalisation and decarbonisation, that has come a long way, and has a long way to go. Cassim let me pass over to you.

Cassim Mangerah, Centrica

Thank you, John. Today we've given you greater insight into Centrica Energy's model as a physical trading and logistics business, and how we create value across our verticals. What we have built is hard to replicate, with a comprehensive product suite across the energy value chain and deep capabilities that leverage cutting edge technology to make trading decisions day-in, and day-out.

You've seen our demonstrated ability to grow the business, such as how we've built one of the largest third-party renewables portfolios in Europe, and how we've scaled our LNG business. And this has been achieved both through innovation – like how we adapted our offerings in the Finnish market to win in RET&O, and how we changed how we think about managing risks for LNG through our recent Coterra deals – and through a deliberate, iterative approach to expand into new products and markets.

As John mentioned, we are confident in our financial outlook and in meeting the £250 million - £350 million operating profit guidance, supported by a balanced portfolio, aligned with enduring market trends and strong contributions from businesses backed by rateable contracts. And of course, we have the ability to capture asymmetric upside potential like we saw in 2022 and 2023.

And we will not stop there. We have exciting and material opportunities ahead of us, continuing our track record of growth. Thank you for your time, and we would be delighted to take any questions you may have before moving into the next session.

Chris O'Shea, Centrica

So before we go to questions, just a couple of things, we're trying to focus on questions on this section rather than anything on the trading update. But I just want to emphasise one thing that Cassim and John touched on before we do that.

We expect the global gas market to be soft over the next 2 to 3 years. We had lots of questions you know, what's going to happen to Russian gas, US LNG, we don't know, but we expect a bit of a glut of gas. We therefore hedge the vast majority of our LNG exposure over the next 2 to 3 years to limit any downside, and that's through things like the innovative Coterra deals that Cassim and the team have done over the last few months and some recent LNG sales, some of which we've announced, some of which we haven't noticed because the counterparty wants to keep it below the radar.

If the softness comes to pass, we stand ready to pick up well-priced long term LNG deals where we think we can add value for the shareholders and also energy security for our customers. But the key thing to know is we've limited that downside. I know that that's been something that's on people's minds so the majority, the number that was even John showed in the chart, we debated whether we'd have something that would move during the presentation because it is literally moving at the moment as we hedge a bit more of it so we've got far less exposure over the next 2 to 3 years.

But with that, let's move to questions, I know there are probably loads of questions I will try and moderate, so we'll go Jenny, Mark, then here.

Jenny Ping, Citi

Thanks very much. Jenny Ping from City and just on page 17, on the LNG portfolio. Obvious, what we can see as outsides is the spreads between the Henry Hub and the NBP and there's obviously been some sizeable margins that appeared in the market. Can you just explain to us what is holding you back from capturing some of those sizeable margins that actually reflects in your numbers? And then in addition to that, I guess, in terms of the portfolio mix, if I look back on page 19, you know, historically pre Russia-Ukraine war, you've been trading at around £100 million or so, so effectively, you know, third/third/third, Is that the direction of travel going forward in terms of what we should expect medium-term in that evenly split manner?

Cassim Mangerah, Centrica

So just to answer the question, let me just break it down to a couple of things. First and foremost, which is obviously markets and spreads are moving around. So when you talk about the current situation between Henry Hub and NBP. Just the point are making earlier, we are obviously trying to hedge our portfolio progressively as we go through time. So taking spread at one time will not necessarily reflect our portfolio.

The other dimension to add to that is since as you look back and you look forward, we've obviously had the period where Centrica was rebuilding the business and the balance sheet so our inactivity in 2021 has part of the story in terms of why we have some of the differences. Going forward as Chris said, we are looking to manage our portfolio in a much more consistent manner, which is to progressively hedge our portfolio. We continue to do that, particularly as we see an opportunity to lay off material risk financially and from an FM perspective, but retaining the flexibility to capture upside opportunities that we see going forward.

Chris O'Shea, Centrica

I mean, if I could add on that Jenny, you remember when prices went to their most crazy level after the Russian invasion of Ukraine, I remember saying to the board, if we could lift the cargo from Cheniere today and deliver it to Isle of Grain today, we would pay $25 million and sell it for $315 million, So the spread was $290 million per cargo, but we don't operate the portfolio that way. It's not that it could go the other way, but you could see a huge spike in US gas prices.

So what we try and do is to make sure that we're pretty well hedged so that we're well set, and Arturo is at the back, Arturo and the team can capture value, but we are very, rarely, very naked on LNG exposure. And what we're always trying to do is to have a baseline hedge and then to be able to capture that upside optionality. So you can look at the spreads on any one particular day and say we should have got them, but today we are hedged out into 2028 and the more we think the market is going to be bearish, the more we hedge and the what we think it is bullish, we might hedge a bit less to keep a bit more. It's based on fundamentals and that might change over view next year, changes of how 2028 is going to go, we might lay on more hedges or fewer hedges because it's all about making sure that we've got the right exposure, we can capture the upside, but we don't run too much naked price risk.

Mark, And then we'll come over here.

Mark Freshney, UBS

Hi, Mark Freshney from UBS. Can I ask, it's interesting Cassim that you're talking so much about making moves into the US market. I mean, that's very different to Europe, but it's much, much bigger and energy trading in the US is a European activity, right? So I can see, but the last time you went was not successful right, you lost lots of money in short periods of time, margins were never there, polar vortex. I think NRG had a very bad experience with direct energy. And despite being the second largest energy in North America, you couldn't make it work. So Cassim, what are you doing differently this time and why are you going back to North America?

Chris O'Shea, Centrica

Let me start off, I'm not sure we would have said the second largest energy trader I'd be very surprised if we were. So we did an awful lot of wholesale gas and power when we owned Direct Energy. You're right on NRG. That was the point at which I thought actually maybe the luck was with us when we completed the deal, I can't remember the name of the storm, but we completed a deal about a week before the storm came in. We calculated would cost us about $1 billion because you would get you would get massively short. Now the regulators actually gave NRG and other companies a lot of that back through increased prices. But if you had uncovered shorts you were really in trouble.

Look, I think that it's a fundamentally different business. I remember when I came into the company, we got caught really short because we had sold a bunch of gas into California, we bought the gas in Canada and there was one route in and the pipeline went on fire, it wasn't our pipeline. And you look and think, we are absolutely screwed, we've got a sale here, there's no way to get the gas in, the markets were going crazy.

I think the initial thing I remember is Russell and I were in a meeting, Cassim came in and he was delighted. He said we've done our first four trades in the US, closed them out and we've made $16. So these are very small trades done using algorithms but they're also trading, Cassim will tell you, either within day or day ahead.

Now that's not the say that's all that we will do, but we took a very, very different approach in Direct Energy and I was never really clear if I'm being brutally honest as to how we differentiated between what was optimisation and what was B2B energy supply. And if I'm being frank, it was a good team we had there I'm not sure that they were super clear, what was clear to me as soon as I joined the company, and Alex, I think you were based out there, but what's clear to me is we did not have expert trading capability in that business. We were, I think, good at marketing to the retail customer base, I think we were good at marketing to the to the B2B customer base. One of the first things I did when I was doing Russell's job is I changed and appointed a Group Chief

Risk Officer in order to understand the risks that we'd been taken in there, because I didn't really think that we had a full handle on it. But I mean, Cassim you can describe what we're doing, but it is fundamentally different and whilst we might get to something that's far bigger, I can promise you it wouldn't be without the Chief Risk Officer and Russell being happy and me being happy, then I've got to get the board happy as well. This is something we've had lots of conversations with the board, but you should relate to people, was it was $16 in total or $4 for all four trades.

