

Centrica plc Preliminary Results

for the year ended 31 December 2016



Disclaimer

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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.

This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation.



Iain Conn

Group Chief Executive

Headlines

- Customer-led strategic repositioning on track
 - Shift in investment towards customer-facing activities
 - New offers, improved customer service, new technology and capability
- Robust financial performance
 - Adjusted operating profit and earnings up 4%; underlying AOCF growth of 14%
 - Efficiency programme delivery; E&P FCF positive; net debt down 27% to £3.5bn
 - 2016 full year dividend of 12.0p
- Outlook and 2017 targets – returns and growth
 - Continued confidence in 3-5% p.a. underlying AOCF growth on average 2015-20
 - 2017 AOCF > £2bn; continued debt reduction
 - Incremental investment for growth

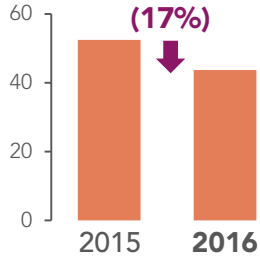
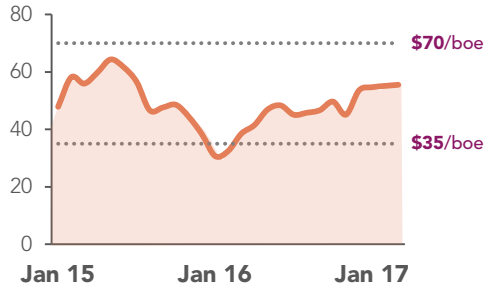


Jeff Bell

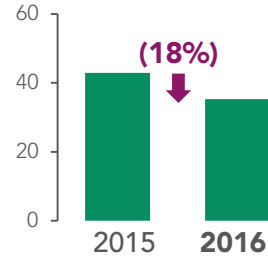
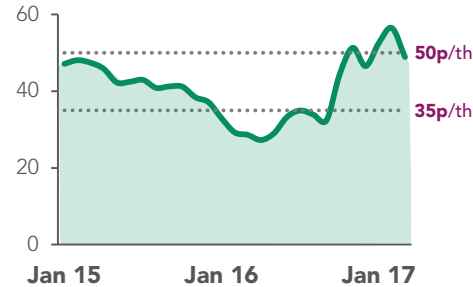
Group Chief Financial Officer

Commodity prices

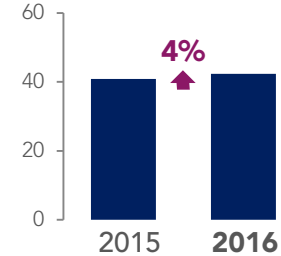
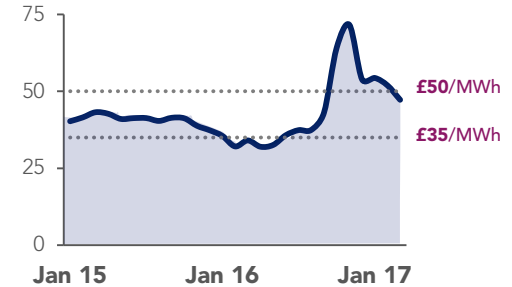
Average Brent oil prices
(\$/boe)



Average UK NBP gas prices
(p/th)



Average UK baseload power prices
(£/MWh)



Brent oil and UK baseload power prices are historic month ahead prices to 22 February 2017. 2015 and 2016 Brent oil and UK baseload power prices are historic month ahead prices averaged over the year. UK NBP prices are historic winter 2016/17 prices to 22 February 2017. 2015 and 2016 UK NBP prices are historic winter 2016/17 prices averaged over the year.

Financial headlines

Year ended 31 December	2015	2016	Δ
Revenue (£m)	27,971	27,102	(3%)
Adjusted operating profit (£m)	1,459	1,515	4%
Adjusted earnings (£m)	863	895	4%
Adjusted basic earnings per share (p)	17.2	16.8	(2%)
Full year dividend per share (p)	12.0	12.0	0%
EBITDA (£m)	2,396	2,365	(1%)
Adjusted operating cash flow (AOCF) (£m)	2,253	2,686	19%
Underlying adjusted operating cash flow growth	-	14%	nm
Group net investment (£m)	855	1,039	22%
Net debt (£m)	4,747	3,473	(27%)
Return on average capital employed	12%	16%	4ppt
Net exceptional items after taxation (£m)	(1,846)	27	nm

The above adjusted figures are before exceptional items and certain re-measurements. Adjusted operating profit includes share of JVs and associates before interest and taxation. Underlying AOCF growth is calculated after adjusting 2015 AOCF for foreign exchange and the impact of commodity price movements on E&P and Nuclear and excluding the impact of one-off working capital movements in UK Business in 2015 and 2016.

Reconciliations of adjusted operating profit, adjusted earnings and adjusted operating cash flow are provided in the Group Financial Review and other adjusted performance measures are explained on pages 71 to 72 in the Preliminary Results announcement.

EBITDA is operating profit before exceptional items, certain re-measurements, share of profits of joint ventures and associates net of interest and taxation and depreciation, amortisation, impairments and write-downs.

Energy Supply & Services – UK & Ireland

ADJUSTED OPERATING PROFIT / (LOSS)

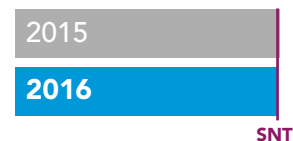
Year ended 31 December (£m)	2015	2016	Δ
UK Home	880	810	(8%)
UK Business	(19)	50	nm
Ireland	30	46	53%
Energy Supply & Services – UK & Ireland	891	906	2%

ADJUSTED OPERATING CASH FLOW

Energy Supply & Services – UK & Ireland	623	1,555	150%
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Average UK temperature

(degrees Celsius)



Annualised cost per

UK Home customer (£)¹



The above figures are stated before exceptional items and certain re-measurements and include share of JVs and associates before interest and taxation. Reconciliations of adjusted operating profit and adjusted operating cash flow are provided in the Group Financial Review and other adjusted performance measures are explained on pages 71 to 72 in the Preliminary Results announcement. SNT = seasonal normal temperature.

