

18 April 2016

Good morning Ladies and Gentlemen. It is now 11 o'clock and it gives me great pleasure to welcome you to the Annual General Meeting of Centrica plc. My name is Rick Haythornthwaite. This is the twentieth AGM in the company's history and my third as Chairman.

I'm delighted to see so many of you – our shareholders - here today. I know that I speak for all my colleagues on the podium today when I say that we very much appreciate your interest in the Company and the support that you continue to give us.

I recognise that there have been a number of changes to the Centrica Board. Full biographies can be found in the Annual Report and at the back of the Notice of this meeting. However, I thought I would take a couple of minutes to introduce the directors to you.

On my far left is Mark Hodges, Chief Executive of the Energy Supply and Services business in the UK and Ireland which includes all the businesses under the British Gas brand. He joined us in June 2015 from the insurance sector and brings a strong understanding of the UK consumer market and a track record in improving business performance.

Next to Mark is Steve Pusey. He also joined us in 2015 as a Non-Executive Director. Previously the chief technology officer of Vodafone, his experience as a senior international customer-facing business technology leader is of enormous benefit as we develop our digital strategy. Steve has, from today, also taken on the role as Chairman of our new committee, the Safety, Health, Environment, Security and Ethics Committee.

Sitting on Steve's right is Margherita Della Valle who has been a Non-Executive Director since 2011 and is Chairman of our Audit Committee.

Then I come to Ian Meakins, our Senior Independent Director who has been on the Board since 2010 and took on the role as Senior Independent Director at the start of last year.

Directly on my left is Grant Dawson, our Group General Counsel & Company Secretary who has been in role since 1997.

To my right, on the far end, is Mark Hanafin who has been an executive director since 2008 and leads the energy production, trading and distributed energy businesses.

Next to him, Lesley Knox, a Non-Executive Director since 2012 and Chairman of our Remuneration Committee.

Carlos Pascual is next to Lesley, he joined us as a Non-Executive Director at the start of last year and is a senior leader in energy geopolitics and economic and commercial development. He has previously acted as senior adviser to the US Secretary of State on energy issues and has very much enhanced the Board's global perspective.

Sitting to Carlos left is Jeff Bell who was confirmed as Group Chief Financial Officer in the middle of last year having undertaken the role on an interim basis for a period. He joined the Group in 2002 and has extensive experience in driving financial performance.

On my immediate right is Iain Conn who joined the Group as Chief Executive at the start of last year and many of you will have met Iain at last year's AGM. Iain has shown that his breadth of knowledge and commitment to customers and safety makes him ideally suited to lead Centrica in the next phase of our development. He has made a significant contribution in leading the Group's strategic review and has underpinned the outcome with comprehensive implementation plans.

Mike Linn has not been able to join us today and will not now be standing for re-election as a Non-Executive Director this year, following his decision to take on a new executive role in the United States. I would like to thank Mike for the contribution he has made to Centrica and we all wish him well for the future.

I am delighted, however, to tell you that we have today announced the appointment of Scott Wheway as a Non-Executive Director with effect from 1 May 2016. Scott is a very well-respected FTSE board member who offers a mix of deep retail and consumer expertise which will be of significant benefit to the Board in the development of our customer-facing agenda.

You will of course have the opportunity after this meeting to meet with the directors in the reception area.

Now let me talk about your Company in 2015 as well as touching on 2016.

2015 proved to be an incredibly challenging period for Centrica, for the energy sector and for the global economy.

Our results are a testimony to the resilience of our businesses, particularly those that directly serve our customers, and the dedication and hard work of our employees.

Early in the year, we undertook a strategic review of the Groups' activities. This was driven by the Board's decision to question whether we had the right strategy and mix of businesses to take advantage of future opportunities, and also by changing external factors. The downturn in the global oil and gas sector has been profound and persistent and we must continue to adapt to this harsher environment.

