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STRATEGY PRESENTATION

30 July 2015

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

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IAIN CONN
Chief Executive

STRATEGIC REVIEW

Outlook and sources of growth

Portfolio mix and capital intensity

Operating capability and efficiency

Group financial framework

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STRATEGIC REVIEW

- Market trends and environment
  - changes in global oil and gas markets
  - changing trends in demand and customer behaviour
- Medium term view
- Sources of potential growth

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STRATEGIC REVIEW

- Upstream / downstream mix
- Focus areas for growth
- Investment priorities
- Capital intensity

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STRATEGIC REVIEW

- Capabilities assessed
- Efficiency benchmarked
- Material efficiency opportunities identified

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STRATEGIC REVIEW

- Robust financial framework
- Medium term expectations for:
  - growth
  - returns
  - reinvestment
  - distributions
  - credit rating

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HEADLINE MESSAGES

- Centrica well positioned
- Strengths lie in being a customer facing business
- Purpose – "*to provide energy and services to satisfy the changing needs of our customers*"
- Increase shareholder value through returns <u>and</u> growth
- Growth = post-tax operating cash flow growth
- Focus on cash flow, not necessarily on expansion

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OPERATING CASH FLOW GROWTH

- 3-5% post-tax operating cash flow growth to 2020 and beyond
- Flat real oil and gas prices
  - $70/barrel Brent oil
  - 50p/therm UK gas
- Normal weather patterns
- Excludes major inorganic activity and one-off costs

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HEADLINE MESSAGES CONTINUED

- Customer-facing focus
  - additional £1.5bn resource allocation to 2020
- Smaller E&P and central thermal generation businesses
  - reduction of £1.5bn resource allocation to 2020
- Less capital-intense business model
- Efficiency programme to deliver £750m of annual savings by 2020
  - Group operating cost base in 2020 below 2015, net of inflation and growth
- Clear financial framework

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FINANCIAL FRAMEWORK

- Operating cash flow growth of 3-5% per annum
- Progressive dividend reflecting operating cash flow growth
- Capital limited to £1bn per annum in near term and to 70% of operating cash flow longer term
- Underpinning dividend and credit ratings
- Post-tax ROACE of 10-12%

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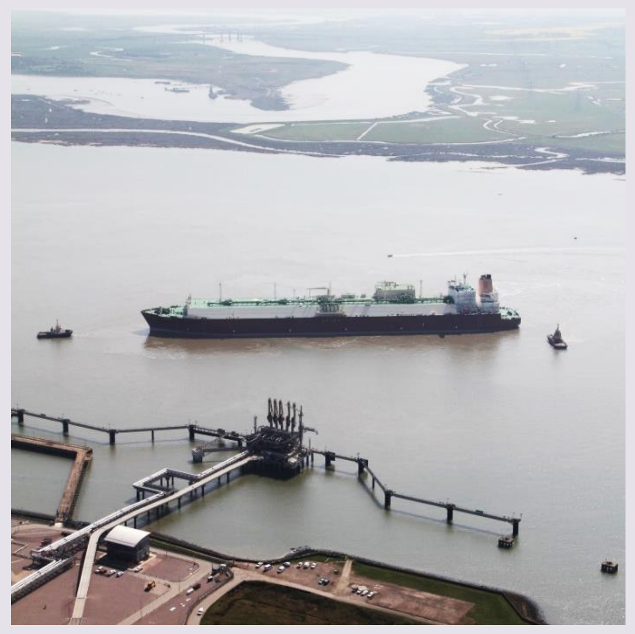
OUTLOOK AND MARKET FUNDAMENTALS

- Primary energy demand growth
- Fastest growing contributors will be natural gas, nuclear and renewables
- Divergence of CO_2 from energy growth
- Fossil fuels still important
- Growth in LNG trade and energy marketing and trading



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OUTLOOK AND MARKET FUNDAMENTALS
CONTINUED

- OECD central power generation ‘market failure’
- Distributed generation likely to take market share
- Energy supply demand in core markets at best flat
- Energy services a source of differentiation
- ‘Internet of Things’ developing rapidly

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CENTRICA'S PURPOSE

"To provide energy and services to satisfy the changing needs of our customers"

CENTRICA'S PURPOSE CONTINUED

- Energy and services company
- Deliver for the changing needs of our customers
- Delivering long-term shareholder value through returns and cash flow growth
- Trusted corporate citizen
- Employer of choice
- A "21st century energy company"