From 2016 new segments are in place. 2015 comparatives have been restated accordingly.

1. 2016 is shown both net of efficiencies and also including the impact of inflation, lower product holdings and other cost movements.

Energy Supply & Services – North America

ADJUSTED OPERATING PROFIT

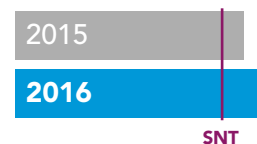
Year ended 31 December (£m)	2015	2016	Δ
North America Home	77	93	21%
North America Business	246	221	(10%)
Energy Supply & Services – North America	323	314	(3%)
<i>Energy Supply & Services – North America (\$m)</i>	<i>500</i>	<i>415</i>	<i>(17%)</i>

ADJUSTED OPERATING CASH FLOW

Energy Supply & Services – North America	496	431	(13%)
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Average US North East temperature

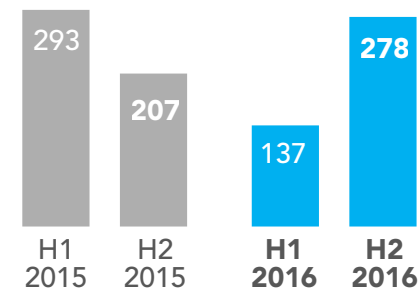
(degrees Celsius)



Annualised cost per NA Home customer (£)¹



Adjusted operating profit (\$m)



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From 2016 new segments are in place. 2015 comparatives have been restated accordingly.

1. 2016 is shown both net of efficiencies and also including the impact of inflation, lower product holdings and other cost movements.

Connected Home, DE&P and EM&T

ADJUSTED OPERATING PROFIT / (LOSS)

Year ended 31 December (£m)	2015	2016	Δ
Connected Home	(49)	(50)	(2%)
Distributed Energy & Power (DE&P)	(32)	(26)	19%
Energy Marketing & Trading (EM&T)	66	161	144%
Total Connected Home, DE&P, EM&T	(15)	85	nm

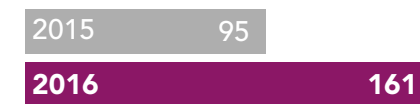
ADJUSTED OPERATING CASH FLOW

Connected Home	(46)	(58)	(26%)
Distributed Energy & Power	(14)	(15)	(7%)
Energy Marketing & Trading	248	198	(20%)
Total Connected Home, DE&P, EM&T	188	125	(34%)

Connected Home gross revenue (£m)



DE&P gross revenue (£m)



The above figures are stated before exceptional items and certain re-measurements and include share of JVs and associates before interest and taxation. Reconciliations of adjusted operating profit and adjusted operating cash flow are provided in the Group Financial Review.

From 2016 new segments are in place. 2015 comparatives have been restated accordingly.

Exploration & Production

Year ended 31 December (£m)	2015	2016	Δ
Gas and liquids realisations ¹	1,839	1,440	(22%)
Adjusted operating profit	95	187	97%
Adjusted operating cash flow	787	655	(17%)

Total production volumes

(mmbøe)

2015	78.6
2016	71.2

Average gas sales price

Europe (p/therm)

2015	45.7
2016	35.5

Americas (p/therm)

2015	14.2
2016	12.1

Average liquids sales price

Europe (£/boe)

2015	36.2
2016	32.0

Americas (£/boe)

2015	27.8
2016	23.0

The above figures are stated before exceptional items and certain re-measurements and include share of JVs and associates before interest and taxation. Reconciliations of adjusted operating profit and adjusted operating cash flow are provided in the Group Financial Review.

From 2016 new segments are in place. 2015 comparatives have been restated accordingly.

1. Realisations are total revenues from sales of gas and liquids.

E&P free cash flow

Year ended 31 December (£m)	2015	2016	Δ
Free cash flow	86	166	93%

Unit lifting and other cash production costs

Europe (£/boe)

Americas (£/boe)

2015	15.2
2016	12.9

2015	7.7
2016	4.7

E&P capital expenditure (£m)

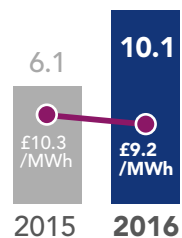
2015	715
2016	518

The above figures are stated before exceptional items and certain re-measurements and include share of JVs and associates before interest and taxation. Other adjusted performance measures are explained on pages 71 to 72 in the Preliminary Results announcement. Lifting and other cash production costs are total operating costs and cost of sales excluding depreciation and amortisation, dry hole costs, exploration costs and profit on disposal. From 2016 new segments are in place. 2015 comparatives have been restated accordingly.

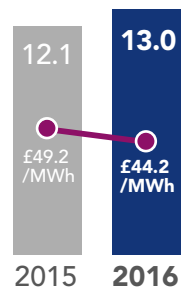
Central Power Generation

Year ended 31 December (£m)	2015	2016	Δ
Adjusted operating profit	128	75	(41%)
Adjusted operating cash flow	130	(1)	nm

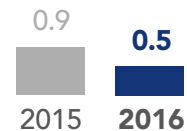
Gas-fired generation (TWh) & achieved clean spark spread



Nuclear generation (TWh) & achieved prices



Wind generation (TWh)



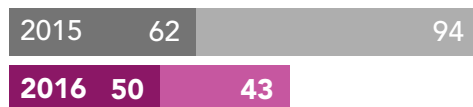
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From 2016 new segments are in place. 2015 comparatives have been restated accordingly.

