

centrica

Centrica plc Preliminary Results

for the year ended 31 December 2015



Disclaimer

This presentation does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any Centrica shares or other securities.

This presentation contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of Centrica plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts.

Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.



Iain Conn
Chief Executive

Summary

- 2015 – resilient financial performance
- Group robust in a low commodity price environment
 - Sources and uses of cash flow more than balanced at \$35/bbl, 35p/th, £35/MWh
 - Confident in delivery of 3-5% p.a. operating cash flow growth
- Strategy implementation on track
- Efficiency programme underpinned

2015 financial performance

- Earnings down 4%, EPS 17.2p
- Operating profit in energy supply and services up 19%
- Operating cash flow of £2.25bn, up 2%
- Capital discipline
- Net debt down £449m to £4.7bn
- Exceptional items of £1.8bn post-tax

Implementing the strategy

- “To provide energy and services to satisfy the changing needs of our customers”
- Growth focus in five areas
- Reducing investment and exploring all options to strengthen E&P
- Refocusing thermal power portfolio; wind divestments progressing well
- Efficiency programme – expect to deliver £200m of savings in 2016
- Expect operating cash flow >£2bn in 2016
- Long-term shareholder value through returns and growth

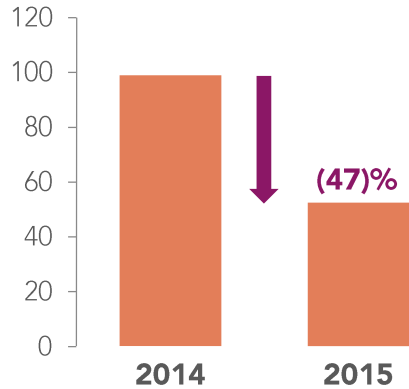


Jeff Bell

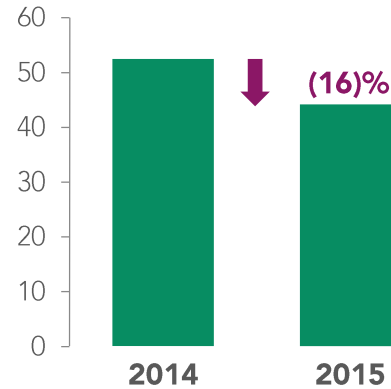
Chief Financial Officer

Commodity prices

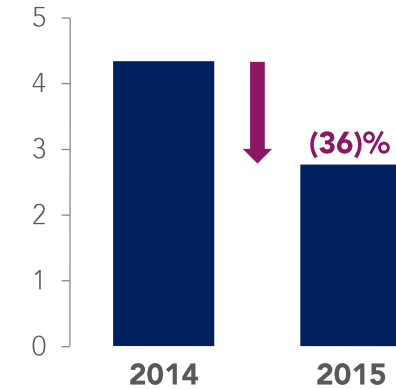
Average Brent Oil prices
(\$/boe)



Average UK NBP gas prices
(p/th)



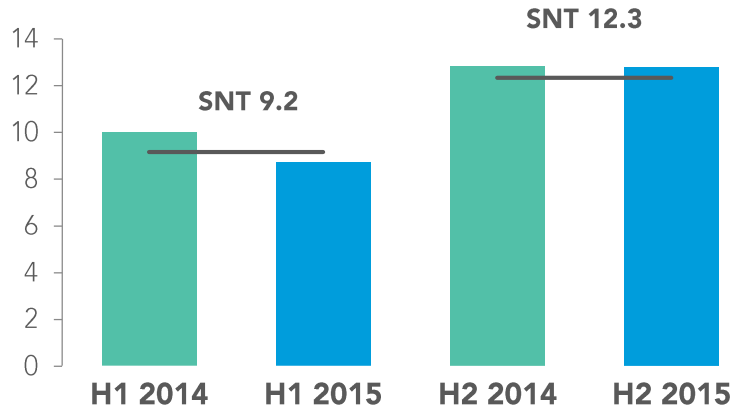
Average Henry Hub gas prices
(\$/mmbtu)



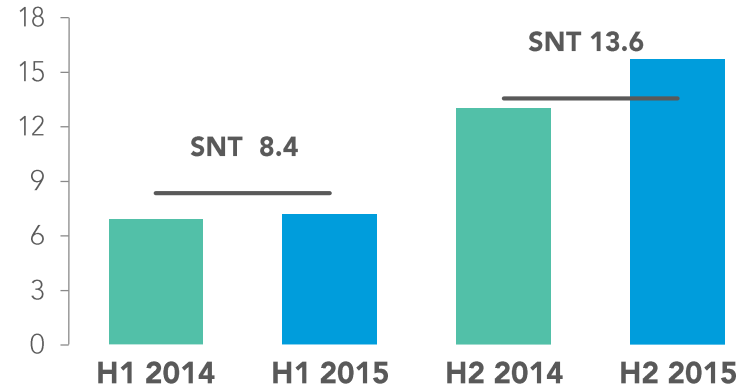
Prices are month ahead prices averaged over the full year.