Cassim Mangerah, Centrica

$16 in total, $4 per trade I think on average. Just to reiterate, I would agree with everything Chris said, the model and approach was entirely different. I was here at the time as well as in part of Centrica and part of the senior management team, so I think have a reasonable insight on that. Also, I think when we look at the US, the US is not just one market, there are 11 ISOs, we're taking an iterative approach, as Chris said. So we're approaching the model entirely different.

We also see connectivity between the US and Europe because of LNG and so the Coterra deal has happened because even the US can see that connectivity, which is not the case before. And if you look at some of the dynamics between what we can do in Europe from a renewables perspective, we can take the same model into the US because of the technological advances in Europe relative to what's happening in the US, simply because we are ahead of the curve. With the same portfolio approach that we're taking in Europe, the same iterative approach to grow, we can apply to the US. So we are confident that we'll do that in a measured way and it is a different approach.

Chris O'Shea, Centrica

I think a good example, if you look at the deal with the Coterra, effectively we give Coterra access to European gas prices and what we are able to do therefore is effectively have a lot of the Cheniere purchase now denominated in European gas prices. So the market risk is actually reduced massively. We could have chosen to go in and physically trade gas in the US, but the Coterra deal gave us what we were looking for without having to take all that risk of physical gas trading.

So, this will not be something where we come back in February and say, surprise surprise, we've got 50 people in the US and we're trading two or three BCF a day, this is something that if we decided to get bigger, will take quite some time.

We have a question over here and then we've got a couple online as well.

Harrison Williams, Morgan Stanley

Thanks for taking my question, Harrison Williams, Morgan Stanley. So actually, following on the US topic. I mean, one of the big benefits you talked about in Europe was your large physical presence and the deep market knowledge. Do you think the LNG presence you've got is sufficient for you to pursue this organically or to really pursue this would it need to be something more inorganic? And then the second question is, you know, I think you are building confidence in this long term £250 million to £350 million adjusted operating profit range. Clearly, you have ambitions to go beyond that and I'm wondering if you could give us some key metrics we should be tracking which could help you, or help us follow when you might surpass, you know, the top end of that range, is that countries, number of countries is that, you know, capacity under management or what else?

Chris O’Shea, Centrica

That's a brilliant question because Russell’s been asking Cassim that as we've been trying to set the budget for next year. So I'm really interested in the answer to this, so go on Cassim

Cassim Mangerah, Centrica

I kind of feared that. So just first on the organic on inorganic in the US that you mentioned. Look, it's early days as we said, we are going to take an iterative approach, in growing in the US. How we actually grow will be a function of how successful we are. We're taking a small step and we’ll grow on that. Can we grow a scalable business in the US? Ultimately, that is the objective. As I said earlier, there's no two ways about that, but what we're not going to do here today is tell you what steps there are on a predetermined basis because it's not predetermined. It will be dependent on how successfully we deliver the strategy. In terms of the guidance we are comfortable, very comfortable with the guidance of £250 million to £350 million range and confident that we can deliver that. And obviously we are trying to grow and look at growth opportunities and when we have something to say on our range, you'll be the first to know. But right now we're sticking with the with the guidance of £250 million to £350 million.

Russell O’Brien, Centrica

Did you get the answer there on the covering the range. You're happy with that?

Harrison Williams, Morgan Stanley

Covering the range, happy yeah, I mean if you had anything kind of longer term, you know what we could track metrics wise beyond that great.

Chris O’Shea, Centrica

The critical thing in this is so we think we've got a competitive advantage in the markets we’re in and we think that others will either be unwilling or unable to replicate what we've got. But we might be wrong. So, they might come into those markets and then you expect the returns to be

down a little bit. So, this is why we are going into new markets. And so if we are right and they either are unable to do it or they choose not to do it, we'll keep the margins we've got in the existing markets, we'll add margins on the new market.

But again, covering the downside, if people other people come in and the bid that away then will have we will have lower margins in these existing markets, we're building positions in new markets and there's a whole bunch of markets we can go into, but very, very cautiously. It's one of the beauties of this business that we bought in Denmark, where the intraday trading team would go into a new market test, the market with very small trades, learn about it, and either come out and say, okay, we think we understand this market, then the RETO team would go in with long term deals or they'd say, you know what, we just don't think we can make this work.

And I've seen them go in and I've seen them put in for a few months, come out and say, not for us, super disciplined. And we can we've been very comfortable applying that in Europe because the land border, we say why would we be uncomfortable with a sea border. So we'll do that, we might not make all 11 ISO's work in the electricity market we might say these are, like Ercot's probably quite good, the Texas market, but we'll test we'll test MISO first, we'll test Ercot, we'll probably try PGM. They're probably the three really good markets for us to try and understand. I'd be amazed if we could make all 11 of the markets work, there would be some of the liquidity wouldn't be right the market knowledge will be required.

So we'll just have to we'll just have to see. But I'd hoped you'd get an answer there saying Cassim was going to up the range to maybe £350 million to £400 million, but unfortunately we're going to have to wait.

So let's go. So we'll go here, here, here, here and then we'll go online and then we'll go on to our meter asset provider.

Charles Swabey, HSBC

Hi, Charles Swabey, HSBC. Two questions, maybe one to go back to the question on guidance. So just if we look at the route market business, we think about that 28 gigawatts you're looking to get to by 2030 up from the 16 now, does that support the medium-term guidance range or is that suggesting potential upside is the first question.

And then the second one, is there any read across for Centrica Energy from the current unfavourable economics we're seeing in storage at the moment due to seasonal spreads? Thank you

Chris O'Shea, Centrica

So the target for that is out to 2030 the mid-range targets to I think 2026. I would be incredibly disappointed if we went from 16 gigawatts to 28 gigawatts and said, you know with the profit guidance, but we just got to understand and learn how the market evolves. So I would hope that that would be the case, but look on storage, obviously we are seeing an impact because Cassim's team trade the rough field, so we're seeing an impact there, as you can see with the losses. But Cassim worthwhile talking about, we talk regularly about the fact there's no shape in the curve, actually summer winter was invented for a wee bit, it's a bit odd.

Cassim Mangerah, Centrica

On the summer winter spread that you mentioned, it is inverted right now. It does provide a challenging environment from a trading perspective, clearly because we don't think it is sustainable. We expect it to be traded away before the end of winter. If it doesn't, nobody's going to store gas in the storage facilities across Europe, although there is regulatory measures that force people to do that, the economics of which are not certain, so there's still a compensation package that needs to be agreed and determined. So we think it's a quirk in the market right now. It has an impact on us, to be fair, but we think we'll manage that as it competes away naturally because it has to, otherwise, as I said before, there's no storage, gas storage.

Harry Wyburd, Exane BNP Paribas

Turning to the RETO business I'm interested in your thoughts on an asset light versus asset heavy model. So, you've gone, you're probably one of the only companies we cover that's gone heavily down the aggregation road, whereas most of your peers are going down the physical asset road, adding gigawatts and gigawatts of batteries in particular. So how do you compare the two? Have you gone down aggregation because you think that's better ROIC? And do you feel like you should or could add more physical assets and that would improve your ability to trade the markets you're trading in? And in particular, if you're thinking about doing that inorganically, I guess there are potential assets in the UK that are trading at quite depressed multiples in the battery space. What would your thoughts be on adding additional capacity in? Do you think you could monetise that?