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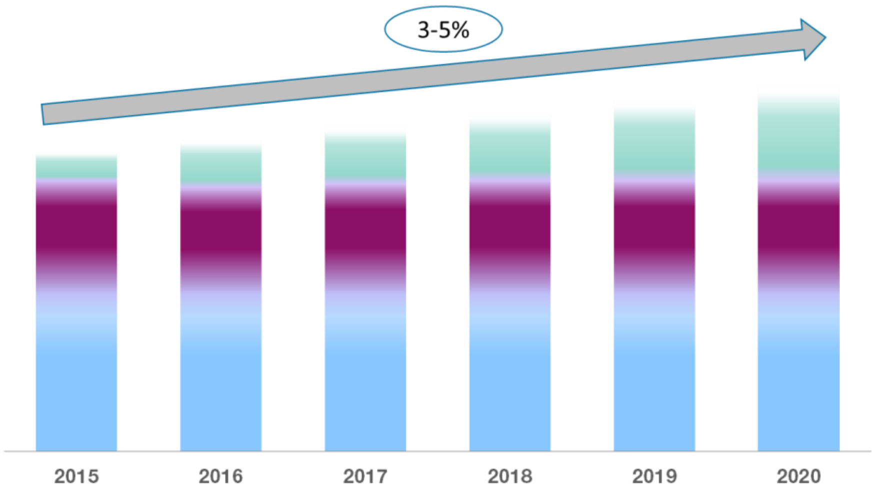
GROW CENTRICA

- Customer-facing businesses a source of competitive advantage
- Energy supply cash flow broadly flat
  - competitive market for British Gas
  - market share growth in North America and Ireland



- Stable E&P remains a material source of cash flow
- Near term growth underpinned by efficiencies; longer term growth through investment in growth areas
- Operating cash flow growth of 3-5% per annum until 2020

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FOCUS AREAS FOR LONG-TERM GROWTH

- Energy supply
- Services
- Distributed Energy and Power
- Connected Home
- Energy Marketing and Trading

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GROWTH – UK AND IRELAND ENERGY SUPPLY

UK market environment

- Current market share
- Competitive environment
- Consumption

Response

- Service excellence
- Innovative offerings
- Cost efficiency
- Working capital management

GROWTH – NORTH AMERICA ENERGY SUPPLY

North America market environment

- Current market share ↗
- Competitive environment →
- Consumption →

Response

- Improved propositions and customer mix ↗
- Lower churn ↗
- Cost efficiency ↗
- Working capital management ↗

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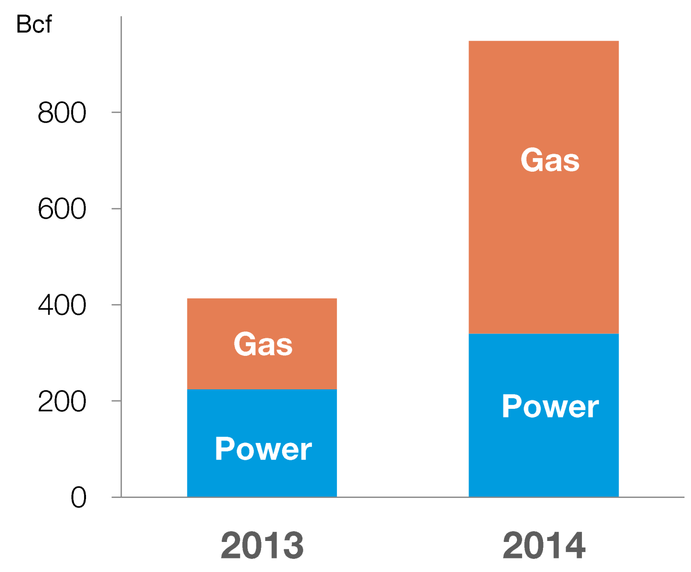
GROWTH – NORTH AMERICA BUSINESS ENERGY SUPPLY

- Increased scale following Hess Energy Marketing acquisition
- Market leading position in provision of energy to business customers
- Optimisation opportunities around capacity and storage positions

US business supply volumes



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GROWTH – UK SERVICES

Insurance contracts	• Focus on refreshing core offerings to hold value in a mature market
Landlords	• Proportion of private tenants growing • Increase in regulation driving need for insurance cover
On-demand	• Low current market share in mature market
Installation	• Mature market, shift from complex to simpler boiler replacements • Connected boiler opportunity
Efficiency	• Efficiency opportunities

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GROWTH – NORTH AMERICA SERVICES

Protection plans	• Growth potential in a fragmented ‘on demand’ market • Customer appetite for bundling with energy offerings
Solar	• Significant growth expected in US residential solar market
Connected homes	• Partnerships, leverage leading UK position
Franchise	• Revenue growth opportunity
Efficiency	• Benefits from IT projects and operational improvements from scale

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GROWTH – DISTRIBUTED ENERGY

Distributed Energy Assets

1 Energy Efficiency


Solar PV


Combined Heat & Power (CHP)


Lighting

2 Flexible Generation


Gas engine

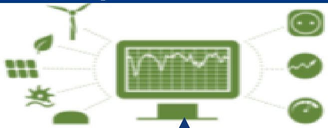

Diesel generator

3 New Technology


Battery storage


Future technology

4 Energy control centre



5 Optimisation

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DISTRIBUTED ENERGY CAPABILITIES