In February 2015, despite having taken actions to strengthen and improve Centrica's resilience, we took the extremely difficult decision to cut the dividend. This decision, which we discussed with you at last year's AGM, was not taken lightly. But against a backdrop of further falls in commodity prices, it has proved crucial to creating a stable foundation. And we will now target the delivery of a progressive dividend, in line with our confidence in our ability to grow the operating cash flow of our Group.

In July we published the findings of our strategic review, which concluded that Centrica is first and foremost a customer-facing business. Our purpose is to deliver energy and services to satisfy the changing needs of our customers.

It is a purpose which runs like a golden thread through our 200-year history as an energy provider, and now leaves us uniquely positioned to bring a new meaning to the concept of a modern energy company.

This requires a change in the make-up of our businesses, with growth focused on our customer-facing activities, and a reduced scale in exploration and production, but at a level which will still allow us to participate effectively in that market.

Although we are making significant investment now in line with that strategy, it will take three to five years before the benefits from these changes are realised. That's because we are a large and complex business.



To give you some idea of our scale and complexity, we serve customers in every county of the UK and the Republic of Ireland and operate in 50 U.S. states, the District of Columbia and 10 provinces in Canada. We issue over 80 million letters and bills every year. In the UK alone, our engineers cover a total of 130 million miles a year – that's equivalent to the moon and back every working day. Our British Gas engineers typically visit more than 2,000 homes on Christmas Day. During the winter of 2014/15 we fixed nearly 2 million boilers across the UK. So it takes time to effect real, penetrating and lasting change.

Our vision is to make Centrica a fitting energy company for the 21st Century. We believe in operating transparently, treating employees fairly and linking reward to performance.

These principles are not only the 'right thing to do' but make good business sense too and are particularly important given our responsibility towards the supply chains in which we operate. In the UK alone, Centrica supports 174,000 jobs and 6,000 companies through our activities.

We also believe that we have a duty to make a positive contribution to the communities in which we operate. We discharge this duty through a wide range of education and environmental initiatives that we believe serve the interests of our customers, shareholders, employees and society alike.

By way of example, we are making a valuable contribution to society through Ignite, the UK's first corporate impact investment fund focused on energy and backed by us. Ignite is investing £10 million alongside our people's expertise to grow enterprises that help tackle big issues in society, such as climate change, fuel poverty and unemployment. By the end of last year, we had committed £8 million to 12 social enterprises which benefitted over 24,000 people. Our investments include securing renewable solar generation for low income communities, enabling low carbon electric vehicle transport as well as growing the green skills of young people. In addition to generating positive impacts in society, Ignite also creates commercial benefits for our business - we are building the entrepreneurial skills of our people, as well as opening new dialogues with potential business partners and customers.

Another example is Movement to Work, a cross business movement in which we are a founding partner. Movement to Work aims to help young people not in education, employment or training into the world of work. In 2015, we trained 274 young people with almost 50% moving into full time employment or further training as a result of our support, including 75 of those, who secured full time jobs with British Gas. Across all Movement to Work partners, more than 40,000 young people have received training placements to help them get a great start in life.

In addition, we provide opportunities for training and apprenticeships to upskill and motivate our workforce. We currently have 1,200 British Gas apprentices and we invest £30,000 for each apprentice we train. Our apprenticeship schemes are rated as 'outstanding' by Ofsted.

Meanwhile, in energy generation, our programmes are shaped by a belief that the most practical way to reduce carbon emissions is to invest in the most cost effective technologies and to push for simple, clear decarbonisation targets. We consider that this is the best path to managing the difficult trade-off between the costs of carbon reduction and the affordability of energy to homes and businesses.

Another of our priorities over the past year has been to make sure that Centrica has the right governance structures in place to meet the challenges of being a 21st Century energy company. During 2015, the Board undertook a fundamental review of the Group's principal risks and its corporate governance framework and considered the primary roles of the Board's Committees and their membership.

We have convened a new Committee - the Safety, Health, Environment, Security and Ethics Committee. Its purpose is to ensure the effective management of risks in a number of crucial areas, principally non-financial, of which safety, regulatory compliance and cyber security are very much areas of its focus today.