Centrica Storage

Year ended 31 December (£m)	2015	2016	Δ
Adjusted operating profit / (loss)	37	(52)	nm
Adjusted operating cash flow	112	(49)	nm

Storage gross revenue (£m)



- Additional space / cushion gas / other
- SBU

Forward seasonal gas spreads (p/th)



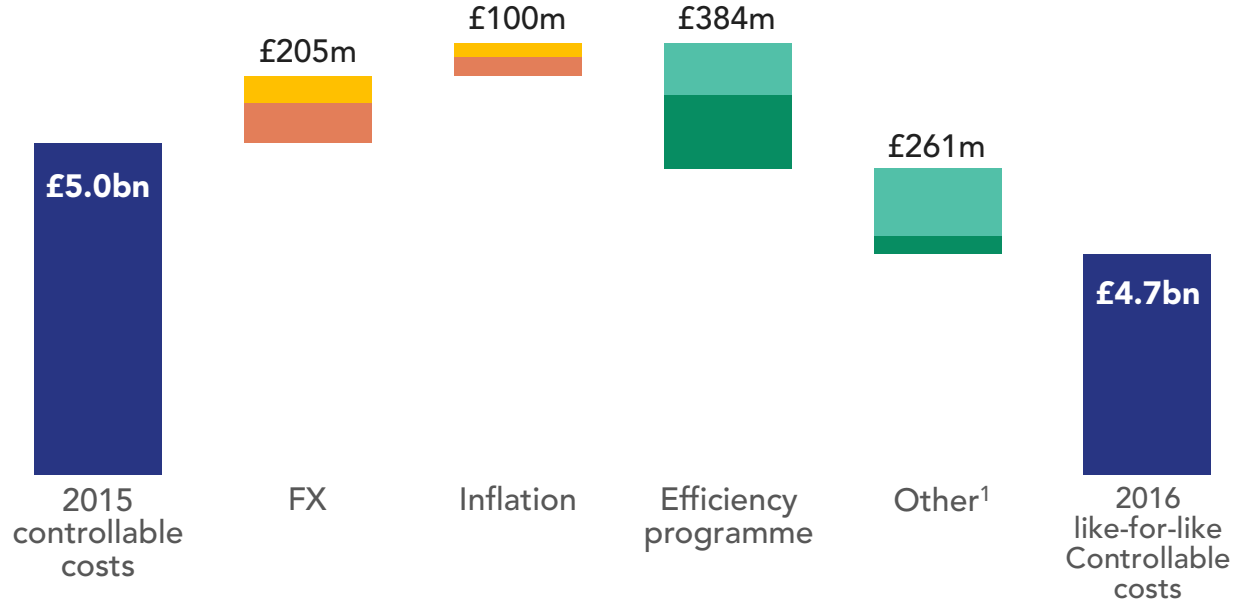
The above figures are stated before exceptional items and certain re-measurements and include share of JVs and associates before interest and taxation. Reconciliations of adjusted operating profit and adjusted operating cash flow are provided in the Group Financial Review.

Operating costs

Year ended 31 December (£m)	2015	2016	Δ
Reported operating costs	3,039	3,054	0%
FX impact	124	-	nm
Adjustments	(427)	(517)	(21%)
Adjusted operating costs	2,736	2,537	(7%)
Growth investment	-	(21)	nm
Adjusted operating costs excl. growth investment	2,736	2,516	(8%)

The above figures are stated before exceptional items and certain re-measurements. Adjusted operating costs exclude depreciation and amortisation, smart metering and solar expenses, dry hole costs, profit on fixed asset disposals, business performance impairments, portfolio changes including AlertMe, Neas Energy and ENER-G Cogen acquisition costs and foreign exchange movements.

Efficiency programme delivery



- Costs of goods sold
- Operating costs

The above figures are stated before exceptional items and certain re-measurements. Total like-for-like controllable costs are adjusted operating costs and controllable cost of sales, excluding growth investment in Connected Home and Distributed Energy & Power.

1. Other includes costs that are related to portfolio change, costs that are non-repeating in nature or as a result of phasing between periods, and cost savings not part of the efficiency programme.

Net investment

Year ended 31 December (£m)	2015	2016	Δ
Energy Supply & Services – UK & Ireland	106	103	
Energy Supply & Services – North America	52	49	
Connected Home, DE&P, EM&T ¹	102	61	
Exploration & Production	715	518	
Central Power Generation (CPG), Gas Storage, Other	74	111	
Capital expenditure (including small acquisitions)	1,049	842	(20%)
Material acquisitions ²	-	322	
Net disposals ³	(194)	(125)	
Group net investment	855	1,039	22%

1. 2015 includes AlertMe acquisition in Connected Home and Panoramic Power in Distributed Energy & Power.

2. Material acquisitions in 2016 are ENER-G Cogen and Neas Energy, net of cash acquired.

3. 2016 includes the disposals of our 50% interest in the GLID windfarm and non-core E&P disposals. 2015 includes the disposal of Lincs wind farm debt. Adjusted performance measures are explained on pages 71 to 72 in the Preliminary Results announcement.