Customer journey	What do customers want?	Centrica capabilities
Consultation	New information on their existing energy usage, needs and audits	✓
Define & design	Right-sized measures and installation fit for the customers usage needs	✓
Implementation	A guarantee of performance on new installations	✓
O&M	Reduced need for customer resources to perform O&M activity	✓
Optimisation	Access new revenue sources and reduce energy bill	✓
Additional services	Tailored energy bill; access to PPAs, innovative financing arrangements	✓

£700m investment over next five years

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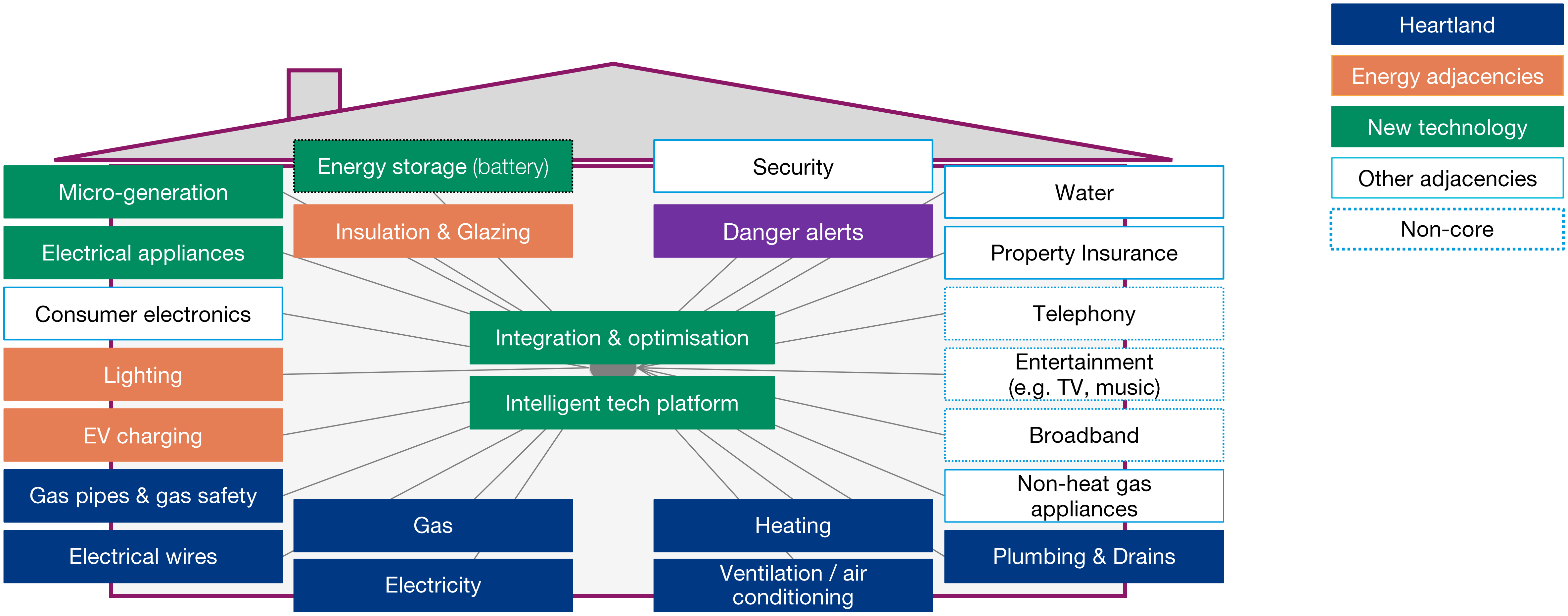
GROWTH – THE CONNECTED HOME



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CONNECTED HOME CAPABILITIES

Scale

- Large customer base
- High volume of customer data

Brand

- In both energy & services
- Potential to build global connected consumer brand (Hive)

Capabilities

- Existing engineer workforce, both UK & US
- Multi-channel sales & support
- Platform (AlertMe), product development & analytics capabilities
- Only provider offering end-to-end delivery capabilities

Pathways to success

- a Product bundling
- b Standalone sales & installation
- c Subscription services
- d Data analytics & insight for 3rd parties
- e Product & platform services for 3rd parties
- f Complete home energy management solution

£500m investment over next five years

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GROWTH – ENERGY MARKETING AND TRADING

- Good benchmarked capability
- Cheniere US export contract
- Route-to-market services
- Detailed knowledge of European gas and power markets
- International marketing and trading capability

£150m investment over next five years

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RESOURCING FOR GROWTH

- Shift of resource allocation from E&P and power to customer-facing activities
- £1.5 billion additional resources in customer-facing growth areas
  - approximately half capex, half opex
- Lower capital intensity
- Capital discipline

