

GROUP CHIEF EXECUTIVE'S STATEMENT



Chris O'Shea | Group Chief Executive

I am increasingly coming to the conclusion that the speed with which things seem to change is now simply indicative of the world we live in. The news cycle has shortened, the urgency with which things need to happen has increased, and the pace at which we are moving in our quest to make your Company the best is as fast as I've seen it in my five and a half years at Centrica.

Despite that pace of change, I stand by the statement I made in last year's report. I said:

“My belief is that climate change is the biggest single threat facing civilisation today, and net zero is the biggest single opportunity we have at Centrica. Climate change is real, it's here, and it's impacting lives across the planet. Transforming how we generate, store and use energy can make a huge difference to reducing the warming of our planet. Longer term, if the net zero transition is thoughtful and targeted, it can keep prices stable for customers and drive economic growth, especially for those companies and countries at the forefront of the transition.”

As I write at the end of 2023, I am even more convinced that this is the case. Your Company is incredibly well placed to both drive forward, and benefit from, the energy transition. This will require a relentless focus on performance and continuous improvement, and disciplined but bold capital allocation to ensure we have a portfolio of investments across a mix of technologies. We have a lot to play for.

I believe we get more right than we get wrong, but the real test of character is how you respond when things go wrong. It's my view that we need to put things right when this happens, and we need to learn from our experience.

Sadly, we saw an example of getting it wrong early in 2023 when a report highlighted some of our contractors were not treating our customers with the respect they deserved

when installing prepayment meters under warrant. We immediately apologised, we suspended the installation of prepayment meters under warrant, and we launched an investigation overseen by an independent third party. Whilst our investigation found no wide-ranging problems with our systems and processes, it did highlight some isolated instances that fell short of the high standards of behaviour that we expect when engaging with customers. As a result, we have brought all such activity 'in house' (as opposed to using contractors) and have spent the past year ensuring our policies, procedures and practices are updated and that our colleagues are fully trained in these areas. We also contributed to the development of new industry rules to protect vulnerable customers. At the time of writing, we have not yet restarted the installation of prepayment meters under warrant. However, we may choose to do so in the future, as, done properly, they are an effective tool both in helping customers manage their costs and in helping energy companies manage bad debts, which is even more important as people struggle with the cost of living. This is important because under the price cap, those who pay for their energy ultimately end up paying for those who choose not to pay, and we don't think that's right.

However, we are not sitting on our hands waiting for others to solve the problem of people who can't pay for their energy. We have taken decisive steps to support consumers who are facing hardship and we've done more than any other UK energy company. Since 2022, we have committed £140 million to support customers struggling with their energy bills in the UK and Ireland, which is on top of around £400 million of contributions we are required to make each year. It is a huge amount of money but our customers are at the heart of everything we do, and we must support them when they're in need. Unfortunately it cannot address all of the issues our customers face today because these are not limited to energy costs – people are struggling to pay their mortgage or rent, their council tax, their food costs, and so much more. This is a societal issue which requires a societal response.

We have been vocal in our calls for regulatory reform, both in terms of how energy companies are made more robust to avoid failures in the future, and in terms of how we can have a system which is fairer for consumers.

For consumers, we believe that the standing charge for gas and electricity where people pay a fixed fee to cover things like network costs (roughly £300 each year) should be eliminated. Those costs should be recovered through the unit rate for gas and electricity so that those who consume less pay less and those who consume more pay more. We also believe a social tariff should be introduced where those who are the most vulnerable pay less for energy. We believe that this, along with all policy costs, should be funded from general taxation but that is not something which has universal support.

For energy companies, we believe that they should be made to hold sufficient capital to ensure that if more companies go bust, their shareholders pick up the costs rather than the unacceptable situation in recent years where the costs were picked up by consumers. We have seen some progress on this, with Ofgem requiring energy companies to hold £115 of capital for each customer by March 2025. This is welcome but it is our view that this does not go far enough, nor fast enough. We believe that all companies should be required to hold in the region of three times this amount and that they should not be able to take on additional customers until they can demonstrate they are financially sound. As of now, a number of energy companies effectively have a free bet, using customer deposits to fund their businesses. If their bet comes good, their owners get all of the rewards; and if it doesn't, consumers bear all of the cost. This cannot be right, and we urge Ofgem to be more focused on establishing a fairer market for consumers and to ensure energy companies who are not yet financially resilient enough are forced to meet proper capital adequacy requirements.

