Centrica plc
Equity placing

Investor presentation

5 May 2016

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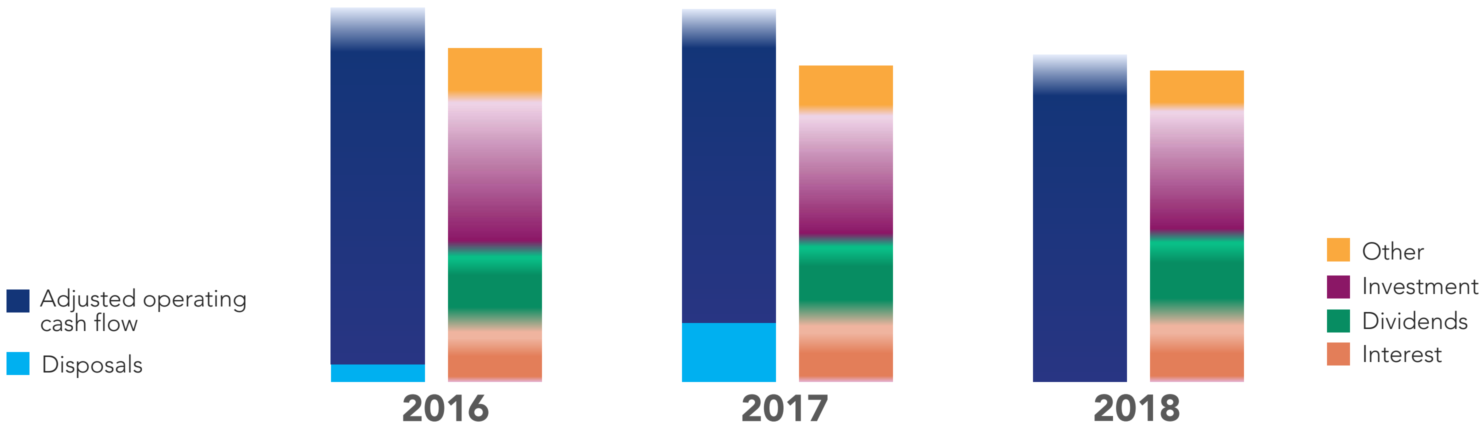
Centrica strategy

- An energy and services company focused on the customer, targeting delivery of both returns <u>and</u> growth
- Focus for growth on energy supply, services, connected home, distributed energy & power, energy marketing & trading
- £1.5bn reallocation of resources from E&P to customer-facing businesses by 2020
- 3-5% p.a. adjusted operating cash flow growth; £750m p.a. cost efficiency programme; progressive dividend linked to adjusted operating cash flow growth
- Capital discipline and financial framework
    - Investment (including small acquisitions <£100m) limited to £1bn p.a. to 2017
    - Targeting strong investment grade credit ratings (Baa1/BBB+ or above)
- Potential for larger targeted acquisitions to accelerate customer-facing strategy
- Aim to balance sources and uses of cash flow even in current commodity environment

Sources and uses of cash at '35/35/35'



Adjusted operating cash flow adjusted for $35/bbl Brent oil price, 35p/th UK gas price and £35/MWh UK power price. Includes benefit of hedging.

Strategy implementation

- Strategy implementation on track
  - Cutting E&P capex to £500m in 2016
  - Delivering cost savings of £200m and 3,000 reduction in direct headcount in 2016
  - Holding capital investment (including small acquisitions) below £1bn
  - Established new customer-facing businesses
- Organic sources and uses of cash flow more than balanced in current low price environment
  - Adjusted operating cash flow expected to be >£2bn in 2016
  - Potential for net debt reduction
- Current issues
  - Resource reallocation to customer-facing businesses below targeted levels, and attractive opportunities exist to accelerate growth strategy
  - Pressure on targeted credit rating and associated metrics
  - External environment continues to be challenging
  - Repositioning E&P not straightforward, but exploring all options

Rationale for placing

- Opportunity to accelerate customer-facing strategy through acquisition of key capabilities and market positions
  - Two highly attractive acquisitions with leading capabilities, both with double-digit EBITDA growth potential and which will immediately contribute to cash flow and earnings
  - Announced ~£200m acquisition (including working capital) of Neas Energy
  - Further ~£150m acquisition close to finalisation
- Sources and uses of cash flow expected to be balanced even after acquisitions, but credit metrics required for strong investment grade credit ratings under pressure
- 7% placing allows
  - Acceleration of customer-facing strategy and resource reallocation through acquisitions
  - Continued lowering of net debt, reducing pressure on credit metrics and targeted strong investment grade credit ratings in what remains an uncertain environment

NEAS ENERGY

- Agreed to acquire Neas Energy, one of Europe's leading providers of energy management and revenue optimisation services
  - Provides services for 2,500 individual decentralised assets with installed capacity of >8,600MW
  - New capability through unique route to market systems and expertise; complementary to Centrica's current EM&T capability
- Well positioned to benefit from growing trend away from large centralised power generation to decentralised technologies
- Attractive financial profile
  - Consideration of £170m (~8x 2015 EBITDA) plus working capital of~£30m
  - Strong historic growth rates
  - Immediately contributes to operating cash flow and earnings

Credit rating context

- Rating agencies have reacted to falling prices, taking negative actions on commodity exposed companies
  - Centrica placed on Review for Downgrade by Moody's and Negative Outlook by S&P
- Credit metrics challenged in low commodity price environment
- Strong investment grade credit ratings (Baa1/BBB+ or above) are most efficient for Centrica
  - Large user of collateral
  - Efficient procurement of energy
  - Cost effective short term sources of liquidity
- Reduces pressure on targeted strong investment grade credit ratings in a range of commodity price environments

	Moody's	Standard & Poor's Ratings Services
Current credit rating	**Baa1** (Review for Downgrade)	**BBB+** (Negative Outlook)
Strong investment grade credit rating	**Baa1** (or above)	**BBB+** (or above)
Key target metric	**RCF/ Net debt**	**FFO/ Net debt**
Metric threshold for current rating	**25%**	**35%**

Key terms of placing

- Announced on Thursday 5 May 2016
- ~7% of the issued share capital (350 million shares)
- Pricing to be determined by an accelerated bookbuild (ABB)
- New shares rank pari passu with existing shares
- Settlement of the new shares will be on T+2 (Monday 9 May 2016)
- Goldman Sachs and UBS are acting as Joint Bookrunners

Summary

- Strategy implementation on track
- Long term shareholder value through returns <u>and</u> growth
    - At least 3-5% p.a. adjusted operating cash flow growth
    - 10-12% ROACE
    - Progressive dividend policy tied to confidence in adjusted operating cash flow growth
- Strong focus on capital and cash flow discipline, balance sheet strength and cost efficiency
- Seeking 7% equity placing to enable <u>both</u>
    - Securing of attractive investment opportunities to accelerate growth, resource reallocation and capability development in customer-facing businesses
    - Reduction of pressure on most efficient investment grade credit ratings