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EXPLORATION AND PRODUCTION

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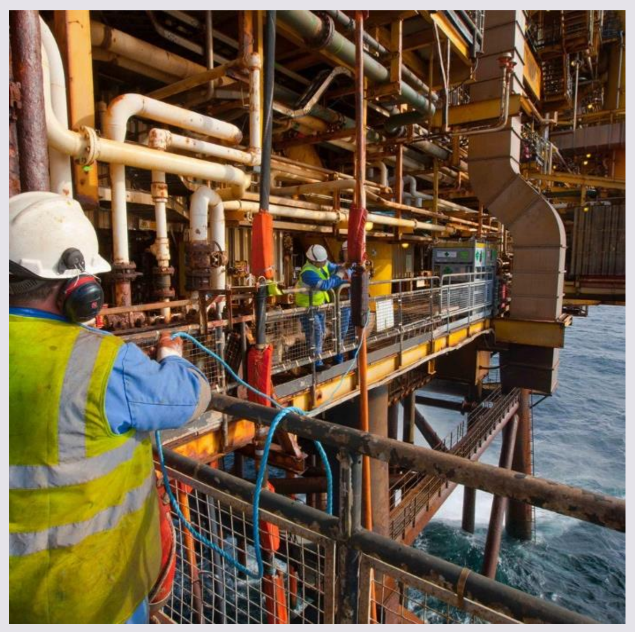
ROLE OF E&P

- Diversification of cash flows
- Balance sheet strength to manage risk
- Role evolved away from security of supply and integration
- Appropriately scaled position
- Sufficient capability to participate effectively
- Concentrate on fewer geographies



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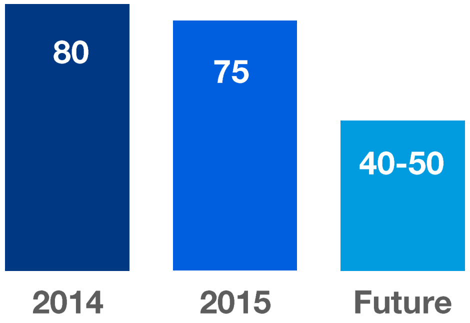
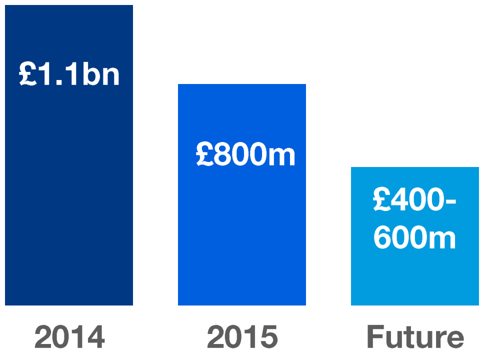
TRANSITION TO SMALLER E&P BUSINESS

- Size limited to 40-50mmboe per annum
- £400m-£600m per annum of capex
- Includes possible small inorganic additions post 2017
- Restoration of E&P margins a source of growth
- Strong E&P business sustainable within reduced scale

Production (mmboe)



Capex



E&P FOCUS ON NORTH SEA AND EAST IRISH SEA

- Currently in five countries
- Improve efficiencies in UK and Netherlands
- Continue to develop Norwegian assets
- Release capital from Trinidad and Tobago
- Canadian E&P business non-core

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CENTRAL THERMAL POWER GENERATION

- More focused central power generation business
- Retain sufficient capability
- Each station considered on a plant-by-plant basis
- Capabilities transitioned towards distributed energy
- New Distributed Energy and Power business unit established

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NUCLEAR POWER GENERATION

- Diversity of cash flows and balance sheet strength
- Limited optionality
- Future value dependent on
  - operational excellence
  - life extensions
  - effective cost management
  - capacity market
- Nuclear shareholding considered as a financial investment

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WIND POWER GENERATION

- Exit our 245MW portfolio of wind assets
- Scale not material
- New offshore wind expensive
- No future potential projects

GAS STORAGE

- Hold the Rough gas storage asset
- Not seen as a growth option given low seasonal gas spreads
- Focus on completing the assessment of operating integrity
- Strategic storage asset for the UK