The Board is also very engaged in understanding the potential of digital technologies in our sector and the role that our leadership can play. We need to make sure that our customers benefit from these new possibilities. We see these new technologies as the key to giving our customers more control in meeting their energy needs and to helping them see us as more of a partner rather than a supplier -in other words, considering us all to be 'on the same side'. In our view, this is an important component of a trusting relationship.



And in order to succeed in the 21st Century, we will need to continue to focus our energies on building such trust, being nimble in our formulation of strategy and attracting new, talented people to Centrica who can provide us with competitive advantage.

Crucially, we will need to do this while maintaining a sustainable relationship with you, our investors, delivering long-term value through returns and growth. These goals are neither easy nor will they be achieved overnight. But they are an essential element of our journey to transform Centrica.

Looking ahead to the rest of 2016, the persistent weakness in commodity prices will continue to provide challenges for the Group. However, I am confident in our financial resilience and our ability to withstand a number of circumstances.

We will continue to engage actively in discussions on energy policy across our markets in the interests of our customers and stakeholders. The clear outcome of the 2015 General Election provided greater political certainty for a while in the UK. However, the calling of the referendum on our continued membership of the European Union has re-introduced an increased element of political risk into the market which may persist for some time, depending on the outcome.

In March, the Competition and Markets Authority published its provisional decision on remedies as part of its investigation into the UK energy market. The CMA's final determination is due in June. Centrica has contributed constructively to what has been an in-depth and challenging investigation and we will continue to do so. While we disagree with some of the CMA's findings, we do believe that the majority of its proposed remedies will benefit our customers, provided they are implemented thoughtfully, and we will continue to work to that end.

So, the Group is underpinned by its 200 year history anchored in satisfying the changing needs of our customers. We have significant market share in the geographies where we operate, strong brands and a deep energy services capability.

Our people and our technologies are what make us distinctive. They gives us the vital edge, not only in responding to a rapidly changing energy world, but also in winning for our customers. And for these reasons, I believe this is a truly exciting time for Centrica.

And, with that, let me hand you over to Iain who will update you in more details on our performance and the outlook for the business.

Thank you Rick.

Good morning everyone and thank you for coming. A lot has happened since I spoke to you last year and I appreciate the opportunity to update you on our progress and prospects for the future.

We have been experiencing a difficult market environment with continuing low oil, gas and power prices, and important events for Centrica including the outcomes of the UK General Election and the CMA review into the effectiveness of the UK energy market.

Last July we also set out a new strategic direction for the next phase of our company. This was an important moment for Centrica, and I would like to start by reflecting on what we have set out to achieve. I will then turn to our performance and the progress we are making against our priorities.

Let me begin with our purpose and strategy.

As Rick outlined, we are an energy and services company. Through our purpose, we have recommitted ourselves to our millions of customers and to satisfying their changing needs. The world of energy is changing, and with our chosen businesses and current capabilities, Centrica is well-placed to deliver for those customers and for society.

We are committed to the highest standards of safety and compliance. We will satisfy our customers, deliver cash flow growth and momentum, and be efficient and excellent in our operations. We will build capability and innovate for the long-term.

Our goal is to deliver long-term shareholder value through returns and growth. By growth we mean growth in operating cash flow, and our goal is to grow on average by 3-5% per annum out to 2020 relative to 2015.

We are concentrating our growth efforts in five key areas - Energy Supply, Services, the Connected Home, Distributed Energy & Power and Energy Marketing & Trading.

We will grow our energy supply business by improving customer service, developing the right offers to retain and win customers, and improving efficiency across all our businesses.

In services, we are developing new offers and pursuing new customer segments on both sides of the Atlantic. Our engineers have also installed over two and a quarter million residential smart meters in the UK.

We are pioneers of the Connected Home and we are continuing to build a strong product and technology capability. We are investing an additional £500 million over the next five years in this expanding area of our business.

In Distributed Energy & Power, Centrica has the expertise to deliver what our business customers need, including energy efficiency, flexible generation, and energy management systems. We plan to invest an additional £700m in distributed energy and power out to 2020.