Chris O'Shea, Centrica

Let me try that. So we are agnostic as to whether we own the asset or not. If we think by owning the asset we can make it better return we're happy to buy it. We bought a battery in Belgium last week, week before. We'd been operating for five, six years, we knew this thing really well, opportunity came up to buy it. We're building some batteries, I can't remember what we've got, we're building some in Sweden just now, we're building another one in Belgium, we looked at, I think yesterday, another one in Belgium, a couple in the UK. So we're very happy to build these things, but we're also very happy to these under third party management by Cassim's team and when we build something there is no debate it's managed by Cassim's team, so there isn't separate team that would manage their own batteries. But we buy or build batteries and we're trading them, and we can make money and we see that somebody will pay us more for the equity ownership, we'll sell the batteries. So we don't have this, and that's what I was saying

earlier on, there’s nothing ideological about what we do. there's just a very strict criteria of can we make money or not.

I think we looked yesterday, so Russell chairs our investment committee, Cassim sits in it, we looked at the number of things that we looked at and there was something like we had looked at about 200 M&A deals this year, now some of that’s just lots of inbound stuff. I've don’t know how many we followed up on, but we kicked out something like 85% of them because of price at the first round of the non-binding offers because the team said we’re not sure that's a good idea. That is absolutely brilliant, because what we see now is the market is coming towards us because people have been overpaying and we've been very disciplined if we get in, we get in, if we don't we don't just now we’re getting through more. Now we're not getting through more because we’ve relaxed our investment criteria, it’s because the interest rate environment has changed. And as you say there’s some distressed assets there. So we'd be very comfortable in buying them, but sometimes you've got to be very careful, sometimes assets are distressed not because of financing changes, but because the distressed assets are maybe in the wrong place.

And that's where the knowledge you’ve got from this team is incredible. We know, we chose the Swedish sites because Cassim’s team said there's going to be a crunch here for five or six years and we could make super normal returns and then it will just be normal returns thereafter. So we picked these sites and went looking for a developer. We owned the sites specifically based on what we understood from the grid constraints that were coming.

So I'm quite, quite agnostic, if there's a big portfolio there that looks good, then you know, very happy to look at it. If it gets through the screening criteria for Russell and the team, can Cassim and the team are happy about it. If it meets our hurdle rates, then, you know, we've talked to the Chairman and if we're happy to buy it we will, but, you know, we would do both actually , very happy to continue capital light manage for people and supplement with our own assets as well.

Ahmed Farman, Jefferies

Ahmed Farman from Jefferies, Two questions. I’m just hoping if you could sort of help us think a little bit about the sort of the gross margin split. More on a contracted, uncontracted basis for 25/26? I'm thinking RETO is a large part of that is contracted, maybe LNG is contracted as well. So would it be fair to think 50%, 60% or more than that of this is contracted?

Chris O’Shea, Centrica

That’s commercially confidential we wouldn't give that out. Good try though!

Ahmed Farman, Jefferies

The other part I just wanted to ask you is how has the capital intensity or capital allocation of this business evolved over time, as you sort of go from £100 million to sort of, you know, the sort of the £300 million plus range you're talking about?

Chris O'Shea, Centrica

I would say way more sophisticated than it used to be. So we have a very well calculated risk capital balance. We monitor that very regularly and I think if I go back two, three, four years, we kind of knew what we were doing there, but nowhere near as professional as we are now, and that was one of the prerequisites. We saw just a good this business could be in 2022 and 2023, we had a long chats with Cassim and team and the Board. If we want to do this, we have to really make it far more like a trading house. John coming in really helps us with that. And so it's far, far more sophisticated. But Russell you can touch on and John, you've probably got something you want to get into.

Russell O'Brien, Centrica

I think when you think about the capital that you keep for this business, you also have to think about the risk you're taking every day. So the business has grown. The types of markets we're in are slightly different. We of course need to manage that very carefully. And there's three types of risks that we have to manage every day. You've got your liquidity risk, you've got your market or your price risk, and you've got your counterparty risk. And you actually have to think about them in slightly different ways. Now, one of the things that we do in the group is we make sure that all those types of risks from across the group are pooled into Centrica Energy. So actually a lot of the price risk for our downstream book, that's included in Centric Energy, the work that we do for the nuclear reactors, for Spirit that comes into Centrica Energy, we pool all of this risk together. That's the most capital efficient way for the group to manage all of these things.

So for market risk and commodity risk, we've got a suite of tools to manage that. It's not just capital that you hold, you've got value at risk, profit at risk, volumetric limits. There's various different tools you're using to make sure that you're managing that business well. Chris and I set an overall VAR limit for the business, that goes through the Chief Risk Officer who reports into to me, and that's cascaded down into the businesses. That's one of the primary tools that we use to look at just both risk and capital in that respect. The actual amount of VAR that we use and there's a question on this online, so I'll just cover that at the same time, that varies, nominal prices, volatility in the market, judge that. The VAR limits were a lot higher in 2022, they've come down significantly. As you look at the annual report at the end of last year you can see that the one day 95% VAR for the business was £4 million. That's for the proprietary books. I mean, we keep those levels relatively tight.

Liquidity risk again, a big focus in 2022. So margin calls and big movements there. The group at one point had £1.8 billion of margin cash posted out. That was a significant impact for the industry. We managed that really well. Then we learned from it as well. So we've now put in new

tools, new capital options that we have so that we manage liquidity in a much more sophisticated way.

Margin levels, of course, have dropped down significantly since then, it's now probably £200 million to £300 million an average that we have on that side.

And then in terms of supporting the liquidity and supporting the overall limits, of course, the big thing you've got there is the Group's BBB investment grade credit rating, and that allows us to go onto the exchanges with very limited amount of margin, allows us to sign long term contracts without to put much capital behind that. So the so primary thing that we want to do is maintain that balance sheet strength. And we do that in a variety of different ways, including committed and uncommitted lines that got available just to make sure that we can take advantage of opportunities as they come.

And then there's risk capital itself. The risk capital would be the actual amount of working capital you might expect to use in a deal, plus your risk weighted potential loss on that. Of course, we've got buffers for that. We've got a very sophisticated toolkit, so we've got various different structures that we use, and I think it's either for the existing business, the growing business reflects it for that, or even going into the US, we make sure that we've got right tool kit for that. So that's the way it's managed.

John Park, Centrica

Just to add to that a couple of things, it's also important to me is, all these risk and risk capital calculations is calculated by a risk team that does not report to the business. All these calculations are completely independent from Cassim or the business. Every single trade we execute, whether it's an intraday trade, a day ahead trade or a 15 year LNG trade gets captured in our risk system on the day of execution, then included into the risk runs. The risk team is run by Chiara Sada sitting there at the back of the house, run by risk professionals from investment banks she reports into Dawn Bell that reports into Russell. And the final decision on risk capital consumption sits with Russell and it does not sit with Cassim.

Chris O'Shea, Centrica

Excellent thanks just before the next question, we have a question online it talks about how do we manage risk, I think we've answered all that. We talk about maximum GBP loss as well, we've also got stop loss limits. So there's a daily stop loss, but we've also got profit drawdowns. So as you go through the year, and profit goes up and you know, we've had bad days, I've seen them in the operation when I was CFO, I've seen them in operation as CEO and you get a bit of comfort. You have a bad day, you get phone call, Cassim a bit sheepish and says, not a good day, closed all the positions out, we're redoing the fundamental analysis. That's great because if you never get those calls, you know that you're still having the bad days.