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STRATEGIC REVIEW

Outlook and sources of growth

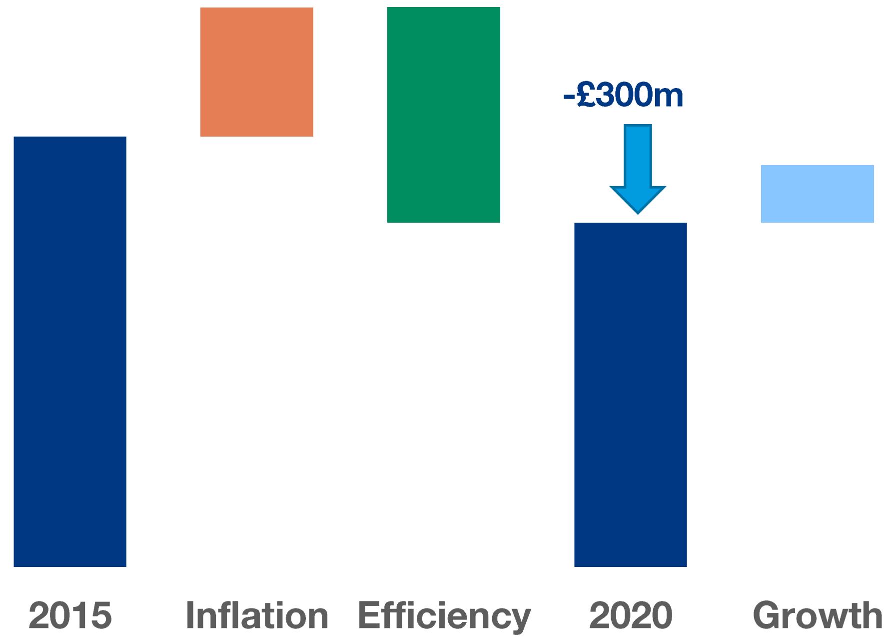
Portfolio mix and capital intensity

Operating capability and efficiency

Group financial framework

COST EFFICIENCY

- Gross efficiencies of £750m per annum by 2020
- Efficiency programme excludes
  - cost of smart metering
  - major acquisitions or disposals
  - additional investment in growth areas
- Like-for-like opex base down £300m after taking account of inflation
- 2020 opex at or below 2015 including additional investment in growth areas



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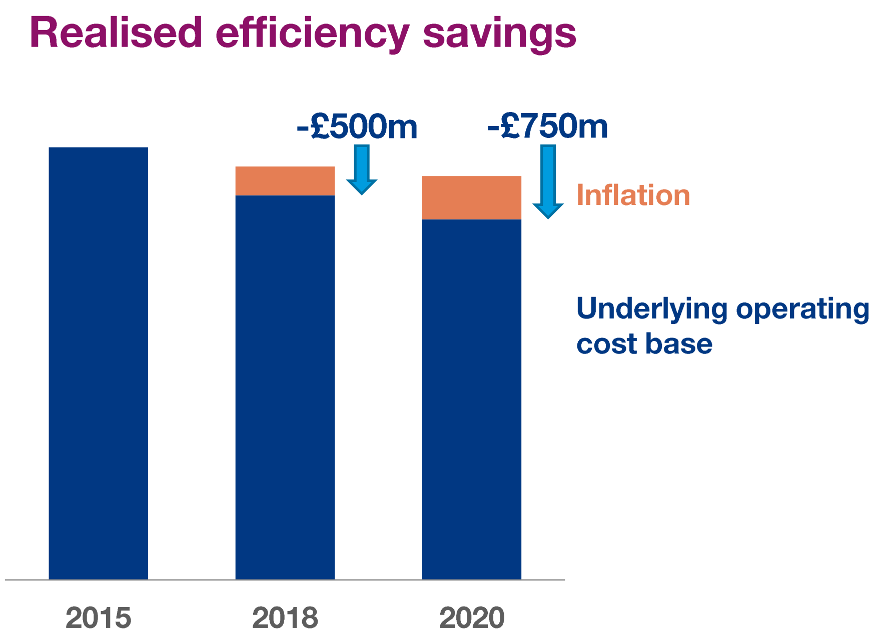
COST EFFICIENCY

- Boundaries – safety, compliance and customer service
- Two-thirds of efficiencies by end 2018
- Required investments of £500m-£600m over next five years



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AREAS OF COST FOCUS

- Customer facing businesses
  - back office simplification, consolidation and automation
  - front office simplification and optimisation
  - sales efficiencies
  - shared services for marketing and network services
- Centrica Energy simplification and efficiency
- Group functions and corporate centre
- Procurement and supply chain efficiencies

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COMMON OPERATING MODEL

Common strategic priorities across our customer-facing businesses

- Invest in service excellence
- Increase efficiency and optimise working capital
- Deepen customer relationships
- Transform current energy and services offers
- Develop talent

Leading to the same 5 core propositions

- We supply your energy needs
- We help you to use energy efficiently
- We service your home / business
- We give you peace of mind
- We help you conveniently control your devices

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HEADCOUNT IMPLICATIONS

- Reduction in like-for-like headcount of around 6,000 roles
  - half attrition
  - half redundancy
- Redundancies mainly by 2017
- 2,000 roles created through growth
- Net reduction of 4,000 roles

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STRATEGIC REVIEW

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JEFF BELL

Chief Financial Officer

FINANCIAL FRAMEWORK

Targets	Metrics
Operating cash flow	• 3-5% growth p.a.
Dividend	• Progressive in line with operating cash flow
Controllable costs	• Cost growth < inflation
Capital re-investment	• Investment <70% of Operating cash flow • Limited to £1bn p.a. in 2016-17
Credit rating	• Strong investment grade (Baa1/BBB+ or above)
ROACE	• 10-12%