Weather

Average UK temperature (degrees Celsius)



Average USNE temperature (degrees Celsius)



SNT = seasonal normal temperature.

Average daily UK temperature geographically weighted for British Gas customer base. Average daily Pittsburgh temperature used as proxy for US North East.

Financial headlines

Year ended 31 December	2014	2015	Δ
Revenue (£m)	29,408	27,971	(5%)
Adjusted operating profit (£m)	1,657	1,459	(12%)
Adjusted effective tax rate	30%	26%	(4ppt)
Adjusted earnings (£m)	903	863	(4%)
Adjusted basic earnings per share (p)	18.0	17.2	(4%)
Full year dividend per share (p)	13.5	12.0	(11%)
Adjusted operating cash flow (£m)	2,201	2,253	2%
Group net investment (£m)	829	855	3%
Net debt (£m)	5,196	4,747	(9%)
Return on average capital employed	11%	11%	0ppt

The above adjusted figures are before exceptional items and certain re-measurements. The 2014 adjusted comparatives have been restated to include depreciation of fair value uplifts to property, plant and equipment from Strategic Investments. Adjusted operating profit also includes share of JVs and associates before interest and taxation.

Reconciliations of the adjusted effective tax rate and adjusted operating cash flow are provided in the Group Financial Review in the Preliminary Results announcement.

Exceptional items and certain re-measurements

Year ended 31 December 2015 (£m)	Post-tax
E&P impairments	1,477
Power impairments and provisions	485
UK tax rate change	(116)
Total exceptional items	1,846
Total net re-measurements	(129)
Exceptional items and certain re-measurements	1,717

Operating profit

Year ended 31 December (£m)	2014	2015	Δ
British Gas	823	809	(2%)
Direct Energy	150	328	119%
Bord Gáis Energy	7	30	329%
Energy supply and services	980	1,167	19%
Centrica Energy	648	255	(61%)
Centrica Storage	29	37	28%
Adjusted operating profit	1,657	1,459	(12%)
Share of JV / associates' interest and taxation	(89)	(61)	nm
Group operating profit	1,568	1,398	(11%)

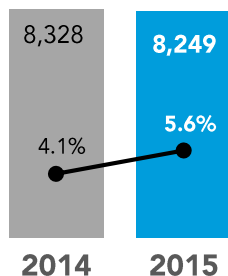
The above figures are stated before exceptional items and certain re-measurements. Adjusted operating profit includes share of JVs and associates before interest and taxation. The 2014 comparatives have been restated to include depreciation of fair value uplifts to property, plant and equipment from Strategic Investments.

British Gas

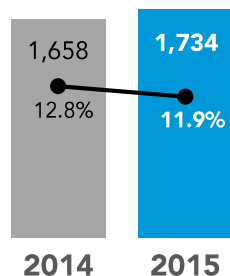
OPERATING PROFIT

Year ended 31 December (£m)	2014	2015	Δ
Residential energy	439	574	31%
Residential services	270	257	(5%)
Business	114	(22)	nm
British Gas	823	809	(2%)

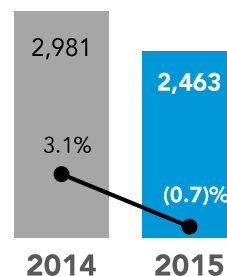
Residential energy revenue (£m) and post-tax margin (%)



Residential services revenue (£m) and post-tax margin (%)



Business revenue (£m) and post-tax margin (%)



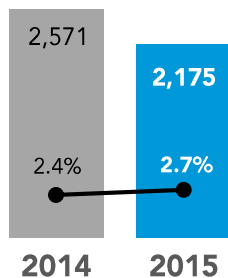
The above figures are stated before exceptional items and certain re-measurements and include share of JVs and associates before interest and taxation. 2015 revenue includes a reclassification of public sector installation revenue from business energy supply and services to residential services.

Direct Energy

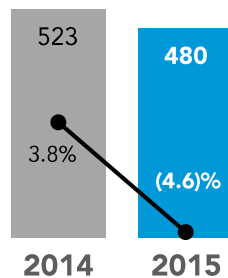
OPERATING PROFIT

Year ended 31 December (£m)	2014	2015	Δ
Residential energy	90	111	23%
Services	28	(34)	nm
Business energy	32	251	684%
Direct Energy	150	328	119%

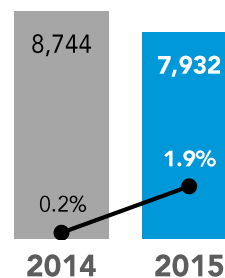
Residential energy revenue (£m) and post-tax margin (%)



Services revenue (£m) and post-tax margin (%)



Business energy revenue (£m) and post-tax margin (%)



The above figures are stated before exceptional items and certain re-measurements and include share of JVs and associates before interest and taxation.