So you always worry about risk in a business like this, but the key thing to remember, we don't take massive open speculative positions. Its asset backed, we take storage capacity we take capacity in pipelines, we take capacity in cables, we take basis differential spreads, we take calendar spreads, but we very, very rarely take an open risk on a commodity. And if we do, we don't take an open risk in a commodity which could be existential for us or even material enough that you would see it in our results when you look at it.

We executed 11 million algorithmic trades last year. Sometimes we make £2 on a trade. But you know, we've got our own proprietary software ability to do that. So we're not buying 20 LNG cargoes and saying, you know, we're going to sit because we think the price is going to go up and it we'll be heroes if we do, we'll get the spreads that Jenny talked about or we'll be complete Muppets if we don't.

Bartek Kubicki, Bernstein

When signing PPA with a power price reducer, do you hedge it with a third party or do you take that PPA onto your books?

John Park, Centrica

It's a combination of things. You know, all these positions are managed in a portfolio and it will be a combination of financial hedges, physical hedges or corporate PPA's. And all of these decisions are made with consideration of the risk capital and long-term risk measures that we apply to this portfolio. And again, it's something that's independently verified by risk team.

Dominic Nash, Barclays

Dominic Nash, Barclays. Thank you. Two questions for me, sort of following up from the risk capital question, could you actually give us a view what the actual invested capital tied up in trading actually is and or what the returns that you make on that balance sheet usage is or hurdle rate for it?

And then the second question is tying it back into the asset. Are you going to rule yourself out from bidding for the Isle of Grain LNG if and when that comes up for sale next year?

Chris O'Shea, Centrica

All right. Second one again, good try. We wouldn't rule ourselves in or out of anything. But look, energy assets are linked to the energy transition that we think we know how to operate, that we think we can make a good return that we think is more contracted than not, we could be interested in. But as I mentioned, you know, I was surprised yesterday and obviously we see all the stuff that we look at, but when somebody put this all together and you said we looked at 202 deals this year, I think that's a lot. And then we filter them all out and we go through.

So if and when John decides that he wants to send out a memorandum, of course we will look at it because we know how to run gas assets, I think we're pretty good at it. But if the values not there, then we wouldn’t look at it, if the values was there we can have a chat. But it depends what else is about, because if that comes out, there's nothing else, that's quite good. As long as the returns are there. But if it's there’s two or three other things we're looking at then who knows?

But I wouldn't say we’re in or out of Grain. But we would obviously look at that in the same way we would look at nuclear power stations, we'd look at other power stations, we’d look at batteries and the like.

Russell O’Brien, Centrica

In terms the capital charge and how much we've got tied up, and of course, it's quite a it's a it's a multifaceted business to some extent, you hold, capital in storage. You know, we've got gas in storage in some places. Some capital is tied up in long term contracts. Some tied up in terms of, you know, wanting to make sure you've got the liquidity resources when you need it to capture opportunities when they pop up.

We don't give guidance on that from that perspective. And you can see the amount of, for example, storage that we've got at any reporting period. What I would say though and I think it's fair to say John is that if we've got incremental deals that come to us, we're expecting to get at least a 20% return on the risk adjusted capital employed. That would be the sort of metrics we would use internally for incremental deals.

Chris O’Shea, Centrica

I would add it is one of the benefits of our business. I mean, this would be one of the best return on capital employed businesses, probably along with the energy retail business. But the credit rating that we have that allows, Cassim and the team that we've got here to participate in the market is underpinned by Spirit Energy, the nuclear power stations, the meter asset provider, etc. and so that's why we look at the overall we look at the risk adjusted return on capital and individual transactions, but we're really interested in the overall return on capital of the group. It’s why, I think it's probably still not fully understood, we plan to invest two thirds of our market capital over the next four years and we will have a return on invested capital north of 20% throughout that investment phase. I think that's quite something. And that return would be north off 20% once we're done, which I think is really quite strong because we have this complementary business.

Richard Alderman, BTIG

Does the growth in trading across Europe mean you need to keep debt off the balance sheet in the mid to long term, you need collateral to adequately flex portfolio in high as well as low price scenarios?

Chris O'Shea, Centrica

No is answer to that, I think.

Richard Alderman, BTIG

Sabine Pass, under what scenarios could Sabine pass gas end up out of the money again?

Chris O'Shea, Centrica

We're unhedged, US gas prices go through the roof and European gas prices go through the floor. That's the basis on which Sabine Pass could be out of the money.

But because we're mainly hedged for the next three-ish years, could be 3 to 4 years actually. So it's, you would never say never, but that's one of the reasons I really like the Coterra deal and Cassim and I went to meet with the CEO of Coterra and the team. I think you do these deals, you want to understand who you're dealing with. Really impressive people. I think they run a brilliant business. But the beauty of this is if we can get Sabine Pass to be something we purchase and we buy and sell on the same index, my God, you reduce the risk materially and it allows you to have, a slightly more conventional LNG portfolio than I would've been used to 15 years ago and where you buy and sell on the same index and then you know, you optimisation becomes a lot easier.

Chris O'Shea

With that Cassim, John, thank you very much and we'll get Dan and Gareth up onto the stage and we're going to talk about our meter asset provider next.

Dan Rosenfield, Centrica

Thank you Chris, and good afternoon everybody.

I'm Dan Rosenfield I'm the Managing Director of the New Business and Net Zero division with Centrica. And I am joined by my colleague Gareth Openshaw, VP of our Meter Asset Provider, or MAP, business.

Just taking a step back for a moment and looking at the bigger picture, we set up the New Business and Net Zero division at the start of this year to bring a singular focus to our efforts in electrification and decarbonising homes.

So we are really busy building out the Hive platform to evolve from smart heating in the thermostat that I hope you all know and love into a whole-house smart energy platform, accessed through our app. And that is the gateway to a broad range of capabilities across heat pumps, EV chargers, flex energy as Chris mentioned in his introduction, and solar and storage.

And one of the points I do want to emphasise is that smart meters are the essential foundation for all of this. And whilst I'm really pleased to be presenting the MAP, a new business and a new revenue stream for Centrica, I also want to emphasise that smart meters are absolutely not new to us at Centrica.

In fact, we've been a leader in the rollout of smart energy for many years. Our British Gas engineers install smart meters in our customers' homes every day and have done for many years. Those smart meters are the essential backbone of the energy transition. They provide meter readings for our customers' accounts and increasingly support time-of-use tariffs such as British Gas Peaksave and Hive Freecharge.

Up until last year we partnered with external Meter Asset Providers (MAPs) to finance our smart meters. They owned them and British Gas paid rent on each of those meters.

As we strengthened Centrica's operations and balance sheet, we created the space and the investment optionality and that's why we took the decision to in-house our meter asset provision, effectively ensuring we capture full value across the whole metering cycle.

And from a strategic Group perspective, as Chris alluded to in his introduction, the MAP is a critical element of our overall plan to maintain balance across our Retail, Optimisation and Infrastructure businesses, with the MAP providing an opportunity to build stable, long-term cash flows from an asset base that supports the Group's balance sheet.

So, today our MAP finances and supplies all our new smart meters. Our MAP owns them, British Gas Services installs them, British Gas Energy operates them, simple.

And the MAP business, I'd like to say is attractive for 3 core attributes: scale, predictability, and optionality and you will hear more about those as we take you through the session.

Scale - rather than a third party MAP, our MAP receives rental payments across the life of the meter and has an existing, in-house pipeline of British Gas customers that equates to around 12 million meter points. That brings scale.