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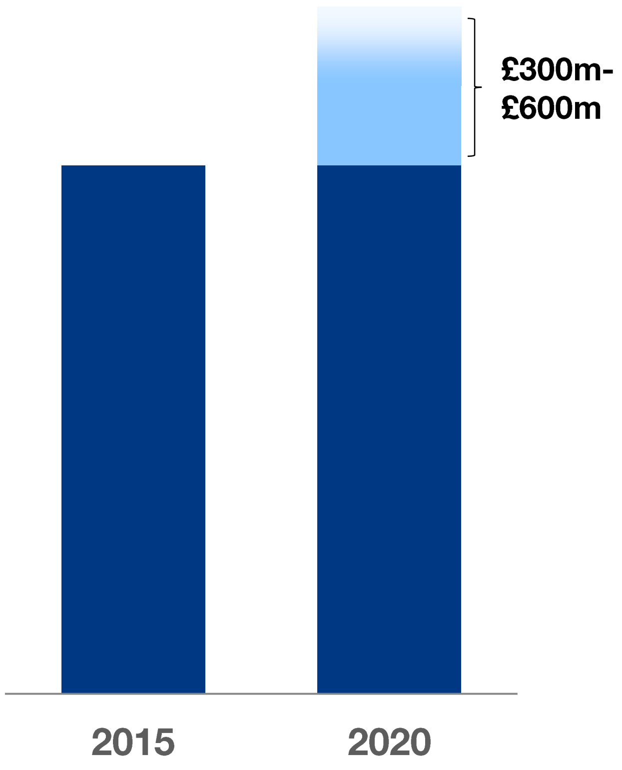
OPERATING CASH FLOW GROWTH

- Operating cash flow most appropriate measure of business performance
  - underpins dividend and credit rating
  - fundamental driver of shareholder value
- Deliver £300m-£600m of incremental cash flow by 2020
  - ~£2bn current operating cash flow
  - 3-5% growth rate range
  - $70/barrel Brent oil, 50p/therm UK gas
- Excludes one-time cost to achieve of £500m-£600m
  - will disclose separately



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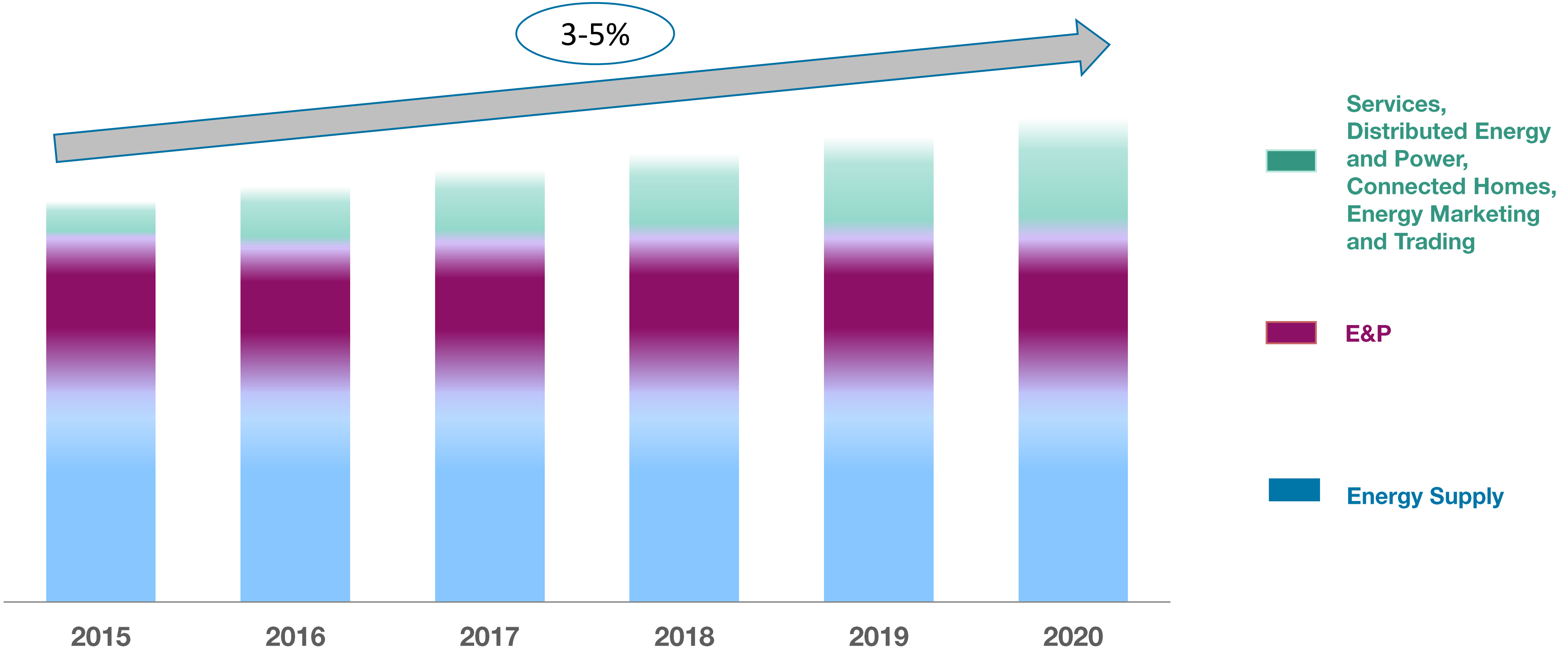
OPERATING CASH FLOW GROWTH



