

## Annual General Meeting – 13 May 2019

Good morning Ladies and Gentlemen. It's now 11 o'clock and it gives me great pleasure to welcome you to the Annual General Meeting of Centrica plc. My name's Charles Berry. This is the twenty-third AGM in the company's history but my very first as your Chairman.

However, I don't feel like a total stranger. I've known Centrica since the very beginning of the company over 20 years ago, first as a competitor when I was at Scottish Power, then during my time as Chairman of Drax up to 2015. So it's a special privilege for me to take on the role of Chairman at a company that I've long recognised and admired.

Thank you for coming. It's good to see so many of you here today and I look forward to responding to your questions shortly. There'll also be an opportunity for us to chat face to face over refreshments once the formal proceedings are over. But first I'd like to introduce you to my colleagues here on the stage.

On my far left is Sarwjit Sambhi, who became Chief Executive of Centrica Consumer on the first of March. Sarwjit's held several senior leadership positions across the business over the years latterly overseeing our UK Home business, British Gas and we're delighted to welcome him to the Board.

Next to Sarwjit is Carlos Pascual. Carlos joined us as a Non-Executive Director at the start of 2015 and has far-reaching experience in energy geopolitics and economic and commercial development.

Then we come to Joan Gillman, who's a Non-Executive Director and former executive vice president of Time Warner Cable, the second largest cable company in the United States.

Next is Steve Pusey, who was Chief Technology Officer on the Board of Vodafone for 8 years before retiring in July 2015. He joined your Board in 2015 and is also the Chairman of our Safety, Health, Environment, Security and Ethics Committee.

Next to Steve is Stephen Hester, our Senior Independent Director, who has wide-ranging commercial experience, particularly in customer-facing businesses.

Directly on my left is Justine Campbell, who became Group General Counsel & Company Secretary last month. Justine has deep legal and regulatory experience and is a valued addition to our senior team.

To my right, on the far end, is Richard Hookway, Chief Executive of Centrica Business, who joined the Board at the end of 2018. Richard previously held senior roles at BP and has worked in the energy sector for 35 years.

Next to him is Pam Kaur, one of the latest appointments to your Board. Pam's worked with regulators and supervisory boards across the world and we're delighted she's joined us.

Then comes Scott Wheway, who's the Chairman of our Remuneration Committee. Scott's background's in retailing and insurance, and he has a strong understanding of highly regulated businesses.

Next to him is Kevin O'Byrne who officially joins your Board today and brings a wealth of retail and finance experience. Kevin takes over as Chairman of the Audit Committee from Margherita Della Valle who stood down yesterday after eight years on your Board. I'd like to thank Margherita for her hard work and contribution to Centrica over that period.

Then we come to Chris O'Shea, who was appointed Group Chief Financial Officer at the end of last year. Chris has held many senior financial roles in complex, multi-national organisations.

And finally, on my immediate right is Iain Conn, Group Chief Executive, who'll shortly be updating you on the performance of the business and the strategic progress of the Group.

In my first few months as Chairman I've been getting to know Centrica, by visiting many sites - from Staines to New Jersey - and familiarising myself with our activities – everything from energy supply and services to marketing and trading.

What I've seen is richer and deeper than I expected – and my expectations were already high. Centrica's advanced compared to anything I've previously experienced in the energy sector and I think the capabilities of your company stand comparison with any company, not just those that are still commonly referred to as "utilities".

One thing I've learnt already is that Centrica's much more than just a utility. The range of sophisticated and complex businesses that form this Group demonstrates that we've gone far beyond that. Supplying power and gas to UK homes is the foundation of our business and still very important. But it has now reduced to around 15 percent of our profits.

Our activities range from the UK to the US; from domestic to business customers; from energy marketing and trading to liquefied natural gas; from digital interaction with our customers in their homes to helping business customers optimise their energy use. We've nearly 30,000 colleagues across a diversity of different businesses.