We are continuing to develop and grow good capability in Energy Marketing & Trading.

We must also maintain a strong portfolio of businesses with the cash flow diversity and balance sheet strength to allow us to manage the risks associated with serving such a large customer base.

This means that the operations and cash flows from our Exploration & Production and Central Power Generation businesses remain important to the Group.

We are determined to make Exploration & Production as strong as possible in this challenging environment, while targeting a lower production level of 40-50 mmboe per annum and will continue to explore all options to strengthen and improve E&P.

In Central Power Generation, we will continue to focus only on relatively advantaged thermal assets, smaller peaking plants and our nuclear generation position.

As we execute on our strategy, we aim to deliver a progressive dividend in line with our confidence in our ability to grow operating cash flow.

As part of our financial framework we continue to target a strong investment grade credit rating.

Having covered briefly our strategy and portfolio, let me now turn to our recent performance.

In general our operating performance in 2015 was strong. However, in the matter of safety I regret to say that in 2015 our performance was slightly worse than in the previous year, with 1.1 recordable incidents per 200,000 hours worked and process safety performance also deteriorated slightly, including a serious incident in Canada.

We have a significant agenda to improve safety, including a focus around leadership and training in the field, a stronger management framework, and attention to priority risk areas.

We are determined to return our personal and process safety performance to an improving trend.

Operationally our performance was otherwise robust.

In 2015 we delivered two gas price reductions in the UK market, reducing household energy bills, and we have achieved a significant improvement in our levels of customer service. As a result we saw improving customer net promoter scores, and reduced complaint levels. In our asset businesses we maintained high levels of gas and oil production and strong power plant availability.

In terms of external drivers, we faced mixed fortunes as commodity prices continued to fall and central power generation continued to be impacted by weak spark spreads. In our customer-facing businesses the markets in which we operate remain highly competitive.

Against this difficult external backdrop, our financial performance in 2015 was resilient. At a Group level, adjusted earnings were down 4%, with adjusted earnings per share of 17.2 pence. But within this, operating profits from energy supply and services – both key focus areas for growth – rose by 19%, partially offsetting the negative impact of lower commodity prices on our E&P and power operations.

Operating cash flow increased by 2%, reaching £2.25 billion pounds, and we maintained capital discipline, with total capital expenditure of just over £1 billion, including two small acquisitions.

When combined with our difficult but necessary decision a year ago to re-base the dividend, and some divestment proceeds, this disciplined approach enabled us to reduce net debt by 9%, to £4.7 billion.

Nevertheless, given prevailing commodity prices at the end of last year, we had to recognise major asset impairments on our E&P assets and nuclear investments. In total, the charge for the non-cash exceptional items after tax was £1.8 billion.

This resets the Group's balance sheet to reflect the reality of today's commodity prices.

This morning we have also released a Trading Update on our performance in the first three months of 2016. The Company continues to make good progress against its strategic priorities and remains on track to achieve the targets set out at our Preliminary Results on 18th February.

We continue to expect adjusted operating cash flow to be in excess of £2bn again this year. Capital expenditure including small acquisitions is expected to be no more than £1bn, of which around £500m is in Exploration & Production, and we are on track to deliver £200m of efficiency improvements in 2016. Net debt at the end of the first quarter was £4.4bn, nearly £400m lower than at the start of the year.

In the first quarter we delivered a third gas price reduction in the UK which came into effect on the 16th of March. Since November 2014 the cost of the wholesale gas for our customers has fallen by 35%, and with gas making up about 42% of the bill, this corresponds to a 15% reduction for our customers. Over that period we have reduced gas bills three times, each of 5%, demonstrating we have passed on wholesale price reductions when we can.

We have driven further improvements in customer metrics such as Net Promoter Scores and complaints. Although UK Home energy supply accounts fell by about 1.5% in the first quarter, this is significantly as a result of some large scale roll-offs of fixed term contracts.

Good operational performance continues across the portfolio and we have launched some new HIVE products and the "connected boiler" – "Boiler IQ" - was launched on the 15th March.

We also reference in our Trading Update the CMA investigation into the UK energy market, which I will cover in a moment.