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STRONG INVESTMENT GRADE CREDIT RATING

- Strong investment grade credit ratings important for Centrica
  - large user of collateral
  - efficient procurement of energy
  - cost effective short term sources of liquidity

	Moody's	Standard & Poor's Ratings Services
Current	**Baa1** (stable outlook)	**A-** (negative outlook)
Strong investment grade	**Baa1**	**BBB+**

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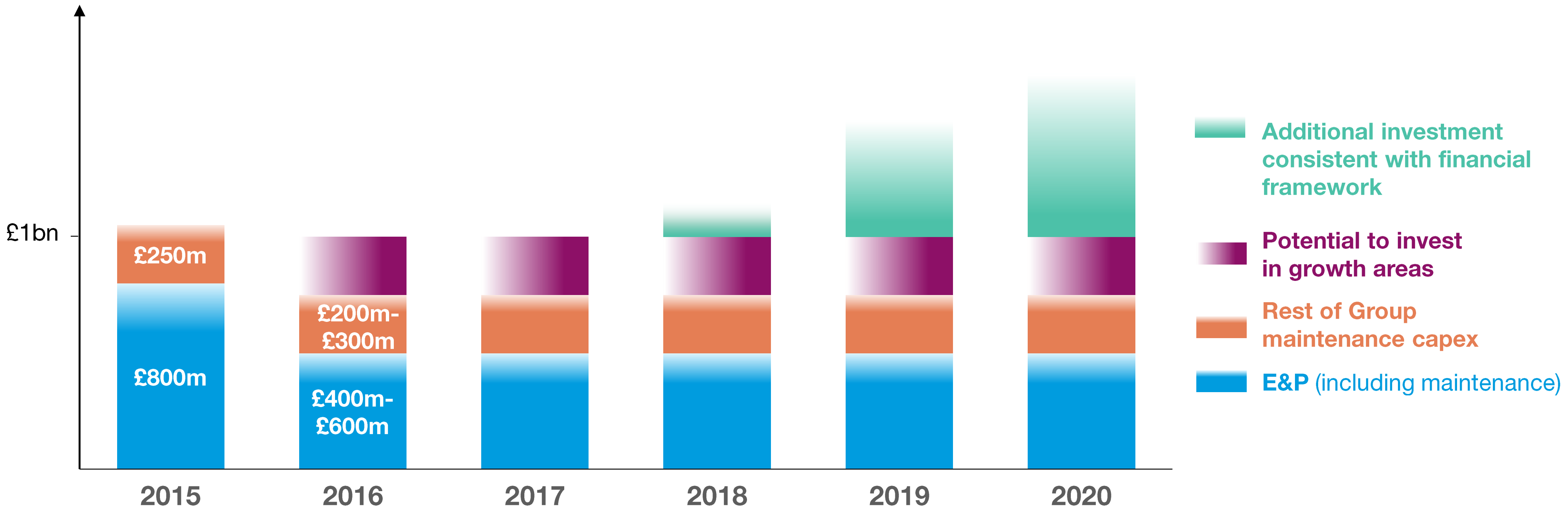
CAPITAL REINVESTMENT