Let me give you some examples of our capabilities, based on my own first-hand observations. In Houston, Texas, in our North America Home business we can segment down to individual customers in individual areas of a city, almost street by street. This allows us to tailor our offerings with much greater accuracy to the individual needs of our customers. It's extremely sophisticated and demonstrates the sheer range of things that are possible online.

I've seen the work that our Distributed Energy & Power business is doing with large industrial customers, positioning smart energy sensors around their plants to understand and then optimise their use of energy. That's quite something.

Innovative energy solutions like this have only been made possible by the type of acquisitions that Centrica's made over the last few years. These new members of the Group – such as Panoramic Power and Neas Energy have added sophisticated capabilities that we wouldn't otherwise enjoy.

I've visited our National Distribution Centre in Leicester. This is where our British Gas engineers source the parts to repair the central heating boiler in your homes. If they need a part and request it by 8pm, that part will be with them by 7 o'clock the next morning. That's a remarkably swift turnaround and bears comparison with the best distribution centres anywhere in the world.

Alongside the sophisticated businesses that now make up the Centrica Group, I've also witnessed the extensive commitment and quality of our colleagues and the diverse range of their capabilities.

I met a young man in our US services business who had degrees in electrical engineering from the Massachusetts Institute of Technology and an MBA from Harvard. That's a very, very high-quality young colleague, educated by two of the top universities on the planet, who decided to join us. Utilities don't usually recruit people like that.

I also talked to engineers in Leicester who've spent pretty much their whole careers with British Gas. There's little they don't know about fixing boilers. But they also have access via their laptops to all the latest data on why boilers fail and how to fix them.

That's what I found striking about Centrica. There's a rich expertise based on decades of experience that's held in the company, allied to the very latest technology.

There's a mix of, on the one hand, the best talent in the world choosing to join us – young people – and at the other end of the spectrum, people who have phenomenal experience built up over a long career.

But whether they're just starting out or have decades of experience, one thing unites them. They're all very dedicated and hungry to deliver for our customers.

So, since arriving at Centrica, it's been reassuring and enjoyable for me to discover our great capabilities and first-rate colleagues. But some important questions remain, especially around the future shape of Centrica as we continue in the second stage of our transformation plan.

We're continuing to work on the evolution of the Group towards the customer-facing future that was outlined some years ago. As part of that, with new executive and non-executive members of the Board, we're undertaking a strategic update and we plan to present the conclusions of that at our Interim Results in July.

I've nearly a quarter of a century of personal experience in and around the energy sector and I hope to bring this to bear in helping Centrica and supplementing the already considerable skills of my Board colleagues.

As a member of the Steering Group of the Hampton-Alexander Review, I've a deep commitment to the need for and the benefits of all inclusion and diversity. There's strength in diversity, both at Board and team level, and Centrica's clearly focused on achieving that.

On gender, we currently have two women on the Board, with Margherita standing down yesterday after 8 years. However, that shouldn't be taken as an indication that diversity has become less important to me or the Board. As the team develops going forward, that'll be at the forefront of my mind.

Throughout his time as Chairman of the company, my predecessor Rick Haythornthwaite worked hard to refresh the Board and nurture its evolution. Our capable team of new Directors are a tribute to his efforts. I'd like to thank Rick for his calm and insightful leadership of the Board over the past five years.

We face serious challenges as a business and one of the most significant is climate change. Extreme weather events around the world make it ever more evident that companies need to address this issue and it's clear to me that Centrica can make a big contribution.

We've developed new capabilities which are completely consistent with a more effective approach to tackling climate change. As a Group, we're strategically well aligned to respond to the three driving forces of change in our sector - decentralisation, digitisation and decarbonisation.

As I look forward to my time guiding the deliberations of your Board, I'll also be looking to enhance our appreciation of our employees' perspective. In line with the UK's new corporate governance code, which came into effect this year, Joan Gillman's taken on the role as designated Non-Executive Director for engagement with our workforce. I look forward to Joan developing her role and inputs to the Board through 2019 and beyond.