So, despite some headwinds such as continuing low commodity prices and an exceptionally warm winter in North America, we remain on track to deliver our targets in 2016.

That brings you up to date on our strategy and performance.

Turning now to the future, I would like to describe the five priorities which we are focusing on and which will guide us in delivering performance and driving momentum in line with our strategy over the next few years.

Our overriding priority is undoubtedly safety, compliance & conduct. We must also ensure we satisfy our customers and deliver operational excellence every day. Our priorities also reflect our focus on cash flow growth and strategic momentum and the importance of cost efficiency and simplification to ensure we are as competitive as possible. Underpinning all of these is our priority to ensure we have the right people and capability across the company.

Let me take you through each area in turn beginning with safety, compliance and conduct.

I have briefly described earlier our performance and plans to improve delivery in safety. We have a comprehensive programme in place, focusing on all aspects of safety and with particular emphasis on the high risk areas of asset integrity, customer injuries, working at heights and driving safety. This is coupled with a focus on leadership capability and training and ensuring we have good systems and processes.

In compliance, we have worked hard on our performance and on strengthening our relationship with all of our regulators including, of course, the Competition & Markets Authority as it conducts its review into the functioning of the UK energy market.

As Rick said, the CMA announced its provisional decision on remedies in March. While we continue to disagree with the CMA's findings that energy customers of the largest suppliers in the UK historically could have been overpaying by over one and a half billion pounds a year, and we worry about implementation of tariff caps for pre-payment customers, we believe that the majority of the proposed remedies will further enhance competition and benefit our customers, provided they are designed and implemented thoughtfully.

Centrica has contributed constructively to this in-depth and challenging investigation and will continue to do so. The CMA will publish its final report in June.

In the matter of customer satisfaction and operational excellence, we must offer competitive pricing, new offers our customers value, top class service and the innovative solutions which will help our customers manage their energy and bills.

We have dedicated additional resources to customer service. In 2015, in the UK we answered more than 30m calls from customers and we are investing an extra £50 million in our UK call centres over a 3 year period. As a consequence, we have seen a distinct improvement in the British Gas customer experience, with our contact Net Promoter Score increasing by 7 percentage points across all our activities.

As a result, British Gas customer complaints fell by over 18% in 2015. That is very encouraging, but there is much more to do.

In all our markets we continue to develop energy services propositions targeted at new segments, which we plan to launch later this year. Utilising smart meter data on energy use, more customers are taking our new energy insight products and the feedback is very positive. This is changing the nature of our relationship with them and giving customers what they want and find useful, beyond simply the basic supply of energy.

In addition to excellent operations in our customer-facing businesses, we must also deliver high levels of plant availability and throughput in power generation and exploration and production. 2015 saw the highest throughputs in our nuclear power stations for ten years, and production in Exploration and Production of 78.6 mmboe.

Our third priority is cash flow growth and strategic momentum. The low commodity price environment has sent shockwaves through the global markets and has caused investors to doubt the strength of companies exposed to oil, gas and minerals. The resilience of Centrica in this more difficult environment is essential.

We have tested the Group in a continuing world of \$35 a barrel Brent crude oil, 35 pence per therm NBP natural gas, and £35 per Megawatt hour UK power prices. We project that – even in these circumstances - we can more than balance the cash going out with the cash coming in.

We are also confident that as we pursue our strategy we can deliver underlying operating cash flow growth at an average of at least 3 to 5 per cent a year out to 2020, as we announced last July. In fact, with 2015 rebased to reflect lower commodity prices, the operating cash flow growth rate is actually a little higher than the 3 to 5 per cent range.

As I noted earlier, we are committed to paying our dividend at the current level and to deliver progressive distributions in line with our confidence in our ability to grow underlying operating cash flow.

In short, the strategy of the Group and our financial offer to you as shareholders is unchanged by the current commodity price environment, even if it were to persist for the next few years.

In terms of cost efficiency and simplification. Although Centrica is resilient, the state of the market and competitive pressures do mean that we must ensure Centrica is as efficient as possible.