Cash flow

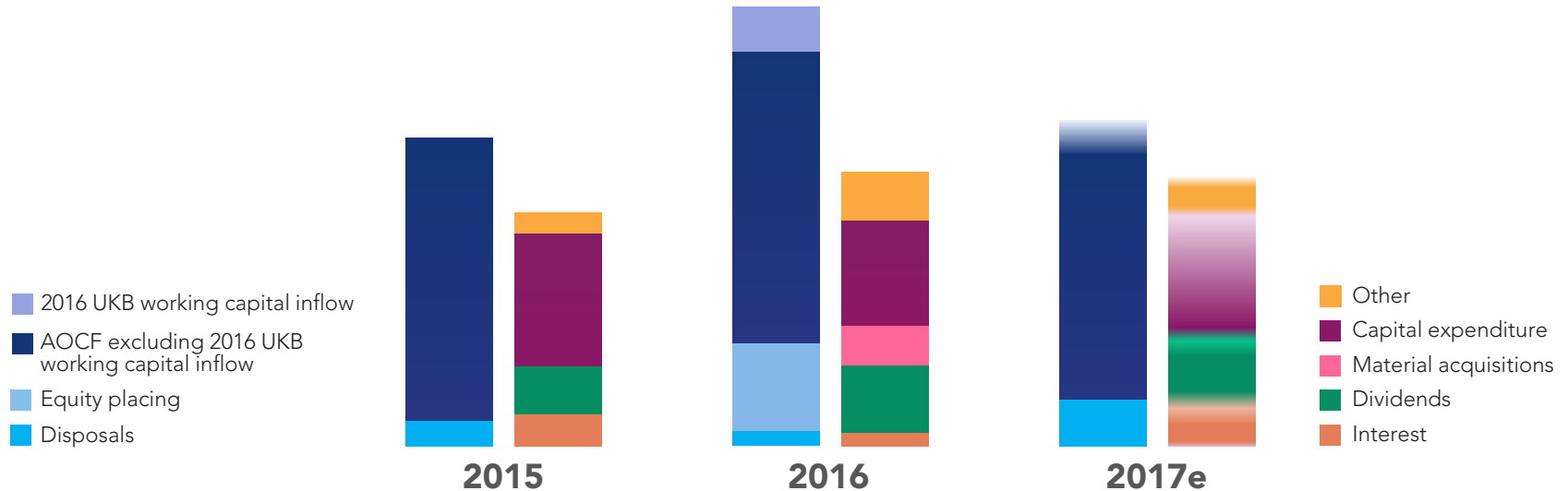
Year ended 31 December (£m)	2015	2016
EBITDA	2,396	2,365
Tax	(349)	(206)
Dividends received	180	117
Working capital & other ¹	26	410
Adjusted operating cash flow	2,253	2,686
Net investment	(855)	(1,039)
Interest	(273)	(113)
Dividends	(387)	(532)
Other ²	(141)	(383)
Equity placing	-	700
Adjusted net cash inflow	597	1,319

1. Other includes 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 payments relating to the termination of the Group's onerous Rijnmond gas-fired power station tolling contract, restructuring and pension deficit payments.

A reconciliation of adjusted operating cash flow is provided in the Group Financial Review.

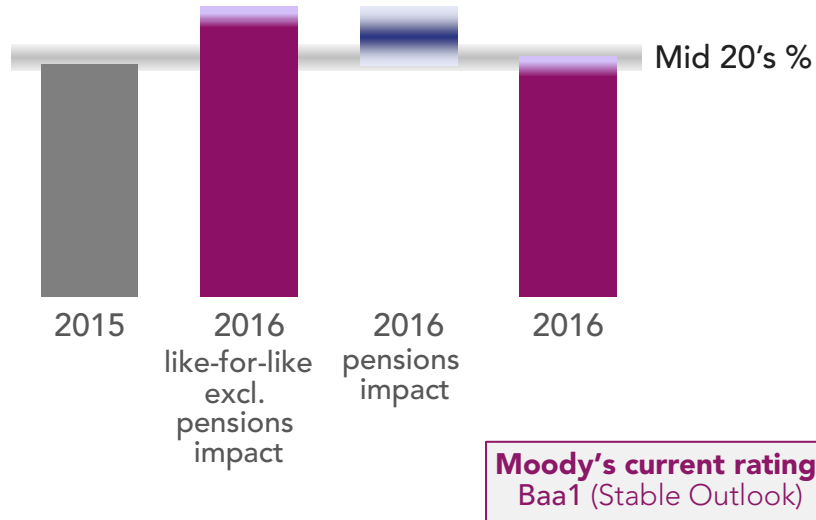
Sources & uses of cash



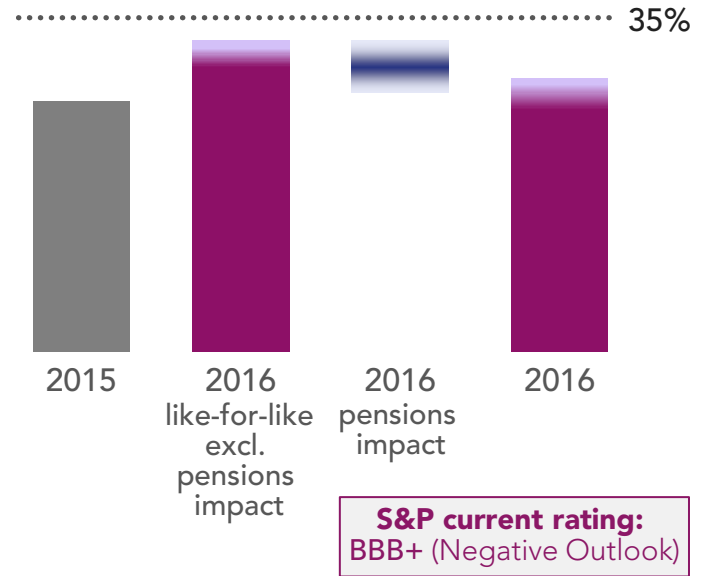
AOCF excluding 2016 UKB working capital inflow	£2.3bn	£2.3bn
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Credit rating metrics

Moody's Retained cash flow/debt



S&P Funds from operations/debt



Credit rating metric ratios are 2016 company estimates yet to be confirmed by credit rating agencies.