These are difficult times for businesses and Centrica's no exception. We face intensifying competition, political uncertainty and regulatory intervention. But I'm confident that our range of capabilities and the skills of our people will ensure an important future for your company and I very much look forward to being part of it.

Now I'll ask Iain to update us on the performance of the business in 2018 including the trading update for the first quarter we issued this morning.

Thank you, Charles. Good morning everyone and thank you for coming today.

As Charles noted, we are repositioning our company against a very challenging backdrop. In 2019 in particular, we are facing a specific set of circumstances in the UK including the negative impact of the default tariff cap, warmer than normal weather for the first four months, and low natural gas prices. In addition, we have experienced extensions to outages at two Nuclear power stations. Centrica's portfolio is exposed to all these factors, which are

impacting our cash flows in 2019 and have created uncertainty around our near-term prospects and outlook.

Since we provided guidance for 2019 at our Preliminary Results in February, these factors have weighed heavily on our share price and at the outset I want to say how much I regret the impact this has had on you our shareholders.

This morning I'd like to describe the context Centrica is operating in, starting by outlining in more detail the challenging near-term trading conditions that we're facing, and what our priorities are in responding to them.

I will then touch on the longer-term context associated with the reshaping of the energy industry, how Centrica is changing in response, and the contribution we intend to make – including to combating climate change - as we reposition the company.

Having set the context, I will then turn to our performance - both in 2018 and so far in 2019, as described in our Trading Update which was released this morning. I will conclude by covering the outlook for the rest of the year and the strategic update which, as Charles said, we plan to present alongside our Interim Results in July.

So first, let me return to the nearer-term challenges we're facing.

We have seen unprecedented levels of regulatory intervention in the UK energy supply market, including the imposition of a price cap on default tariffs, which we have indicated will negatively impact our 2019 pre-tax operating profit by around £300 million, including a one-off impact of £70m which we are contesting. There was a hearing on this on Friday and we welcome the decision of the court to proceed to a more in-depth review.

We are working hard to mitigate the impact of the price cap through improved service, giving our customers new and differentiated propositions, and driving cost efficiency as hard as we can, but we cannot recover that sort of loss immediately.

Forward UK natural gas prices fell significantly in the final few months of 2018 and have fallen further so far this year, impacting the outlook for our Exploration & Production business.

We have seen extended outages on certain nuclear power stations following inspections and the operator, EDF Energy, must get regulatory permission before they can restart. There remains some uncertainty over their restart dates.

We also saw disappointing production performance in the second half of 2018 from our Spirit Energy Exploration & Production joint venture. I am pleased to say production in 2019 has so far been slightly ahead of expectations.

When combined with the impact of unseasonably warm weather in both the UK and North America in the first four months of 2019, it would be difficult to imagine a more challenging set of conditions for our portfolio as it currently stands.

Although many of these factors are outside our control, or are temporary in nature, as I acknowledged earlier, I am acutely aware of how this has impacted your near-term experience as shareholders and I regret that greatly. But despite the challenges we face, I am confident that the changes we are making to the business will deliver value for you in the medium-term.

In response to these challenging conditions, our near-term focus is on those things we can control, and therefore on performance delivery and financial discipline.

In addition to day-to-day emphasis on high standards of safety and compliance, our performance agenda is focused on four things: delivering for our customers and aiming to grow revenues and margin; driving cost efficiency as hard as we can; improving our organisational effectiveness; and finally building the capabilities we need in 2020 and beyond. Charles referred to some of those capabilities earlier. We are also paying close attention to capital discipline and the strength of our balance sheet.

I will update you on how we are doing in a moment. Let me first cover how the energy system is changing, an update on Centrica's evolving geographic footprint, and Centrica's response to Climate Change, something we have been focused on for many years.

The energy industry is currently undergoing fundamental changes. It is being reshaped and decentralised in response to the challenges of climate change, customers are becoming more powerful as they now have more choice and the ability to produce and optimise energy and not simply consume it, and all of this is being enabled by technology advancements and digitalisation.