Centrica Energy Gas

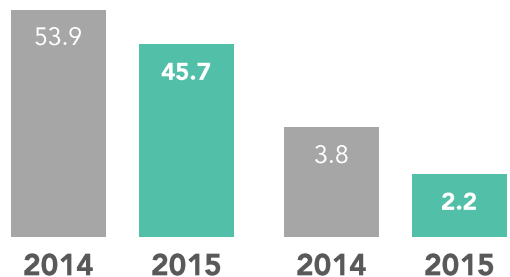
OPERATING PROFIT

Year ended 31 December (£m)	2014	2015	Δ
Operating profit before tax	575	153	(73%)
Operating profit after tax	290	45	(84%)

Average gas sales price

Europe (p/therm)

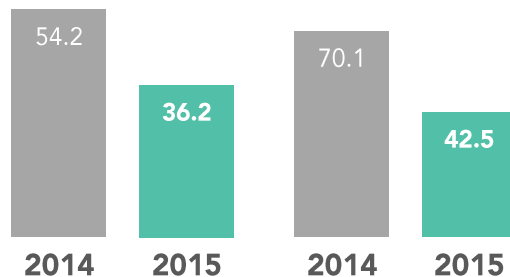
Americas (US\$/mmbtu)



Average liquid sales price

Europe (£/boe)

Americas (US\$/boe)



The above figures are stated before exceptional items and certain re-measurements and include share of JVs and associates before interest and taxation. The 2014 comparatives have been restated to include depreciation of fair value uplifts to property, plant and equipment from Strategic Investments.

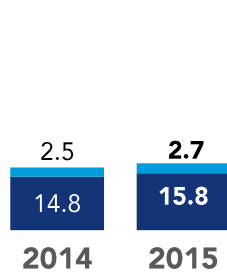
Exploration & Production volumes and costs

Production volumes

Gas (mmboe)



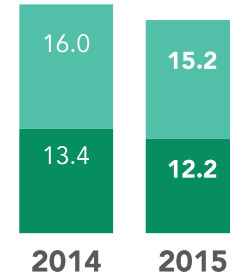
Liquids (mmboe)



■ Americas
■ Europe

Total unit production costs

Europe (£/boe)

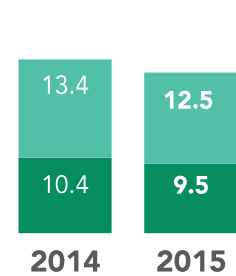


Americas (US\$/boe)



■ Lifting & other cash production costs
■ DDA Costs

Total (£/boe)



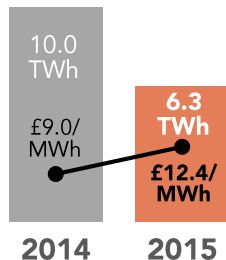
Production volumes include 100% share of Canadian assets owned in partnership with Qatar Petroleum.
The 2014 comparatives have been restated to include depreciation of fair value uplifts to property, plant and equipment from Strategic Investments.

Centrica Energy Power

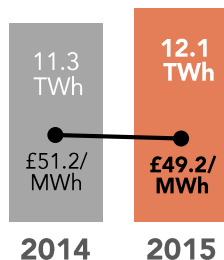
OPERATING PROFIT

Year ended 31 December (£m)	2014	2015	Δ
Gas-fired	(120)	(118)	nm
Nuclear	152	173	14%
Wind	10	29	190%
Midstream	31	18	(42%)
Power	73	102	40%

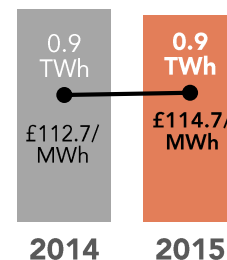
Gas-fired generation (TWh) & achieved clean spark spread



Nuclear generation (TWh) & achieved prices



Wind generation (TWh) & achieved prices (incl. ROCs)



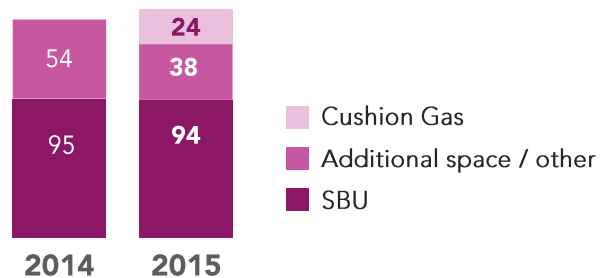
The above figures are stated before exceptional items and certain re-measurements and include share of JVs and associates before interest and taxation.
The 2014 comparatives have been restated to include depreciation of fair value uplifts to property, plant and equipment from Strategic Investments.

Centrica Storage

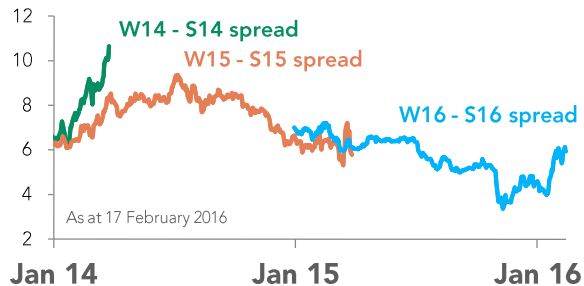
OPERATING PROFIT

Year ended 31 December (£m)	2014	2015	Δ
Centrica Storage	29	37	28%

Storage revenue (£m)



Forward seasonal gas spreads (p/therm)



The above figures are stated before exceptional items and certain re-measurements and include share of JVs and associates before interest and taxation.