Financial framework

Targets	Metric
Adjusted operating cash flow	<ul style="list-style-type: none"> • 3-5% underlying growth p.a.
Dividend	<ul style="list-style-type: none"> • Progressive in line with adjusted 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 adjusted 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%



Iain Conn

Group Chief Executive

Strategic update

- Portfolio re-positioning
- Efficiency programme
- Capability, technology and innovation
- UK energy supply market
- Consumer strategy and progress
- Business strategy and progress
- 2017 targets and outlook

Portfolio re-positioning

- Investment shift towards customer-facing activities
- Panoramic Power, ENER-G Cogen and Neas Energy acquisitions
- Transitioning towards a 40-50 mmboe p.a. E&P business
 - Trinidad & Tobago divestment announced
 - Exit from Canada targeted in 2017
 - E&P capex in £400m-£600m range
 - Continue to evaluate options to strengthen E&P
- Exit from wind power generation ownership complete
- Closed Killingholme gas-fired power station

Asset business performance

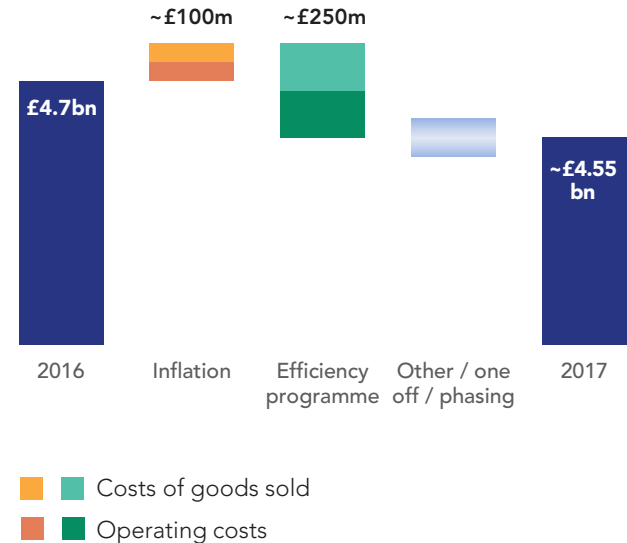
- E&P development opportunities
 - Cygnus first commercial gas
 - Maria project on track; Oda project approved
 - Valemon West gas discovery
- E&P cash lifting and production costs down
~£350m since 2014
- Strong nuclear generation volumes
- Centrica Storage
 - Testing and verification programme ongoing



Efficiency programme

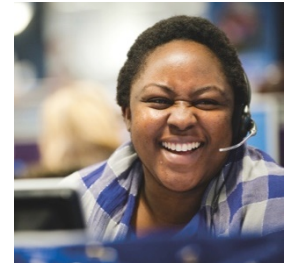
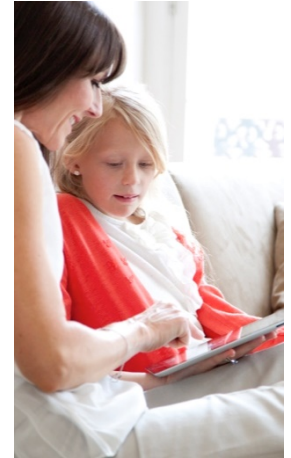
- Building foundations for the future
- Fundamental shift in the way Centrica operates; 10 workstreams, 95 efficiency projects
- De-risks overall delivery and accelerates value capture
- Further ~£250m of savings expected in 2017
 - Customer operations digitalisation
 - Field operations optimisation
 - Global shared services
- ~1,500 like-for-like direct headcount reduction in 2017

Controllable costs



Improved customer-facing capability

- Focus on customer service
- Improved customer segmentation
- New propositions and offer development
- Investment in digital
- Technology and innovation



Investment in technology

- Data analytics and data science
- Scalable connected home platform
- New connected home devices
- B2B energy disaggregation
- Remote dispatch and optimisation
- 'Virtual Power Plant' capability
- CHP and batteries
- Micro-grids and distributed systems



Centrica Innovations

- Up to £20m p.a. investment
- Scanning and learning
 - Presence in Seattle, Houston, London, Cambridge, Tel Aviv
- Accelerating in-house ventures
- Incubating external ventures
- Partnering
- Ignite social enterprise investment fund