Predictability - Rental payments flow for the lifetime of a meter, typically 15 years. This is a natural hedge to churn in British Gas Energy with a continued revenue stream from third party suppliers who may then go on and inherit our meters. That means predictable, low-risk cash flows, with exposure only to other regulated energy suppliers. Predictability.

And thirdly, optionality - Those stable, low-risk cash flows equate to an unlevered asset-backed return of 9%. And that provides real optionality to the group. The MAP operates as a standalone business within Centrica, ringfencing the ownership of meter assets and related cash flows.

Now, turning to the broader metering landscape, and our right to win in this space, the MAP landscape in the UK effectively comprises both energy suppliers, such as E.On and Scottish Power, and larger infrastructure players – SMS, Macquarie and Calisen, for example. And they've built long term sustainable business models from financing the smart roll out.

When comparing to these larger infrastructure MAPs, it is worth noting that our MAP business has a clear line of sight to building a significant meter portfolio without the need to enter the wider market, and that's due to the 12 million meter points in the British Gas customer base. So we do not need to compete in the wider market in the first instance.

It's also worth noting that our MAP is building a portfolio of SMETS2 meters – that's the latest generation of meters which have a more reliable communication capability, particularly around the points of churn– and that means we have a young clean portfolio of meters with a long life ahead of them.

And finally, as with all MAPs, this is ultimately a B2B, business to business, relationship, backed by regulation, so within the MAP, we don't have exposure to consumer credit risk, and I think

that further underlines the quality of the cash flow on offer for those who have the capability we have been able to build.

Now with a clear understanding of metering and a clear and compelling strategy, we have been able to move quickly. It took us just seven months from the investment decision to get our first Centrica-owned smart meter on a customer's wall.

And I think key to that was building a lean, expert MAP team from scratch. And we were lucky enough as part of that to welcome Gareth Openshaw to the company to lead the MAP.

Gareth brings a wealth of experience – he spent the first 10 years of his career in the British Military serving in the Queens Lancashire regiment, and then followed that with 10 years in civilian life in the Smart Metering business, he really knows his onions. Working with the likes of Utility Warehouse and SMS and also setting up his own businesses along the way. Let me now hand over to Gareth to talk you through our progress in the MAP so far.

Gareth Openshaw, Centrica

Thank you Dan. Well, I'm proud to say we've hit the ground running, establishing a lean team with operational and commercial nous and a mindset of 'ready to scale'. We use our systems and our processes today as if we are operating at scale.

We've diversified our supply chain and now have contracts in place with 5 leading manufacturers, bringing flexibility and resilience to our metering supply chain. Technology and data are at the very centre of the MAP. We have clean data flows that track and monitor smart meters and ensure timely and accurate billing for meter rentals.

A steady and controlled ramp up of volumes has enabled us to stress test processes, and operational rigour, as the portfolio has scaled. Despite only becoming the sole funding MAP for British Gas since October of this year, we already have close to 400,000 assets now under our management. We are now billing 25 retail energy suppliers for meter rental revenues where they have inherited one of our meters and we have clear line of sight to every single meter that we have funded.

When we put all this together, we expect to end the year having deployed up to £100 million of capital, and that's higher than the original forecast as we grow in confidence on our delivery.

So now that you have a better view of the overall business, let me walk you through the life of a Centrica-owned smart meter.

Revenue into the MAP is determined by the size of the meter portfolio installed, multiplied by the rental rate per meter. Each meter equates to a capex investment of approximately £200. And a meter typically has a 15-year life and can often operate well beyond that. And our meters are all SMETS2 meters – as we've already mentioned, the latest generation of smart meters.

Having acquired the meter from one of our manufacturers, it is then installed by British Gas Services, and we collect a rental payment against that meter. Broadly, we expect the rental rate received for our portfolio to be around the average market rate.

Where meters churn away from one energy supplier to another, the market operates on deemed T&Cs, where the receiving supplier pays a deemed rental rate. This is covered in energy supply regulations.

Some suppliers will also enter into so-called churn contracts that lock in an agreed rental rate, normally lower than the deemed rate, in return for contractual obligations and protections, including a premature removal charge for any meters removed ahead of the end of their life.

Now let me walk you through how that single meter builds up to an annual plan to deploy capital of up to £200 million per year building a business that generates up to £130 million of EBITDA per annum by the end of 2028.

First let's look at our scale. Within our British Gas Energy base, we have 7.5 million customers, which equates to over 12 million meter points which need to be smart to enable Smart products and services in a Net Zero world. As at today, roughly 60% of those meters are smart meters, leaving around 5 million meter points in British Gas customers homes, to get after in phase one.

As the chart on the left also shows, that is not the whole story. Within the current smart portfolio, the 60%, there are also a significant number of SMETS1 meters that over time will require replacing, in particular due to the switch off of 2G/3G networks.

And don't forget – this continues on past phase one as older SMETS2 meters that are already part way through their lives become due for renewal, or as we inherit non-smart customers into the British Gas customer base.

This all means we do have significant further headroom to grow, subject to installation capacity and customer demand, and this replacement activity will go on well into the future.

As you can then see in the middle chart, Phase 1 will see us deploy around £900 million of Group capital by 2028, with phase 2 providing greater long-term opportunity for the reasons I have just outlined.

And so finally, bringing this all together, we can see the opportunity for the MAP to generate an annual EBITDA of up to £130 million by the end of 2028, with adjusted operating profit of up to £70 million annually.

This equates to a low-risk 9% IRR, and with no ongoing sustaining capital required, whilst generating a higher free cashflow yield of around 11%. Let me now hand back to Dan to take you through the embedded optionality the MAP provides.

Dan Rosenfield, Centrica

Thanks Gareth. So, Gareth has taken you through the MAP business and I hope those first two core attributes of scale and predictability have come out in the outline he has given you. Before I turn to the third key attribute of optionality – let me just talk briefly to our confidence in our ability to deploy capital and deliver the repeatable contracted cashflows that Gareth has described.

And we are confident. As we have already said, we have a very attractive pipeline of in-house opportunity to install and, over time, replace meters. And the resulting stable, recurring rental flows provide a natural hedge to churn of energy retail customers.

And we know we can do this. The team at British Gas been installing smart meters for many years, having really led the way in the smart roll out, and they have repeatedly installed more smart meters every year than any other supplier.

All in all, that equates to a robust business that Gareth has outlined, generating up to £130 million EBITDA by the end of 2028, predicated on stable and predictable cash flows. So let me now turn to the third attribute, optionality.

So first we have the ability to manage capital deployment carefully. You've seen that even just in house, we still have headroom to grow into should we want to expand our portfolio more rapidly and deploy more capital. And second, we've set up our map as a standalone business. As I said, within Centrica, it operates as its own business, it's asset backed and it has arm's length

relationships with British Gas Energy and British Gas services and that gives us the optionality to assess the optimal financing structure at any given time should we choose to do so.

It's not just financial optionality, it's strategic optionality too. In the MAP, we have effectively built an in-house and new capability to lease and track small assets in customers homes. That capability is the team comprising deep expertise from the world of metering and some of our Centrica homegrowners, as well as robust systems and processes that ensure we know where our assets are and we're collecting rental against them in a timely manner.

So that capability also gives us strategic optionality, especially in the context of the energy transition and the UK and Centrica’s net zero targets. So smart meters as I said, are the first step for any household's net zero journey, we see this as a gateway to new commercial offerings, time of use tariffs and so forth, and supports embedding customers into our Hive ecosystem.