Operating costs

Year ended 31 December (£m)	2014	2015	Δ
Operating costs (reported)	2,903	3,039	5%
Adjustments	(326)	(366)	nm
Like-for-like operating costs (post growth)	2,577	2,673	4%
Growth investment	-	(68)	nm
Total like-for-like operating costs (pre-growth)	2,577	2,605	1%

Adjustments include depreciation, smart metering opex, dry hole costs, FX movement, Ontario Home Services impact and costs to achieve. Growth investment includes incremental year-on-year costs in Connected Home and DE Solar.

Net investment

Year ended 31 December (£m)	2014	2015
Exploration & Production	1,086	728
Direct Energy	105	91
British Gas	177	108
Centrica Storage	28	32
Power ¹	76	12
Other	10	12
Total organic investment	1,482	983
Acquisitions ²	131	79
Organic investment and acquisitions	1,613	1,062
Disposals ³	(784)	(207)
Net investment	829	855

1. Power includes investments in wind farm JVs.

2. Acquisitions in 2015 include AlertMe and Panoramic Power. Acquisitions in 2014 include Bord Gáis Energy, a package of Canadian assets from Shell and Astrum Solar.

3. Disposals in 2015 include Lincs wind farm debt. Disposals in 2014 include three Texas CCGTs, the Ontario home services business and the disposal of an interest in the Greater Kitchiwake Area E&P assets.

Cash flow

Year ended 31 December (£m)	2014	2015
EBITDA	2,811	2,396
Tax	(707)	(349)
Dividends received	138	180
Working capital & other ¹	(41)	26
Adjusted operating cash flow	2,201	2,253
Net investment	(829)	(855)
Interest	(261)	(273)
Dividends	(864)	(387)
Share repurchase	(422)	-
Other ²	(80)	(141)
Adjusted net cash inflow / (outflow)	(255)	597

Adjusted operating cash flow



1. Other includes working capital, re-measurement of energy contracts, profit on disposal of business, employee share scheme costs, movement on provisions and defined benefit pension service cost and normal contributions.
 2. Other includes net payments for own shares, payments relating to exceptional charges and defined benefit pension deficit payments.

Net debt

Year ended 31 December (£m)	2014	2015
Opening net debt	(4,942)	(5,196)
Adjusted net cash inflow / (outflow)	(255)	597
Other non cash movements in net debt	1	(148)
Closing net debt	(5,196)	(4,747)
Margin cash	(776)	(535)
Closing net debt including impact of margin cash	(5,972)	(5,282)

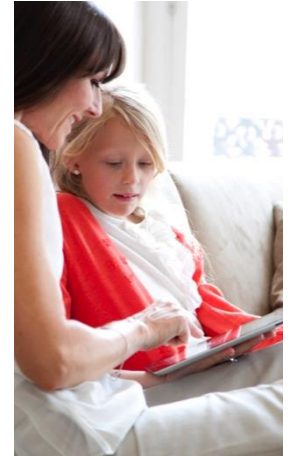
The items, to which the cash posted or received as collateral under margin and collateral agreements relate, are not included within net debt. For further details see note 11 of the Preliminary Results announcement.

Financial framework

Targets	Metric
Operating cash flow	<ul style="list-style-type: none">• 3-5% growth p.a.
Dividend	<ul style="list-style-type: none">• Progressive in line with operating cash flow
Controllable costs	<ul style="list-style-type: none">• Operating cost growth < inflation
Capital re-investment	<ul style="list-style-type: none">• Investment <70% of operating cash flow• Limited to £1bn p.a. in 2016-17
Credit rating	<ul style="list-style-type: none">• Strong investment grade (Baa1/BBB+ or above)
ROACE	<ul style="list-style-type: none">• 10-12%

Summary & outlook

- Resilient financial performance
 - Energy supply and services operating profit up 19%
- Lower commodity prices impacted E&P and power profitability
 - £1.8bn post-tax impairments
- 2015 adjusted operating cash flow up 2% to £2.25bn
- Net debt down 9% to £4.7bn
- 2016 adjusted operating cash flow expected to be >£2bn





Iain Conn
Chief Executive

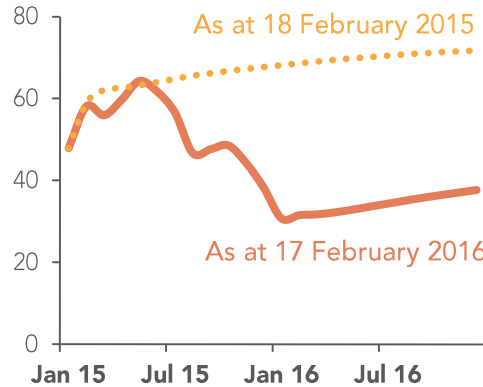
Overview

- Commodity prices
- Centrica in a low commodity price environment
 - E&P and power portfolio response
 - Sources and uses of cash flow
 - Cost efficiency
 - Operating cash flow growth
- New organisational model
- Focus areas for growth