UK energy supply market

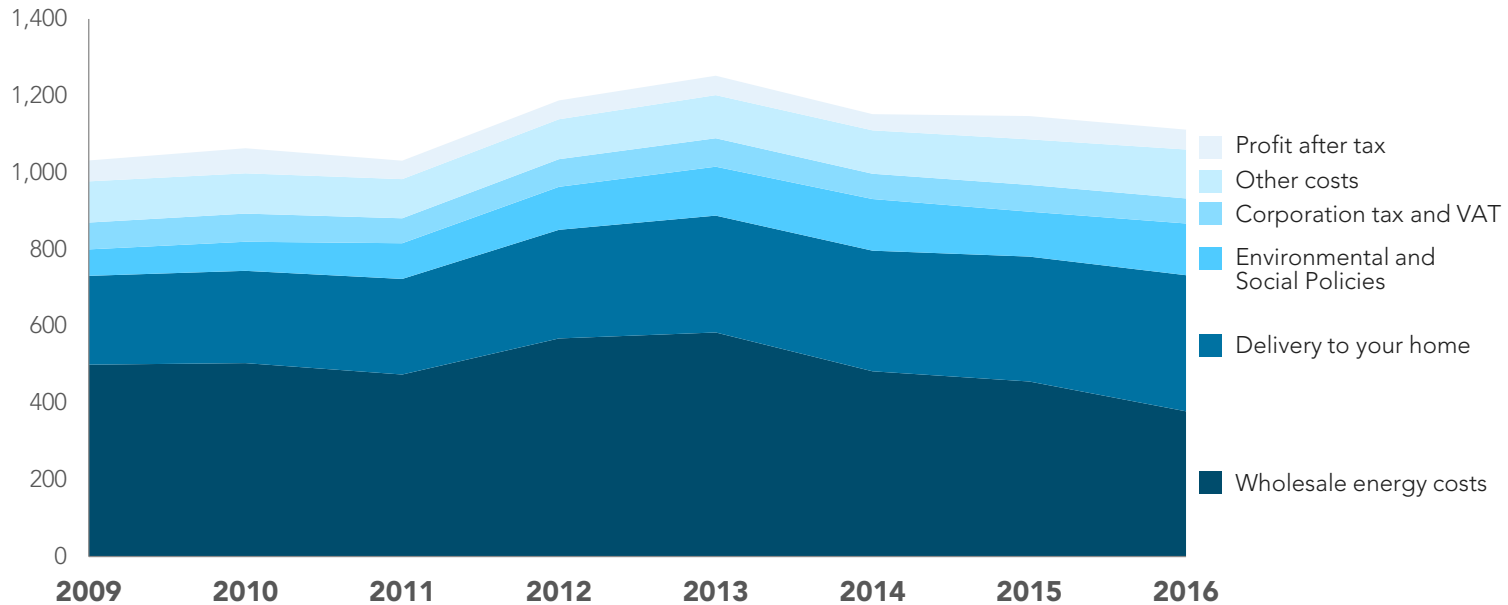
- CMA investigation concluded
- Prepayment tariff cap
- Competitive market
 - Over 50 suppliers
 - Switching rates up ~50% over past two years
- Focus on customer service, innovative offers, cost efficiency
- Increased choice for customers

UK energy supply competitive position

- Improved customer service
 - Energy supply complaints down 31%
 - UK Home Brand NPS up 10 points
- SVT cheaper than 95% of the market
- British Gas customer commitment
 - SVT prices frozen until August 2017
- Rewarding customer loyalty
 - 'British Gas Rewards'
- Focus on value

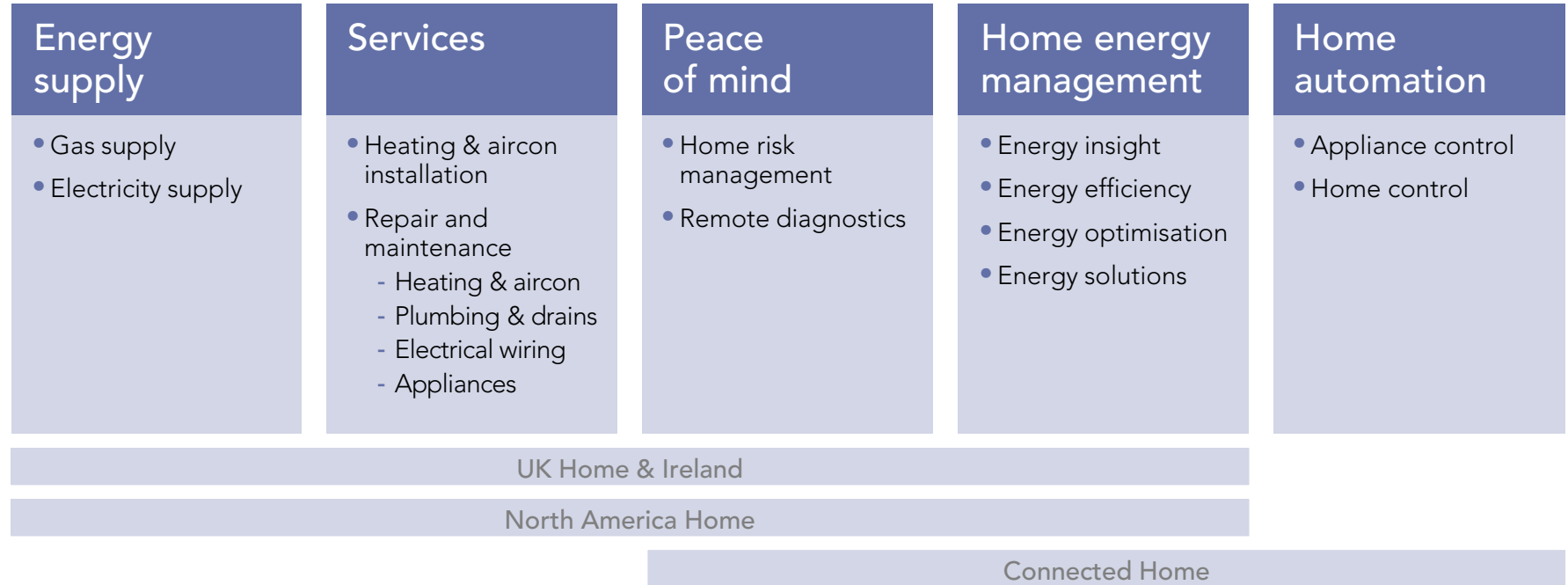
British Gas household bills and profits

Breakdown of average British Gas combined gas and electricity bill (£/customer)



2015 comparatives have been restated to remove the performance of Connected Home.