And in that context we'll explore how we can use the MAPs capability to the benefit of our customers. We know that upfront cost is a significant barrier for many looking to cut their energy bills and decarbonise homes. So be it an energy efficient boiler, a heat pump or solar and storage we’ll assess demand for and the value dynamics of leasing rather than selling hardware and the MAPs capabilities will be absolutely central to this.

And these choices, to be clear, are not reflected in the plan that Gareth and I have presented today. So they would offer potential upside to that plan. They are under consideration and we'll be hard headed about whether and how to take them forward. And what's also not included in phase one of this plan is the ongoing future replacement activity of the metering base as and when it comes up for renewal.

So whilst we can and will actively explore growing the business by offering this capability to others, we don't necessarily need to. We have an ongoing pipeline of work, not just installing smart meters for the first time, but also replacing smart meters over time in our British Gas customers homes. And so to wrap up, Gareth and I have been really pleased to present the MAP to you today. Effectively a new business and a new revenue stream for Centrica.

We've moved quickly with real agility to build on that from scratch as a clean standalone business within Centrica, and I hope we're already starting to demonstrate those three key attributes scale, predictability and optionality. Scale an in-house pipeline that supports Capex deployments of £900 million, Predictability, stable recurring rental payments that translates into annually EBITDA of up to £130 million by the end of 2028.

This rateable contracted cash flow replaces declining near-term returns from some of our legacy infrastructure business, bring stability to the group and supports our strong credit rating.

And optionality both financial to consider optimal financial structure in the future and strategic to grow into leasing of meters to other businesses and exploring leasing of heating and in-home energy hardware. So that's it from us. Thank you so much for your time. I'll come back to Chris and we're very pleased to take your questions.

Chris O'Shea, Centrica

Dan, Gareth, thank you very much. Just to wrap up, I'm super proud of the work that the team have done to create what is a brand new business from scratch and a brand new revenue stream from Centrica. It's not easy, but Gareth and Dan have made it seem easy. And it's also just worthwhile touching on, Gareth's one of hundreds of ex forces people we've got in the organisation. We found an unbelievable talent stream and so we have the forces pathway. I think we've got well over 500 now that were recruited in the last three four years. If every one of them could generate a new revenue stream, my God, we would be very happy. We've got the largest UK energy customer base, we've got the largest in in-house installation and servicing capability. We probably, I think have the strongest balance sheet, the most available cash, all of which makes this a unique proposition that is well within our control.

Just to reinforce what Dan and Gareth told you, beyond the first phase, the 4.5 million meters, £900 million or a billion depends, I was saying to Russell it rounds, but anyway £900 million or so, £130 million of EBITDA, that's just a third of what this could be because another 8 million meters will be replaced.

You can do the maths yourself, but I think if you multiply that by three you get to quite a good number, a very material number. SMS was taken private at £1.3 billion. That's smaller than we will be in just a few years. Calisen was recently valued at £4 billion. That's got a portfolio that will have the same size of portfolio that we'll have if we just satisfy the internal demand that we've got, very material.

The only thing it depends on is us having our energy customers, no other competitive pressures. Clearly the way the government drives the roll out is important, but no competitive pressures in this which in a business like ours with lots of competitive pressures, is actually quite a nice thing to have. It also creates options for financing small energy transition assets across our businesses for customers, Dan and Gareth laid out the foundational capabilities, established the ability to finance, lease, track, charge people for small assets. That gives us options, it doesn't give us requirements.

The MAP and Centrica Energy we've created really, I think, very hard to replicate capabilities, support the earnings outlook, create opportunities for future growth. And today, hopefully you see the quality of the businesses we've got, but you're also seeing the quality of the people that we have generating the value the four people you seen on stage, the people you see at the back of the room that are supporting this.

Our focus in the group is very, very, very simple. Number one, we maximise the value of our existing business as driving continuous operational improvement. Today will be better than yesterday. Tomorrow will be better than today. That's continuous improvement every single day. You never take a day off. Number two, we're focussed on delivering the most compelling propositions for our customers so building further optionality through optimisation.

And number three, we're investing in assets that will create value. I think we're unbelievably well positioned for the changing energy system.

As I said earlier, for 2028, we expect group EBITDA of £1.6 billion with around 85% coming from things in operation or sanctioned today. That includes £200 million from Spirit and nuclear combined, the existing nuclear business. For the avoidance of doubt, Bertie, not a forecast just helping you with the math. So although we continue to pursue material options such as Rough, Morecambe, Sizewell C it is super important to remember that we've already sanctioned the projects that will deliver the vast majority of the 2028 expected EBITDA.

These other things would be nice, but the majority is already in our hands and we'll deliver that whilst, maintaining a return on capital employed of north of 20%. So look, thanks very much for the time. We're all very happy to take your questions. I'd like to focus first on the questions on MAP because you get more time to see Russell and I than you do to see Dan and Gareth.

So if we start with the map, we will have a hard stop at 4:30 and will take questions on the general trading statement at the end.

Dominic Nash, Barclays

Hi, Dominic Nash from Barclays. Thank you. A couple of questions. First of all, on the rental model, could you just let us know whether you are adopting a real or nominal model for the rent and, and or do consumers have the choice as to which one they go for?

And secondly, you've got four and a half million phase one by 2028. Looking at sort of the colours, I presume that that is all non-smart or majority non-smart meters. But what scope is there for cannibalisation of existing meter owner meters in your portfolio either that you haven't got a churn contract with and or their SMETS1 and you want to get rid of them early?

Gareth Openshaw, Centrica

On the second question so yes non smart meters within the portfolio. So the 4.5 million are not smart meters within the portfolio. That's what we're going after. And with regards to the

cannibalisation, so every energy supplier in the market and we are no exception there has various different contracts in place with MAPs within the market.

So there is a trade off there that you would take penalty on one side to accelerate progress on another side. But with regards to the 2G and 3G switch off, there will be a necessity to replace a certain amount of meters as well.

Russell O'Brien, Centrica

And just on the inflation plays in this business and the real or nominal returns. So when you put a meter on a wall and you create a contract for that, that's a flat rate for the life of that meter that doesn't inflate. If you have certain churn and deem contracts, elements of them sometimes can inflate. And in terms of the overall recovery, there's a degree of inflation protection there. But the main contract is fixed.

Jenny Ping, Citi

Thanks very much, Jenny Ping, Citi, three questions, please. There has been recently talks by NESO, or at least the industry is in talking. Obviously, NESO is trying to promote net zero and one of the route to net zero is more take up of smart meters. And you know, we've had challenges in the smart meter take up. So I guess two questions from that.

One, is there no potential for this market to be effectively taken back by the distribution companies to roll out smart meters in a more forcible way or to be done by NESO as a change of government policy effectively? And then secondly, the four and a half that's on the chart going from non-smart into smart effectively, that's assuming everybody converts, right? So isn't that quite an aggressive assumption because you've still got people like me who own a dumb meter.

Secondly, just on the Capex, £200, Calisen is talking about to £220 to £225. So what makes you at an advantage in buying that at a lower price? And then I think third linked to that, I guess is your utilisation portion of your engineer workforce. Can you just talk to us a little bit about sort of the efficiency measures you can have there by cross utilising workforce to install the meters?

Chris O'Shea, Centrica

Thank you. Let me have a rough go and then Russell can talk about the Capex because there is part of the cost that's not capitalised and then Gareth and Dan will have an idea on utilisation. So firstly on the Idea this would be taken over by the network companies. I haven't heard any conversations about that at all.