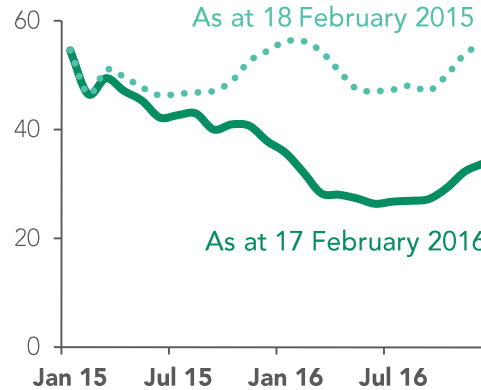


Commodity prices

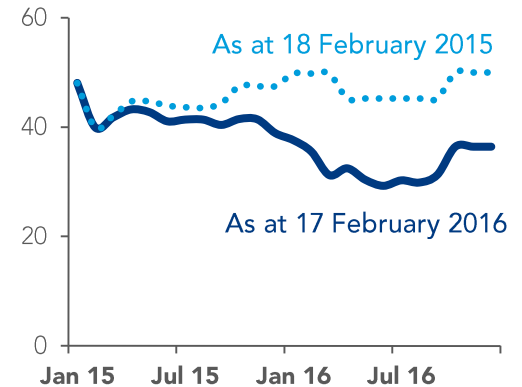
Average Brent oil prices
(\$/boe)



Average UK NBP gas prices
(p/th)



Average UK baseload power prices
(£/MWh)



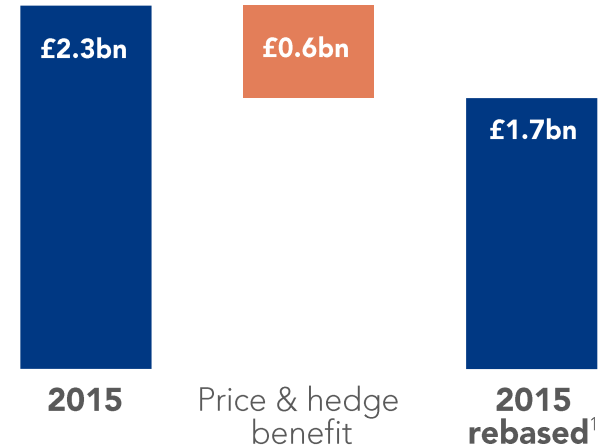
Prices are month ahead outturn and forward prices.

Centrica in a low commodity price environment

- Dividend cut in February 2015 to withstand lower price environment
- Evaluated Group plans at \$35/bbl, 35p/th, £35/MWh
- Reduced capex, cash focus and major efficiency programme
- Sources and uses of cash flow more than balanced
- Expect 2016 adjusted operating cash flow to exceed £2bn
- Confident of 3-5% p.a. operating cash flow growth

2015 operating cash flow at '35/35/35'

- £1.7bn operating cash flow excluding any benefit from hedging
- Disposal proceeds of £0.2bn
- Uses of cash ~£1.9bn
- E&P capex above strategy target range
- Net cash flow positive

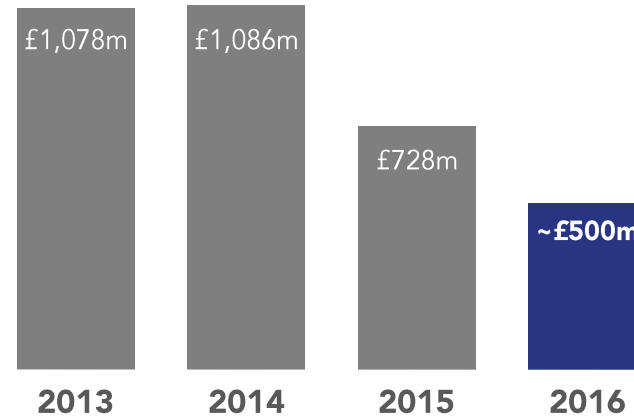


2015 adjusted operating cash flow adjusted for \$35/bbl Brent oil price, 35p/th UK gas price and £35/MWh UK power price equivalent, excluding hedging benefit.

E&P portfolio response

- Role of E&P
- Developing plans to exit Canada
- Capex reduction
- Further cost reductions
- Exploring all options for E&P