Consumer strategic framework



Consumer progress

Energy supply

- Improved customer service
- Innovative tariffs
 - 'FreeTime' tariff
 - Product bundling
- Cost efficiency
- British Gas customer commitment
- Rewarding loyalty
 - 'British Gas Rewards'

Services

- Improved customer service
- ~12,000 engineers and technicians
- Product bundling
- Cost efficiency
- UK smart meter roll-out
- Flexible fulfilment model
 - 'Local Heroes'

Peace of mind

- Boiler IQ
 - ~30,000 installed
- Water leak detection
- New connected home and insurance products



Home energy management

- ~500k Hive smart thermostats
- 3.6m households
 - 'Direct your Energy'
 - 'MyEnergy'
- Smart metering



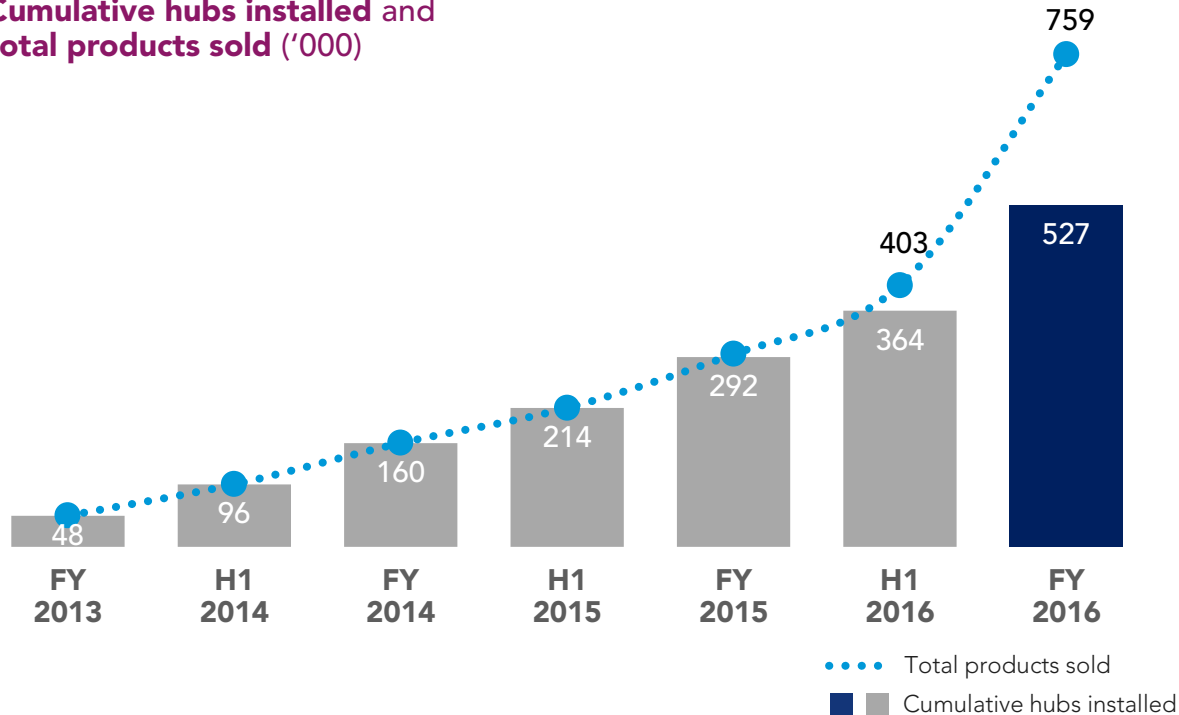
Home automation

- 5 Hive products
 - Multi-device App
 - Recipes
- Amazon Echo partnership

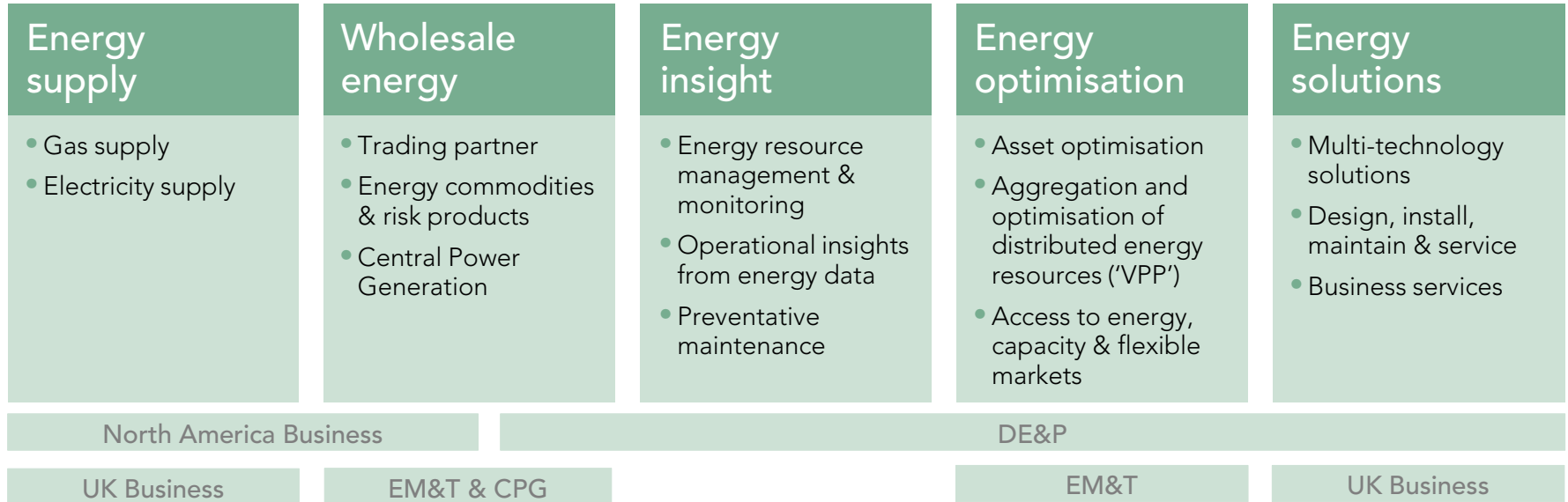


Connected Home growth

Cumulative hubs installed and total products sold ('000)