2023 PROGRESS AND PERFORMANCE

We can support customers and credibly make the case for market reform only because we are a very resilient company. That resilience comes from our uniquely integrated business model and strong balance sheet.

We have a well-balanced portfolio with market-leading positions across the entire energy value chain. In our Retail business we are the largest supplier of energy to residential customers in the UK through British Gas Energy and the second largest in Ireland through Bord Gáis Energy, and we have a strong and growing B2B energy supply position. Our Infrastructure business brings electricity and gas to the market every single day. Then at the heart of these energy flows sits the Optimisation business, the glue that binds our group together.

As I look at our portfolio, I see a number of high performing businesses. But the real value-add that makes us unique at Centrica comes at the portfolio level as we integrate our businesses with each other. I believe this model means we are well-positioned to adapt to any future changes in the energy landscape.

You can see just how this integration works in practice in our performance and achievements over the last year. At a Group level, our performance in 2023 was very strong. Our Group adjusted operating profit was £2.8bn compared to £3.3bn at year end in 2022. Our adjusted basic EPS was 33.4p in 2023 compared to 34.9p in 2022, 4.1p in 2021, and 2.8p in 2020, and our free cash flow was £2.2bn. We ended the year with £2.7bn of net cash – just three years ago we had £2.8bn in net debt. In short, your Company has been transformed. There is still so much more that we can go for, but as Russell points out in his CFO report, there were some large one-off benefits in the 2023 results which we don't expect to repeat in future years.

RETAIL

British Gas Energy performed well in the year and benefitted in 2023 from the recovery of costs incurred in previous years under Ofgem's price cap adjustments. By the end of the year, we had migrated around two thirds of our customers on to our new software platform and we should complete the transfer in the next 12 months or so. This allows us to develop our new energy offering, which will help give our customers insight into the best time to use their energy, putting more power in their hands. Our PeakSave Sundays product already has half a million customers and we are learning every day how our customers vary their energy use depending on costs changing during the day.

Bord Gáis was quite a mixed picture in 2023. We continued to see pressure in the retail market in Ireland and had another year of making losses in that market, all of which were offset by profits made in our infrastructure (the Whitegate power station in Cork) and optimisation activities. We believe that the issues in the Irish retail market are temporary and we hope to see a return to normality in 2024.

It is very pleasing to see the continued recovery in **British Gas Services and Solutions** with the operational foundations of the business as strong as they've been for many years. Our customer service has improved materially and we're seeing the benefits in improved customer satisfaction and higher customer retention rates. This allows us to focus on increasing customer numbers whilst maintaining the improved operational delivery and getting into a positive cycle of growing the business. Our growth opportunities in this business are not only in our traditional contract market but in the 'on demand' market. There are 20 million households in the UK who pay tradespeople to fix things as and when they break down, a market we have not traditionally served. In 2023 we delivered 218,000 'on demand' jobs to 201,000 'on demand' customers (2022: 122,000 jobs to 114,000 customers) and we expect to continue to grow this area in 2024 and for many years to come.

OPTIMISATION

Centrica Energy had another strong performance and continues to ensure we make the most of all our business areas. This year we saw a range of corporate power deals with partners such as Deutsche Bahn and Vodafone, among others, and were delighted to improve energy security with our deal with Delfin Midstream to buy LNG.

INFRASTRUCTURE

We made good progress across our entire infrastructure business in 2023, building and advancing our portfolio of investment opportunities in clean electricity generation and storage whilst focusing on maximising the value of our existing assets. We were very pleased to see **Centrica Business Solutions** deliver a range of projects including Centrica's first major solar asset in the Codford solar farm earlier this year, and committing to a range of other projects for the future including a 65MW battery storage plant in Perthshire.

In **Spirit Energy** we extended the life of our Morecambe Bay gas field in the East Irish Sea into the 2030s and we were awarded a carbon storage licence allowing us to further our plans to invest around £1bn in developing one of the largest carbon storage facilities in the world. In **Centrica Energy Storage+** we doubled the capacity of our Rough storage facility, now providing half of the UK's entire gas storage capacity and we continued to advance our plans to invest up to £2bn to convert this to become the world's largest hydrogen storage facility which we believe is necessary to unlock the UK's decarbonisation.



WE MAKE IT – we produce gas at Spirit Energy, and we generate electricity through our green-focused investments and our nuclear stake.



WE STORE IT – we can store gas through Centrica Energy Storage+, and electricity through our battery projects in Centrica Business Solutions.