E&P capital expenditure



Refocusing Central Power Generation

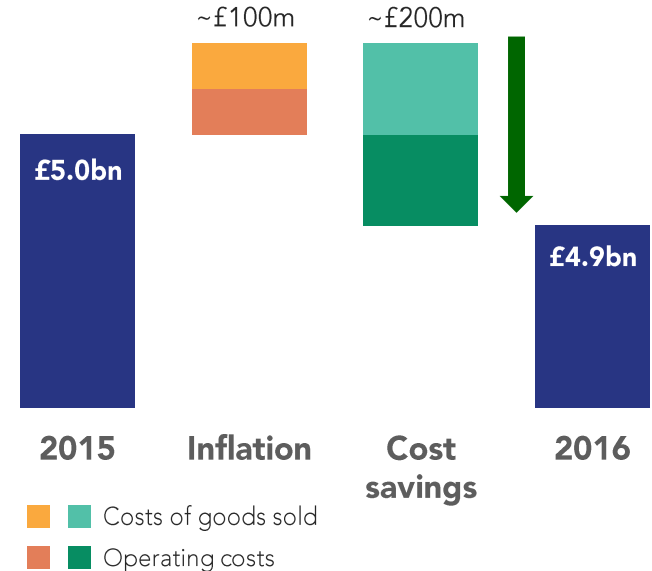
- More focused central power generation business
- CCGT and renewables capabilities transferred to new Distributed Energy & Power business unit
- Rationalising gas-fired fleet
- Nuclear focus on operations and efficiency
- GLID wind farm disposal



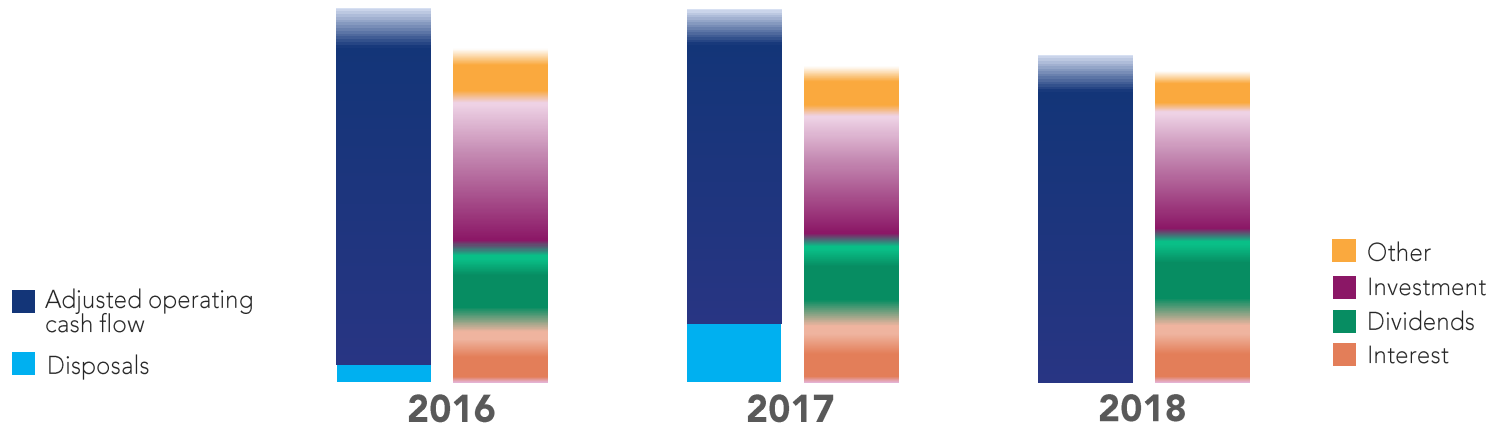
Cost efficiency programme

- On track to achieve £750m cost efficiency target
- 2,000 role reductions announced to date
- Direct headcount reduction of around 3,000 expected by end of 2016
- Expect to deliver £200m of savings in 2016
- Two-thirds of savings by end of 2018

Controllable costs

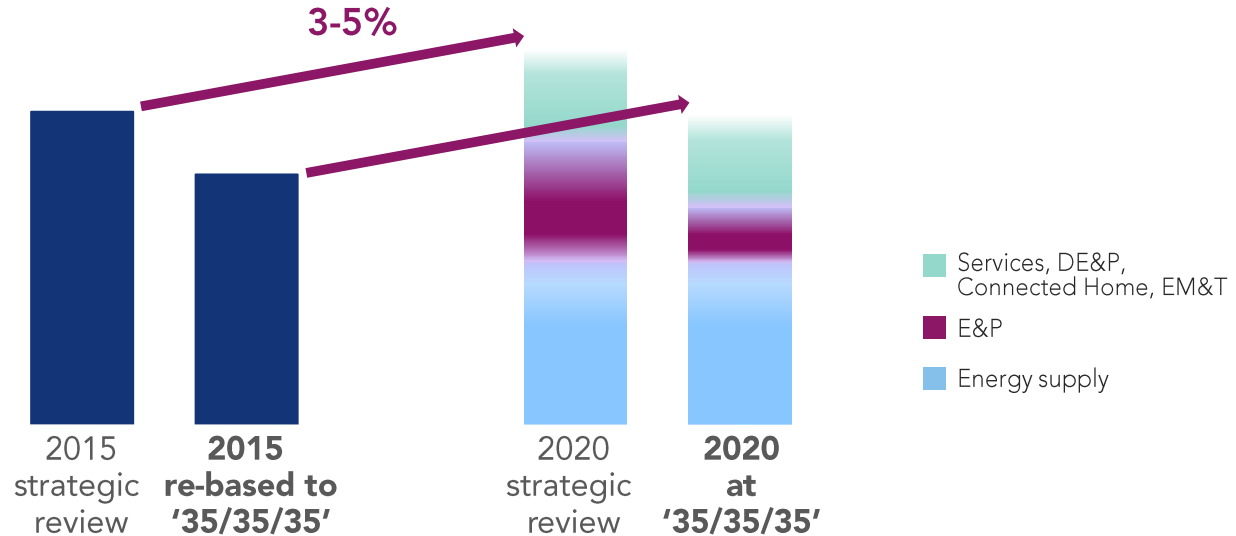


Sources and uses of cash at '35/35/35'



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.