We have heard conversation with industry and what I've said the government, the regulator and not yet to NESO, but I will is, so firstly government has to decide whether or not it wants to mandate this. I have to be really careful because I made that comment in Parliament. The government had to decide. And then newspaper headlines were Centrica Chiefs demands Mandatory Smart meters and I got lots of emails from people saying over my dead body will I have a smart meter.

So firstly, Government government's got to decide how it wants to do this rollout or whether it wants to mandate them and if it doesn't mandate them, we can't have a smart grid, if we can't have a smart grid I don't think we can get to net zero by 2030 because we just cannot get there by just having more and more and more generation on, it will be too expensive.

So that's a question. It's not an easy one for government, but they've got to figure it out. Then the second one you said is, some of the other industry players have said the same, which is you could have a halfway house, which is rather than say we're just going to go customer by customer by customer you could divvy up the people that not smart meter street by street by street. Based on proportion of what you've what you've already got and some companies will say I don't care so you know you'll pick up a higher proportion, but we said we could be comfortable with that rather than say we would go to every single one of our customers houses and put this in. If you give us, say we've got 25% of the market, give us 25% of the non-smart meters in the market and let us get there.

It's kind of linked to utilisation because if you go from your house to Fraser's house to Alex's house, and you all live next door to each, brilliant because you're not spending a lot of time in a van. So I think that's probably more likely. I have no idea how you would get something where the distribution companies would suddenly all of a sudden take over.

And this I mean, it's with the best will in the world. We are not quick at making decisions, especially not in the energy space. So by the time we've made the decision, we'd probably have four and a half million meters on the wall. So I do think there's a possibility that you could change this and make it better.

I think Russell can touch on the non-capitalised element of the smart meter and then on utilisation I think that one of the areas and Gareth can talk on this more knowledgably, but one of the big issues we've had is on the commissioning of the smart meters and frankly the dreadfully poor performance by the DCC, the communications centre which is outsourced by NESO, Ofgem whoever it is that has a contract to a third party company and frankly their performance is woeful. And we have an engineer that can be standing trying to commission a meter and you've got a third party who's operating this thing who has no incentive to make sure that they're interfacing. And so there are some utilisation things I think we can control and some things that we have we can lobby for, but it's deeply frustrating. But I don't know, Gareth do you want to touch on that.

Gareth Openshaw, Centrica

Thank you. A great question with regards to utilisation. So again, coming back to what Dan said earlier on, Smart isn't new to us. We've been installing smart meters en-masse for a long period of time. We've got one of the largest direct engineering workforces in the UK, so we've got massive amounts of experience of installing smart meters, doing that efficiently and effectively, but also as well we've got the flexibility of using third party resources as well.

So what that means with regards to the utilisation, from what we're seeing now, we're more than capable to deliver against the numbers that have been projected today.

Dan Rosenfield, Centrica

And Chris, one point for Jenny, your question on the overall rollout, I think your question, will it become harder to reach customers as we get down that 4.5 million. And I think one of the things you've got to envisage as we're going through the next few years is the energy transition continues, electrification continues and smart meters, as I said, really are the gateway product.

So you can't have time of use tariffs if you don't have a smart meter that settles your energy supply every 30 minutes. And likewise Cassim and colleagues can't utilise the virtual power plant if we're not pulling that out of the smart meter homes. So you've got an incentive for government to really make it happen in the VPP space and mitigating the supply headwinds that Chris described.

And you know, one would hope we're talking about carrots, not sticks with customers that actually as we bring more time of use tariffs to market, you see customers more interested and more engaged in wanting to take a smart meter and that's exactly what we've seen. For example, in British Gas peak save where you’re not going to get that half price electricity on a Sunday if you don't have a smart meter.

Russell O’Brien, Centrica

And just on the accounting and the capital for the MAP. So we’re setting up this company as a standalone entity so it has independent relationships as a arm's length relationships with British Gas Energy and British Gas Services. So the direct cost of installing the meter is about £200, as we quoted. The overall cost is about £230 to £240, that's probably similar the number that you quoted, I think that's relatively similar in the market.

The difference is that some of these payments are arm's length payments between companies and Centrica and, you know, indirect costs, variable costs and other things. We can't capitalise

them. They would be expensed at the in the year of installation. So that's the difference between the two numbers.

Pavan Mahbubani, JP Morgan

Thank you very much, Pavan from JPMorgan. I'm paraphrasing what you said, Chris, in terms of the regulatory backdrop being important and I think you answered previously that there is no smart meter mandate, but can you remind us what is the regulatory environment, whether it's from the Government or Ofgem on the installation of Smart meters, or does it really rely on customers putting their hand up and saying, can I have one of these now?

Chris O'Shea, Centrica

It's like a dystopian nightmare. We have, we have targets and we have an allowance in the price cap and we have to write customers, "Would you like a smart meter" and those that don't get it, we have to show that we've made every effort to contact them. Sometimes we write to customers more, sometimes customers come to say, look, I've told you three or four times that I don't want a smart meter, kind of goes to the point earlier is there a threat, and if you keep asking me I'll leave.

So we say to government, look, you've got this really weird thing that you tell us to install X, you don't tell customers they have to have it. We have to go annoy our customers, which is really not what the regulator should be looking for us to do. And if we don't hit the target, you're going to fine us.

I've spoken to the previous minister, in the previous government that's responsible for this and I'm not breaking any confidences. I said if you really want this done, you have to think about mandating it, and his answer was, well, we're at 55% penetration. He said, once we get to 65%, let's talk about it. Once we get 75% maybe we'll think about it.

Now that was the previous government, you know, we don't tell people what to do. And so something of this political ideology. So is a bit odd, but look, everybody's a grown up. You know, if we go in and say, look, this is the situation, I'm confident that we'll get to the right answer and I'm confident we would have got the right answer with the previous government as well, we're only, you know, 50% ish, 55%, 60% penetrated.

It's not without Dan and other colleagues that are responsible for this is, there's a bit of heartburn each year and you have the weirdest conversations. But I think we'll get to the right answer.

Pavan Mahbubani, JP Morgan

Thanks. I have two other questions, please. First, on the reporting of the MAP, is that going to be a separate line or how are you thinking about reporting that if that's something you can say? And then my last question is, how does the Capex of the MAP interact with full expensing if there is any interaction there and does that impact or change how you think about returns?

Russell O'Brien, Centrica

Yep. So for the end of this year, the MAP will be included in the British Gas Energy results it's not material enough yet for us to split out. I will be providing in the notes enough information so you can begin to see how that's growing. Over time, we'll take a look at segmentation in general as this business grows because, it will be a big part of Centrica. Expensing, full expensing and other things we're assuming in our numbers that we've just got normal capital deductions.

There's a there's a discussion, you seen recently in the budget about various different allowance rules that may allow us over time to be full expensing, that, that would just be an incremental benefit for us. But we haven't included that in the numbers at the moment.

Mark Freshney, UBS

Thank you. Can I ask on the cost when you take down traditional meters and SMETS1 and even SMETS2 meters, presumably there's a penalty payable. So where would that penalty appear? Would it appear against, you know, the actual smart meters or within British Gas Residential? And can you talk us through the capitalised labour cost. I'm surprised that you talk about it being as low as I think £40 per meter, I think the evidence when you were passing a lot of the cost over to your third parties was much, much higher. Right? You were at times it seemed like you were throwing everything, including the kitchen sink almost into those, those businesses to capitalised cost. Are those costs going to be, are the labour costs going to be expensed upfront, which would potentially back-end load profits?