We are pursuing our cost efficiency agenda with intensity across the Group. We are targeting further cost reductions in Exploration and Production and will continue to explore all options to improve the structure and strength of the business.

We are restructuring the company to take advantage of our international scale, and to reflect the new strategic direction of the Group, creating new business units and centralising functional activities. This will allow us to serve our customers better while unlocking our ability to realise material efficiencies.

As we make the Group more efficient, effective and competitive we expect to deliver £200 million of savings in 2016, while regrettably reducing the number of direct roles in the organisation by 3,000 during the year. We remain on track to achieve our cost reduction target of £750 million per annum by 2020.

In terms of portfolio simplification, we are making progress on divesting our wind generation assets. We announced in February the sale of the GLID wind asset for net cash proceeds of £115 million. We are also simplifying our thermal power portfolio, with a greater focus on peaking units and distributed generation.

Our final priority is ensuring we have the right people and building capability across the company.



Centrica has an excellent team of passionate and highly committed individuals. We have some very strong competitive advantages, including 28 million customer accounts, our ability to develop new offers, the quality and capacity of our customer sales force and our team of 12,000 engineers and technicians who can deliver excellent services in our customers' premises on both sides of the Atlantic. They enjoy an exceptional degree of trust.

Against this backdrop of fundamental changes in what customers can now do with their energy, we are one of the leaders in the Connected Home, having sold over 300,000 smart thermostats and other products in the UK and 200,000 in North America. In the UK we are now selling about 4,000 products a week, having launched a new range of Hive products earlier this year. We have end-to-end capability in operating platform design and operation, hardware and software development, data analytics, and installation and maintenance. We are using this to develop a pipeline of new products for our customers.

The same is true in Distributed Energy and Power where we are focusing our capabilities around energy efficiency, flexible generation, new technology offerings, energy management systems and optimisation. We already have over 1,100 customers across 4,500 sites mainly in the UK and North America and our recent acquisition of Panoramic Power has extended this to more than 30 countries and added new technology and insight into our offering.

We have established a new Technology & Engineering function to ensure our technical capabilities develop and we innovate and create new products in what is a highly dynamic marketplace.

We recognise that without the right people and capabilities in all our business and functional areas we will not succeed in delivery of our strategy, to provide excellent service to our customers and in creating sustainable long-term value for you, our shareholders.

As you have heard, we have a significant agenda and I would like to take this opportunity personally to thank all the employees at Centrica for their dedication and hard work. We have a great team and I know we are asking a lot, but I am confident we are making real progress and it is all down to them.

So, that summarises our 5 key priorities and some of the activities we are focusing on.

Let me finish with a few words on what you can therefore expect from your company going forward.

With a strategy developed around our customers and plans built around these priorities, we remain confident of delivering long-term shareholder value through returns and growth. This can also be done while funding all of our core needs from our own cash flow.

Centrica delivered resilient financial performance in 2015 with operating cash flow growth and good dividend cover from earnings. We have demonstrated that the Group is robust in a low commodity price environment.

In 2016 we remain on track to deliver on our targets and expectations.

We project that sources and uses of cash will more than balance at today's dividend level, even at current low commodity prices and before divestment proceeds.

We are confident of delivering underlying operating cash flow growth of at least 3 to 5 per cent per annum as outlined last year, even in the current environment, so underpinning a progressive dividend policy.

We have made good early progress against the strategic objectives set out in July, with our cost efficiency programme on track, and good responsiveness in E&P and central power generation to the current environment.

We have delivered solid profit growth in energy supply and services, and important milestones and capability development in our Connected Home, Distributed Energy & Power and Energy Marketing & Trading business units.

Although the environment is not easy, we are making good progress in reshaping our business so that it is aligned with what our customers need.

We are on track to deliver both returns and growth.

Thank you for listening. Now let me hand you back to Rick

Thank you Iain.

As you can see, we now have a robust strategy and a clear framework for execution against which we, your Board, and you, our shareholders, can track our progress. We are confident in delivering long-term returns and growth.