Operating cash flow growth at '35/35/35'



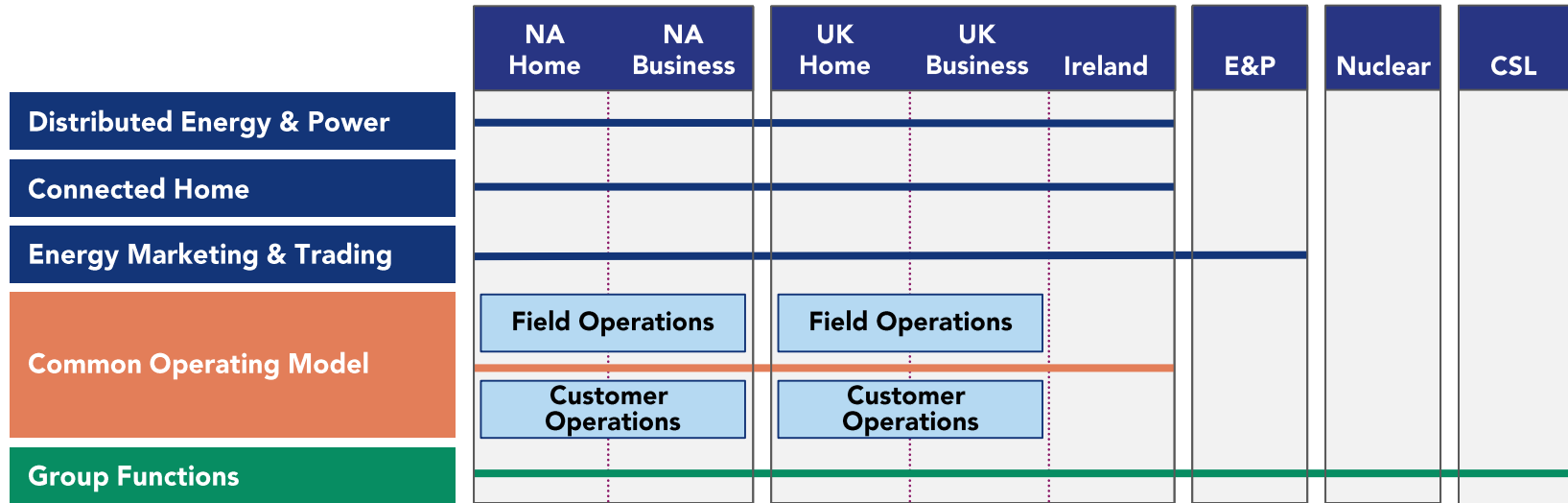
2015 operating cash flow adjusted for \$35/bbl Brent oil price, 35p/th UK gas price and £35/MWh UK power price.

CMA

- Provisional Decision on Remedies due March 2016
- Final report due June 2016
- Unique opportunity to encourage innovation
- Some concerns with provisional findings and proposals
- Customer engagement through ending evergreen tariffs
- Well placed in a competitive energy market



New organisational model



- Business Unit
- Operating Function
- Group Functions

NOTE: Centrica Storage is operated as a separate ring-fenced entity

New segments

NEW REPORTING SEGMENTS FROM 1 JAN 2016

Year ended 31 December (£m)	Year	Year	Δ
<i>UK Home</i>			
<i>UK Business</i>			
<i>Ireland</i>			
Total UK & Ireland energy supply and services			
<i>North America Home</i>			
<i>North America Business</i>			
Total North America energy supply and services			
Connected Home			
Distributed Energy & Power			
Energy Marketing & Trading			
E&P			
Central Power Generation			
Centrica Storage			
Total			

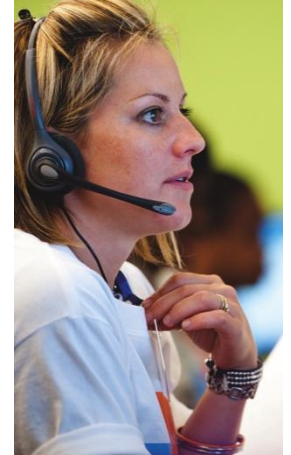
Centrica KPIs

Safety	<ul style="list-style-type: none"> • Total recordable injury frequency rate (TRIFR)
Energy supply and services	<ul style="list-style-type: none"> • Net promoter score • Customer account holdings • Total energy consumption • Energy use per residential customer • Cost to serve per Home account
DE&P	<ul style="list-style-type: none"> • Active customers
Connected Home	<ul style="list-style-type: none"> • Cumulative hubs installed
E&P	<ul style="list-style-type: none"> • Total production volumes
Efficiency	<ul style="list-style-type: none"> • Adjusted operating costs as a % of gross margin • Direct headcount • Adjusted operating costs

Further details of Centrica KPIs can be found on page s19 to 23 of the Preliminary Results announcement.