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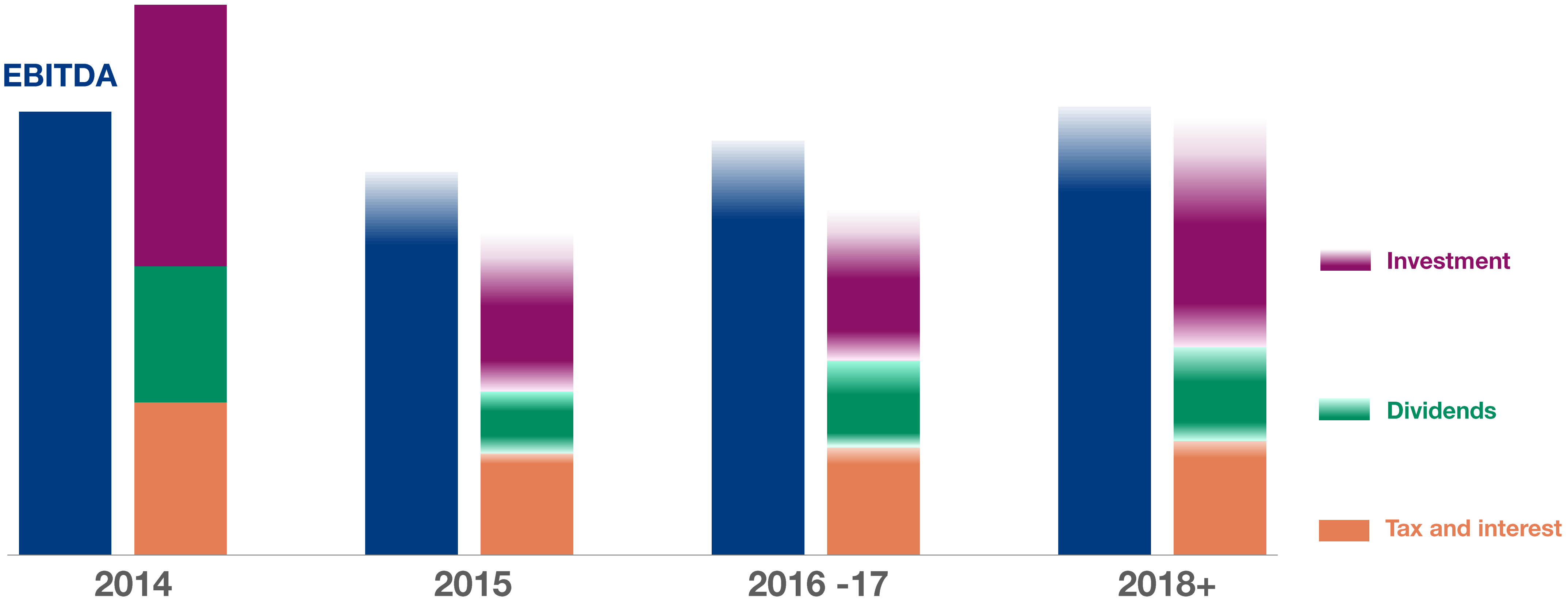
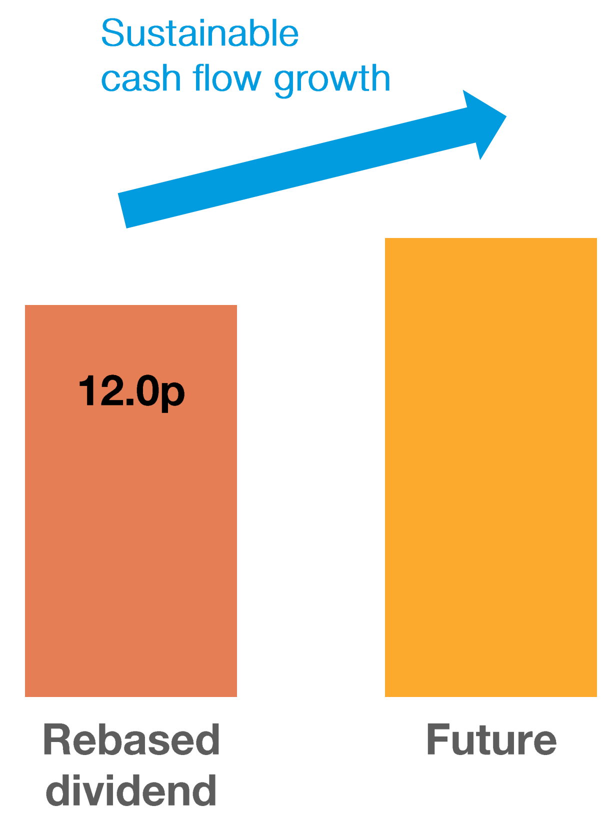
SOURCES AND USES OF CASH



PROGRESSIVE DIVIDEND POLICY

- Progressive dividend policy
- Dividend linked to sustainable growth in operating cash flows
- Scrip alternative retained
    - – kept under review



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MEASURING PROGRESS

- Progress measured against parameters set out in strategic review
- Finalise future reporting in the second half
  - reporting segments and key performance indicators
  - transparency of changes
- ‘Rules of thumb’ to help understanding of changes to commodity prices and weather

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FINANCIAL FRAMEWORK

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IAIN CONN

Chief Executive

SUMMARY

- Energy and services company
- Purpose – "*to provide energy and services to satisfy the changing needs of our customers*"
- Long term shareholder value through returns <u>and</u> growth
- 3-5% per annum operating cash flow growth
- £750m per annum cost efficiency programme
- Growth focus on customer-facing businesses and reduce scale in E&P and central power generation
  - £1.5bn resource reallocation to 2020
- Progressive dividend policy and strong investment grade credit rating

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Q&A

Iain Conn
Chief Executive

Jeff Bell
Chief Financial Officer

Mark Hanafin
Managing Director,
Centrica Energy

Mark Hodges
Managing Director,
British Gas

Badar Khan
President and CEO,
Direct Energy