Centrica is exposed to these changes and our strategy is now based around them. We are embracing the opportunities this brings and are playing our part in the re-shaping of the energy industry.

We are a customer-focused energy and services company, with energy supply increasingly just one of the services we provide.

The energy system is on the move and standing still is not an option.

In addition to providing energy reliably and with constantly improving customer service, our focus must also be on providing our customers with new technologies, services and solutions, enabling them to use energy much more efficiently, while at the same time lowering our exposure to hydrocarbon production.

The services and solutions we provide are largely focused on the automation, digitalisation, efficiency and optimisation of energy, as well as some non-energy services to give our customers peace-of-mind and propositions to reward customer loyalty.

Let me give you just a few examples.

We are transforming our customers' digital experience. More than 60% of our customers now choose to interact with us through digital channels. And customer satisfaction is improving as a result.

We are offering much greater personalisation for customers, including through our rewards programmes in the UK and Ireland. Retention rates and customer satisfaction levels for those who sign up for rewards are significantly higher.

We are providing more choice, including bundled energy and services propositions, such as energy with boiler breakdown cover, and cover for home electrical issues and plumbing and drains cover. Our British Gas engineers are being trained in new skills such as installation of Electric Vehicle charge points.

Our Connected Home business is another example of how Centrica has developed. Perhaps the name is misleading, in that we are not trying to take on the likes of Amazon but rather we are in some instances partnering with them to make our customers' lives more convenient and helping them run their worlds. From supplying the earliest gas meters, we have always been in technology to manage energy in the home, and today we're a market leader in smart thermostats and intelligent boilers, providing greater control, insight and efficiency. We are also focused on giving customers peace of mind about their homes, through indoor and outdoor security systems. We are currently testing Hive Link in the market, designed to help people care for loved-ones remotely. Since January 2018 the number of Connected Home customers increased by 594,000 and now stands at just under 1.5 million.

Through Distributed Energy and Power, we are also providing new capabilities for our business customers, helping them understand their energy usage, installing technologies to improve operational efficiency and reduce cost and carbon emissions, and providing solutions to help optimise their energy usage and to dispatch renewable electricity generation more effectively. We are integrating all of this into a single platform.

This provides us with a real competitive advantage in the fast-growing distributed energy sector, using vital capabilities we have gained through targeted acquisitions over the past few years. A good example is that we now have contracts with over 70 UK hospitals, installing new reliable, efficient and lower carbon energy systems and services so they can concentrate on running wards and operating theatres.

This changing business portfolio means that Centrica's geographic footprint is also changing. So is our profit mix. As Charles mentioned, only around 15 per cent of our total operating profit in 2019 is expected to come from consumer energy supply in the UK.

This map shows Centrica's relative scale in the UK relative to the rest of the World. We now have employees in 17 countries, with 53% of 2018 revenue and 49% of our adjusted operating profit generated outside of the UK, and this is before the impact of the default tariff cap on our UK profits.

The development of our distributed energy and power, energy marketing and trading, and connected home activities have enabled us to grow outside of our traditional geographies and business lines. We have distributed energy operations in 11 countries, we are continental Europe's largest demand response provider and we deliver route-to-market services to customers with over 23 gigawatts of largely renewable energy capacity, nearly half of which is outside the UK and North America.

I know much of this sounds a bit technical. But the point is simple. We are now exposed to growing trends in many geographies, and with the necessary skills and capabilities to respond to them, serve new customers and capture future value in this changing world.

There is some way to go yet, but your company is also changing, as we play our part in future energy solutions and in terms of addressing climate change.

We are putting our new capabilities to work in making a difference on climate change. We have updated our goals, and our recently introduced Responsible Business Ambitions are aligned to the Paris Accord.

We are focused on three things we can really impact, as shown by the three columns on this slide. We will help our customers reduce their carbon emissions, help enable decarbonisation of the energy system, and of course focus on reducing our own carbon footprint.

We have published clear targets to 2030 in all three areas and will measure and report on our progress.