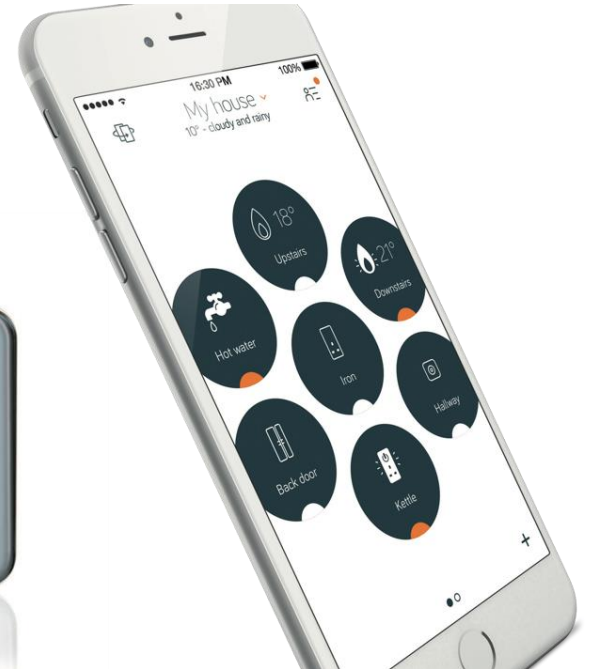
Growth - Energy supply and services

- Energy supply and services operating profit up 19% in 2015
- BGS engineer NPS at +70
- Three UK residential gas price reductions since start of 2015
- 2m smart meters installed in the UK
- New energy services propositions
- Improved customer mix in North America



Growth - Connected Home

- High quality capability
- 500,000 smart thermostats sold
- New products launched
- Connected boiler
- 3m customers with access to analytics and insight products; targeting 5m by the end of 2016



Growth - Distributed Energy & Power



509 customers
across ~1,340 sites including
450MW demand side
response capacity, 20MW
solar projects in partnership
with Solar City



164 customers
across ~750 sites in 30
countries
Majority of operations in North
America, UK and Israel



485 customers
across ~2,370 sites including
52 customers across 400 sites
managed by the Energy
Control Centre



Growth - Energy Marketing & Trading

- Good capabilities
- Strong trading performance
- Cheniere US export contract
- Further “FOB” cargoes scheduled for 2016
- Existing capacity at Isle of Grain



2016 targets

- Adjusted operating cash flow >£2bn
- Group capital investment limited to £1bn
 - E&P capex of around £500m
- £200m of cost efficiencies in 2016
- Like-for-like operating costs below 2015
- Direct headcount reduced by around 3,000

Summary

- 2015 - resilient financial performance
- Group robust in a low commodity price environment
 - Sources and uses of cash flow more than balanced at \$35/bbl, 35p/th, £35/MWh
 - Confident in delivery of 3-5% p.a. operating cash flow growth
- Strategy implementation on track
- Efficiency programme underpinned

Q&A



Iain Conn
Chief Executive



Jeff Bell
Chief Financial Officer



Mark Hanafin
Chief Executive,
Energy Production,
Trading and
Distributed Energy



Mark Hodges
Chief Executive,
Energy supply
and services,
UK & Ireland



Badar Khan
Chief Executive,
Energy supply
and services,
North America

Disclaimer: Rules of thumb

The rules of thumb were provided in February 2016 based on the then current prevailing range of oil, gas and power prices. They are illustrative and are intended as directional only. The actual impact of price changes in the exploration and production and power environments on Centrica's profit after tax will likely differ from the indicators and do not represent any forecast, target or expectation as to future results or performance.

These rules of thumb are directionally approximate and based upon Centrica's current portfolio. Please note that the relationship between oil, gas and power prices and results is not necessarily linear across a wide range of oil and gas prices and the rules of thumb indicators do not take account of the impact of forward hedging. Changes in margins, differentials, seasonal demand patterns, operational issues, tax rates and other factors including timing of acquisition and divestment activity indicated, also materially impact the profit after tax impact of a change in underlying commodity prices. In addition, profit after tax and cash flow impact may differ due the timing of tax payments. Furthermore, there are a number of other factors that could cause actual results or developments to differ materially from those implied by the application of these rules of thumb.

Rules of thumb - E&P and Nuclear

Please refer to disclaimer on slide 46 of this presentation before using this information.

The table shows Centrica's unhedged profit after tax (PAT) sensitivity to changes in commodity prices

		Movement	PAT impact
Gas	UK	5p/therm	~£35m
	North America	\$0.5/mcf	~£30m
Oil	UK	\$10/boe	~£30m
	North America	\$10/boe	~£10m
Baseload power	UK	£5/MWh	~£50m

Assumes all European gas (including Norway and Netherlands) is sold in the UK.

PAT impact assumes blended tax rates of European E&P – 70%, North America E&P – 38%, UK nuclear – 20%.