Chris O'Shea, Centrica

You're tempting me as an ex finance person to try and answer that, but I think I think you can capitalise the direct labour cost, you can't capitalised indirect costs and I don't in any way given that the productivity, there's no way that the labour costs are £40 per meter, I think it's probably three times that amount if I think about what we pay people on an hourly basis.

We will sacrifice some in year profitability in the early years of this in order to deliver the value. Because what you would be charging to a third party, you cannot fully charge and I don't know how it fully works, I'm assuming a group level consolidation adjustment or something. So the profit would be higher for us if we continue with third party, but the value would be lower.

So we will sacrifice some in year profitability. But I think it all catches up with the depreciation charge. But for the ramp up, I suppose until you get to steady state full saturation, profits will be

a bit lower. I mean, Russell I think will lay that all out in February, and say this is what the impact would have been for 2024. This is what you would expect when you get to 2025 and onwards.

With the penalties, there's sure many different contracts. I think if you're on a deemed contract, you get higher rental, but you don't have a penalty if you're on an agreed contract you do, but Gareth, you can take us through that. But what's super impressive is so what we're not going to do is we're not going to say ideologically, we're going to rip all of these peoples' meters of the walls I think you understand the contractual obligation. So you can say I take these meters off and have no penalty and I can put things on and these ones I have a penalty and I think it depends the age of the meter, but you know this far better than anyone else in the room.

Gareth Openshaw, Centrica

No of course Chris, thanks first of all, the MAP and British Gas Energy, we are separate entities, so there's certain information that we don't cross the boundary on that. But what I'll speak about is from an energy suppliers perspective, so all energy suppliers within the marketplace have relationships with pretty much every MAP within the marketplace because your customer base changes over time. And what that means is that you will inherit customers that have assets owned by third parties and you'll end up over a certain period of time interacting with all third parties within the marketplace.

Now, the value of the contracts in the way that the contracts work is that the deemed and the churned contracts, the MAPs operate to, the premature removal charges, so if you remove an asset, if you're an energy supply and you remove an asset, it's dependent on the life expectancy of that meter. So how old that meter is. So they are hugely variable dependent on where the portfolio is at a position in time. However, energy suppliers do have the choice to remove those assets, but they would normally in most cases pay a penalty for it dependent on the age of the asset.

Siddharth Sukumar, Jupiter Asset Management

Sid Sukumar from Jupiter. Thank you everyone for the presentation. That was very helpful. So I have three questions. The first one, you've given an internal rate of return guide of 9% plus IRR post-tax. But if we go with your run rate adjusted operating profit, having invested £900 million by 2028, it only gets us to about 6%. So is there a material step post for 2028 so just that bridge, how does it get to 9%?

The second one in terms of £200 per meter, given that your ambition is to install something close to 4.5 million, are there any benefits to scale in terms of the cost per meter that you might achieve?

And then the third one, given the predictable nature of this income stream, what is the optimal capital structure you think for this kind of business?

Chris O'Shea, Centrica

The first one is definitely, definitely one for Russell. Look, I think the optimal capital structure, is one will have to figure out, but what we're doing is we're setting this up so that we can, if we want to, bring in third party capital, we can choose to have this 100% Centrica capital. We can choose to dial up or down through the year and Russell and the team will make sure that we've got the right partnerships and the right capital providers.

And if we find a point, we've got a better home for the capital. Then we'd like to dial up the third party capital. Still keep ownership of this and have some debt in there.

The £200 per meter. I think the meter costs £50. The meter is a small part of it. And the big part of it is the labour cost. I think the big cost benefit from this would be better productivity because I think effectively what we do is we already buy the meters and then we install them. Even with the third parties, we would buy them, we would install them and then we would effectively sell them to the meter asset provider.

So we're not going to see any more scale on purchasing meters because it's what we've been buying anyway. But the real benefit, if we could get a smart engineer to do four a day rather than two a day, you would almost half your labour cost. And that's why if you did go to something whereby we could go street by street rather than from Russell's house to my house and then you've got 2 hours travel travelling time that I think that would be the game changer in the cost there.

And I can't say whether that will come. We're putting in a new planning and dispatch system in our services business which should allow us to actually do that a lot better, which is to dynamically change engineer scheduling and therefore reduce as much as possible the travel engineers we've got. Russell 9% IRR?

Russell O'Brien, Centrica

Yeah. The difference between that is you've got a sort of base 7 or 8% as you indicated, what's happening over time though is some of your customers are churning and as Gareth outlined earlier, the rates that you receive on the deemed to the churned contracts are slightly higher. So as you go through time and you see some of your customers churn, that's just helping your IRR move slightly higher.

Siddharth Sukumar, Jupiter Asset Management

Just quickly on that bridge Russell. So what sort of timeframe can we expect from a 2028 starting point as to when it would move from a six to a nine? What sort of phasing should we expect?

Russell O'Brien, Centrica

I don't have a good answer for you there. Maybe I'll come back to you later on that.

Chris O'Shea, Centrica

You mean you've got a 15% churn in the market at the moment I think. No a bit less sorry, a 10% churn. We're all taking each others customers off each other. So if you want to get really clever about it. We have far better data capability now. We could choose to install smart meters on the customers that are most likely to churn if we wanted to optimise for smart meter income. If our smart meters were a way, to keep customers we'd choose, the customers that we're most likely to churn but also easiest to retain. We've got Gary Booker, our chief customer officer here, we've got a great data capability now within Gary's team. So we could be far more deliberate in how we target smart meters if we so choose. We're not doing that at the moment and we're taking all the customers we possibly can.

Richard Alderman, BTIG

Are you confident you can hit all of the remaining milestones set by Ofgem regarding domestic smart meter installation targets by taking it all in house. The penalty for missing INC smart meter installation milestones prior to 2018 costs is a fine of £5.3 million for just over a thousand meter shortfall. Ofgem could decide to become aggressive again. You said you can use third party providers of engineering teams. Other MAPs would be competing for them.

Chris O'Shea, Centrica

So Richard, what we're bringing in-house is the financing of the smart meters. We have the biggest in-house installation team in the UK, but we also supplement that whether it's in smart meter installation or other parts of the services business with service partners.

Some of them wear our uniform, some of them don't. And so bringing it in-house as we're talking today, has no impact whatsoever on our ability to deliver the smart meter mandate. I'm confident we can deliver that, but I also know we have to have debates with Ofgem each year because you get this weird thing which is you've got to install X amount, you can't mandate them, but we have that conversation.

Last question here, can only be one question, has to be quick and the answer will be even quicker.

Ahmed Farman, Jefferies

So the question is you talked about a number of capabilities for the MAP business on slide 25. You know, control processes industry, data management. Is it already all set up for four and a half million meters or is there something you will be building out as you get more customers?

Dan Rosenfield, Centrica

So effectively the way we set it up was ready for scale. So we'll have to supplement and build the team a little bit further, but it will remain a lean team but rather like Cassim's example of trading in North America and making a $16 profit on your first four trades, congratulations, the same for us is what we're doing is we're using our systems now and, really testing them and have tested them and they're ready to scale.

You know, we've got 400,000 plus or minus meters on the wall already and those systems are working. And as Gareth described, relationships with 25 energy suppliers really make sure you're testing the billing systems and they work. So we effectively have the systems ready to scale now.

Chris O'Shea, Centrica

So thank you very much everyone for coming. We'll next be together on the 20th of February for our preliminary full year results announcement so if we don't get a chance to chat please have a fantastic Christmas and new year, there's tea and coffee, a few of us have to make a very sharp exit, please don't think we're rude, we just got a couple of things that we have to go to, but thanks very much everybody for turning up. Thank you.