These ambitions are aligned to the Committee on Climate Change report published two weeks ago in which it was recommended the UK develops plans for net zero emissions by 2050. A net zero target will be challenging to meet, but it is the right thing for the UK, and Centrica, to build concrete plans for.

At Centrica we are committed to helping our customers run their worlds, in ever more sustainable ways, and so delivering better, long-term, sustainable value for all our stakeholders.

Moving now to our performance, starting with 2018.

Safety performance was mixed. Our total recordable injury frequency rate was slightly higher than 2017, however process safety outputs continued to improve materially.

We also delivered better customer outcomes. Over the past four years, customer complaints across the Group have reduced by two thirds and net promoter scores have been improving.

We continued to make progress in developing new capabilities and demonstrating growth potential in both customer-facing divisions.

In Centrica Consumer, the rate of net customer account losses slowed sharply in 2018 and our UK rewards programme significantly improved customer retention.

In Centrica Business, Distributed Energy & Power delivered significant growth in order intake across all three areas of energy insight, optimisation and solutions.

Turning to the financial results, at the headline level, adjusted operating profit was up 12%, while adjusted operating cash flow of £2.24bn and net debt were within our 2018 target ranges.

We delivered further strong cost efficiency progress and plan to deliver £250m of further savings this year, meaning we will have achieved our three-year £500 million target one year early. We also expect an additional £500m of annualised savings beyond 2019, which would take total annualised savings since 2015 to £1.75bn and ensure we have the appropriate cost base to compete effectively in all our markets.

Despite the challenges faced in 2018, our underlying improvements were solid, and Centrica's share price over 2018 performed competitively relative to the FTSE 100. At our preliminary results in February we declared a final dividend of 8.4p per share, the approval of which is in front of you today.

Turning to the current year, this morning we published a Trading Update. We indicated the difficult trading conditions we face, particularly in terms of the price cap and lower commodity energy prices.

Operational performance has been largely in line with expectations in the first four months of 2019.

For example, Consumer net customer account losses have been 20,000 with losses of 234,000 in UK Home Energy largely compensated for by growth in Connected Home and North America Home.

However, as I described a few minutes ago, we have faced an extremely challenging trading environment.

It does seem that we are currently facing what is almost the perfect storm. While I'm not given to wishful thinking, it is difficult to imagine this particular combination of factors will continue for the long-term.

Nevertheless, in response, we continue to focus on the things we can control – including customer service and new propositions, growing revenues and margin, driving cost programmes harder and maintaining financial discipline.

Regrettably, as we handle more customer needs online and strive to be more efficient under the price cap, this has necessitated the closure of some of our offices, including the recent announcement of the planned closure of two UK call centres in Glasgow and Leeds. We have also had to ballot some members of our pension schemes regarding lowering the company's contribution. It was clearly right that, in line with what we were asking of our colleagues, executive management should do the same.

We understand how difficult these changes have been for those affected and we remain committed to constructive engagement with our colleagues and our unions, and to manage the process with due care and respect.

Although the external pressures have been significant, our response and underlying delivery have allowed us to maintain our full year financial guidance for 2019, including achieving adjusted operating cash flow in the range £1.8-£2.0bn and net debt in the range £3.0-£3.5bn.

Finally, Centrica is due to release its 2019 Interim Results on 30 July. By this time, we expect to have additional clarity on the 2019 commodity price environment, UK energy supply market dynamics under the default tariff cap, progress on the planned disposal of our interest in nuclear, the performance of the nuclear fleet, and the outcome of the pensions triennial review.

We will also have completed an assessment of future performance under a range of scenarios. Accordingly, the Company plans to present a strategic update alongside the Interim Results which will include reflections on the current business portfolio, updated future expectations for the customer-facing businesses, and an update to the Group's financial framework.

Before closing, I'd like to recognise and thank all of the employees at Centrica who have worked tirelessly during what has been an extremely challenging period. I am very proud of the Centrica team, their capabilities and commitment in the face of a dramatically changing landscape.

Thank you for listening. I will now hand you back to Charles.