Business strategic framework



Business progress

Energy supply

- Improved customer service
 - Complaints down
 - NPS up
- UK Business return to profitability
- Cost efficiency

Wholesale energy

- Strong existing capabilities
- Neas Energy
- Global LNG presence
- King's Lynn A CCGT project



Energy insight

- Growing customer base
 - ~40k sensors
 - 10bn data points per month
- Launch of 'PowerRadar'
- New sales channels



Energy optimisation

- New demand response products
- Integration of Neas capabilities
 - 8.6GW capacity
- Fast response generation & battery projects
- Cornwall 'local energy market'



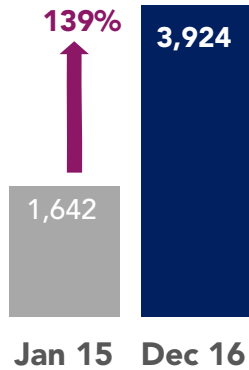
Energy solutions

- Integration of ENER-G Cogen capabilities
 - Six countries
 - >500MW capacity under contract
- Technology partners
- Serving customers through multi-tech solutions

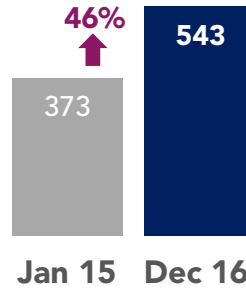


Distributed Energy & Power growth

DE&P active customer sites



Flexible distributed energy capacity under contract (MW)



2017 targets

- Adjusted operating cash flow >£2bn
- Group capital investment limited to £1bn
 - E&P capex ~£500m
- ~£100m incremental growth revenue investment
- ~£250m of cost efficiencies
- Like-for-like direct headcount reduction of ~1,500
- Net debt in £2.5-£3.0bn range

Summary

- Customer-led strategic repositioning on track
- Robust financial performance; underlying AOCF growth of 14%
- Investment for growth in Consumer and Business
- Continued confidence in 3-5% p.a. underlying AOCF growth on average 2015-20
- Restoration of progressive dividend currently expected when Group net debt is in the range £2.5bn-£3.0bn
- Capital Markets Day on 21 June 2017

Q&A



Iain Conn
Group Chief
Executive



Jeff Bell
Group Chief
Financial Officer



Mark Hodges
Chief Executive,
Centrica Consumer



Mark Hanafin
Chief Executive,
Centrica Business

On 8 February 2017, Mark Hodges and Mark Hanafin were announced as Chief Executive, Centrica Consumer and Chief Executive, Centrica Business respectively, effective from 6 March 2017.

Adjusted operating profit/(loss)

Year ended 31 December (£m)	2015	2016	Δ
Energy Supply & Services – UK & Ireland	891	906	2%
Energy Supply & Services – North America	323	314	(3%)
Connected Home	(49)	(50)	(2%)
Distributed Energy & Power	(32)	(26)	19%
Energy Marketing & Trading	66	161	144%
Total customer-facing businesses	1,199	1,305	9%
Exploration & Production	95	187	97%
Central Power Generation	128	75	(41%)
Centrica Storage	37	(52)	nm
Adjusted operating profit	1,459	1,515	4%
Share of JV / associates' interest and taxation	(61)	(48)	21%
Group operating profit	1,398	1,467	5%

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. From 2016 new segments are in place. 2015 comparatives have been restated accordingly. A reconciliation of adjusted operating profit is provided in the Group Financial Review.

Adjusted operating cash flow

Year ended 31 December (£m)	2015	2016	Δ
Energy Supply & Services – UK & Ireland	623	1,555	150%
Energy Supply & Services – North America	496	431	(13%)
Connected Home	(46)	(58)	(26%)
Distributed Energy & Power	(14)	(15)	(7%)
Energy Marketing & Trading	248	198	(20%)
Total customer-facing businesses	1,307	2,111	62%
Exploration & Production	787	655	(17%)
Central Power Generation	130	(1)	nm
Centrica Storage	112	(49)	nm
Other	(83)	(30)	64%
Adjusted operating cash flow	2,253	2,686	19%

A reconciliation of adjusted operating cash flow is provided in the Group Financial Review.
From 2016 new segments are in place. 2015 comparatives have been restated accordingly.

Net debt

Year ended 31 December (£m)	2015	2016
Opening net debt	(5,196)	(4,747)
Adjusted net cash inflow	597	1,319
Other non-cash movements in net debt	(148)	(45)
Closing net debt	(4,747)	(3,473)
Margin cash	(535)	(496)
Closing net debt including impact of margin cash	(5,282)	(3,969)

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 detail see note 11(b) of the Preliminary Results announcement.

Centrica divisions from 2017

ADJUSTED OPERATING PROFIT / (LOSS)

Year ended 31 December (£m)	2015	2016	Δ
UK Home	880	810	(8%)
Ireland	30	46	53%
North America Home	77	93	21%
Connected Home	(49)	(50)	(2%)
Total Centrica Consumer	938	899	(4%)
UK Business	(19)	50	nm
North America Business	246	221	(10%)
Distributed Energy & Power	(32)	(26)	19%
Energy Marketing & Trading	66	161	144%
Central Power Generation	128	75	(41%)
Total Centrica Business	389	481	24%
Exploration & Production	95	187	97%
Centrica Storage	37	(52)	nm
Total Centrica	1,459	1,515	4%