WE MOVE IT – Centrica Energy is one of Europe's largest wholesalers of gas and electricity.



WE SELL IT – millions of homes across the UK and Ireland are supplied with gas and electricity through British Gas and Bord Gáis.



WE MEND IT – we install, maintain, and fix, heating systems in millions of homes.

CENTRICA'S CONTRIBUTION TO SOCIETY IN 2023

It is because our business performs so strongly that we can contribute more to society than the jobs and essential services we provide to our 21,000 colleagues and our 10 million customers. Our profits have a purpose. We have continued to encourage colleagues to volunteer in their local communities with over 7,200 days donated to the communities we operate in throughout 2023.

We've also fundraised and donated £4m to charitable causes we all care about in our local communities; we've paid over £1bn in tax across all of the countries we operate in; and as I mentioned earlier, we've committed £140m to supporting customers since the start of the energy crisis.

This year we've signed major new partnerships with Team GB, ParalympicsGB, Scottish Rugby, and the Scottish Football Association, all of which will have significant and lasting impacts on grassroots sport across the UK and demonstrate how net zero can be an opportunity for clubhouses and sports facilities across the country.

WHAT DOES THE FUTURE HOLD FOR YOUR COMPANY?

I am particularly proud of my colleagues because in 2023, not only did we achieve all of the things we set out, but we also gave direction on Centrica's future. In July we outlined our new Green Focused Investment Strategy, which will see Centrica invest up to £4bn over the next five years in security of supply and flexibility, renewable generation, and our customers. We expect to invest across three pillars:

- o **Customer solutions.** We will help customers better understand their energy usage and fully grasp their energy spending through innovation in smart metering and other flexibility tools and services that give customers the information to make better decisions about their energy costs.
- o **Security of supply and flexibility.** You can already see our experience in batteries and other flexible assets – over the next five years we will accelerate this. You can expect to see more from Centrica on how this investment will support the roll out of more intermittent power generation such as wind and solar by balancing the grid when the wind doesn't blow, and the sun doesn't shine.
- o **Green electricity generation.** We will look to increase our investment in clean energy with a focus on the areas we are strong in, looking at wind in Ireland, green hydrogen production and a continuation of our investment in solar, having opened our first solar farm during the year.

In addition to this investment programme, we will continue to progress our plans for hydrogen storage at Rough, carbon storage at Morecambe, and we will continue to evaluate the potential to bring further low carbon energy to our customers through investments in new nuclear generation. We have a rich set of investment opportunities, but we are also disciplined in our deployment of capital, and we will only invest where the returns are acceptable, the risks are manageable, and the balance sheet sustainable.

Notably, our business model and our investment plans are robust regardless of the pace at which net zero is delivered. I would argue that Centrica is well placed to provide stability, remain sustainable, and deliver value across all our stakeholder groups irrespective of changes to the pace of net zero.



SUPPORTING OUR COLLEAGUES AND ENHANCING OUR CAPABILITIES

We have supported our colleagues on their own professional journeys in 2023 and I am pleased to see that our colleague engagement score improved to almost 7.7 by the end of the year, which is approaching top quartile performance for our sector. We will continue to provide training for growth, space for our employee-led networks to flourish, and opportunities to nurture wellbeing into 2024.

The next phase of our journey is focused on driving growth in all of our businesses. To this end we have refreshed our Purpose.

Colleagues across Centrica will work to **energise a greener, fairer future** as we journey towards net zero for our customers and Centrica.

In addition, we're looking at how we can improve our capabilities in a number of areas. In Infrastructure, we have demonstrated that we have a team who knows how to deliver growth over a number of years. There is more to do in both our Retail and Infrastructure businesses and I am delighted that our new Chief Customer Officer will join on 1 May 2024 with a remit to drive relentless improvements in customer experience and help our retail businesses access the growth that we all know is there.

CONCLUSION

2023 has been a strong year for Centrica. We have not got everything right, but where we get things wrong, we put them right. Our business is on an incredibly strong footing, our future is laid out ahead of us and we are firmly on the path to continue the growth we've seen in recent years.

Going into 2024 I want to take this moment to thank all our customers, colleagues and shareholders for their support this year, and I want to take this opportunity to assure you that our progress will continue. We will continue to support our customers, we will continue to improve energy security, and we will continue to provide the sensible, expert-based input into the net zero discussion.

It is always invigorating and a privilege to be your Chief Executive. I look forward to seeing what we can achieve in the year ahead.

Chris O'Shea, Group Chief Executive
14 February 2024