



Centrica plc Interim Results

for the period ended 30 June 2018



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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.



Iain Conn

Group Chief Executive

H1 financial performance and 2018 outlook

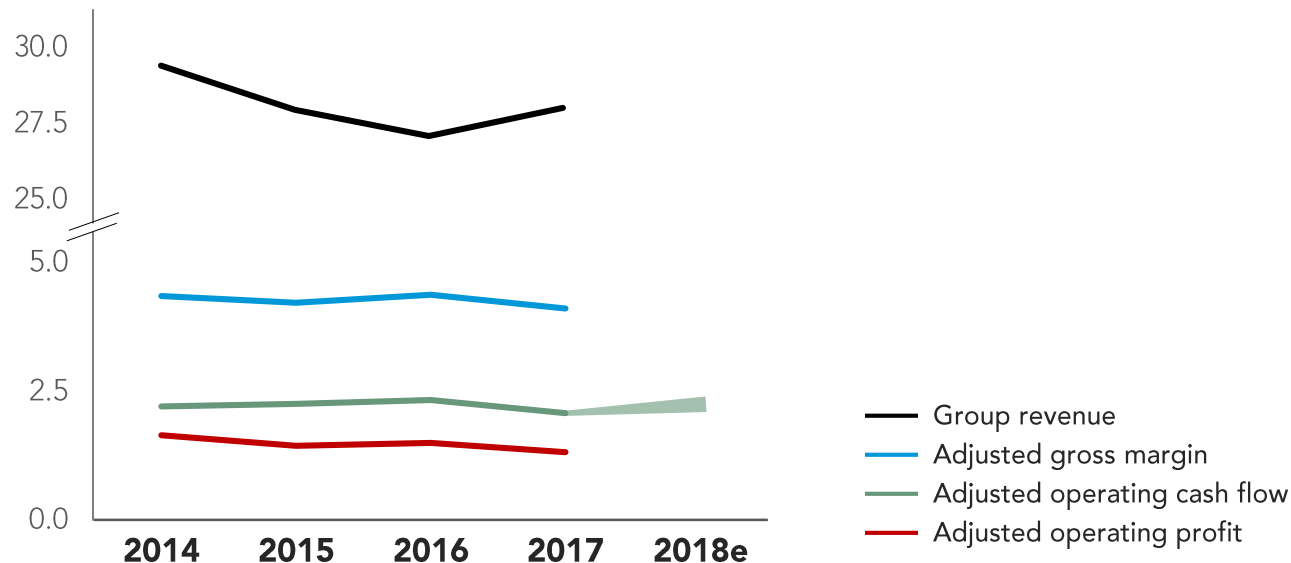
- Challenging H1 environment - extreme weather patterns, rising commodity prices, regulatory uncertainty and continuing competitive pressures
- Rising wholesale prices compressing energy supply margins, but driving improvement in E&P
- On track to deliver 2018 Group financial targets outlined in February
- Stable year-on-year adjusted gross margin and EBITDA. Adjusted operating cash flow (AOCF) of £1.1bn despite £0.2bn working capital build. Net debt £2.9bn
- Adjusted operating profit down 4% to £782m. EPS down 22% to 6.4p including higher effective tax rate of 39%
- FY 2018 AOCF currently expected to be higher than FY2017, within targeted £2.1-£2.3bn range
- FY 2018 capex expected to be <£1.1bn. FY2018 net debt within targeted £2.5-£3bn range
- Expect to maintain full year dividend at 12.0p, provided on track to deliver AOCF of £2.1-£2.3bn p.a. on average and net debt within £2.25-£3.25bn range 2018-20

Business headlines

- Consumer account losses continue, but at slower rate than 2017. UK Home Services accounts stable
- Capability - improved segmentation, enhanced tailored propositions, maximising customer life-time value, reducing cost-to-serve
- North America showing improvement vs H2 2017. NAB retail power weakness continues, but forward book growth in 2019
- Encouraging CH pipeline and order book growth in DE&P. Revenue conversion behind planned levels, but revenue growth expected to accelerate in H2 2018
- Spirit Energy successfully established. Focus on reliable operations and portfolio development
- Continued strong cost efficiency delivery
- Awaiting final regulations imposing the temporary default tariff cap in the UK. Continue to engage constructively while implementing mitigating actions

Portfolio resilience

Revenue, gross margin, AOCF, operating profit
(£bn)



2016 adjusted operating cash flow excludes £357m UK Business working capital inflow. Group revenue, adjusted gross margin and adjusted operating profit exclude impact of one-off non-cash charge relating to a reassessment of the historic recognition of unbilled power revenues.

2018-20 focus - performance delivery and financial discipline

- Demonstrating customer-led gross margin growth
- Driving cost efficiency towards being 'most efficient price-setter'
- Improving organisational effectiveness
- Securing the capabilities we need for 2020 and beyond
- Maintain capital discipline and balance sheet strength



Jeff Bell

Group Chief Financial Officer

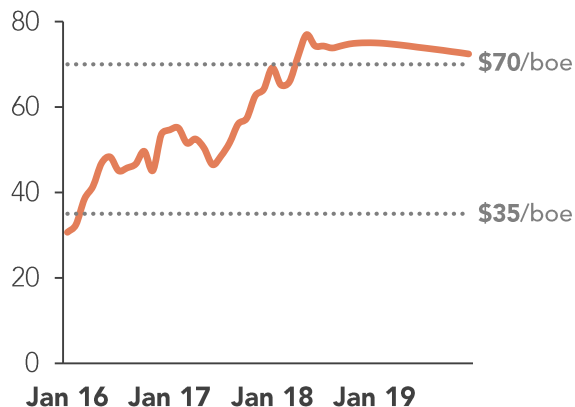
Financial headlines

Six months ended 30 June	2017	2018	Δ
Revenue (£m)	14,299	15,321	7%
Adjusted gross margin (£m)	2,242	2,256	1%
Adjusted operating profit (£m)	814	782	(4%)
Adjusted effective tax rate	30%	39%	(9ppt)
Adjusted earnings (£m)	447	358	(20%)
Adjusted basic earnings per share (p)	8.2	6.4	(22%)
Interim dividend per share (p)	3.6	3.6	0%
EBITDA (£m)	1,291	1,324	3%
Adjusted operating cash flow (£m)	1,242	1,101	(11%)
Group net investment (£m)	131	463	253%
Net debt (£m)	2,941	2,886	(2%)

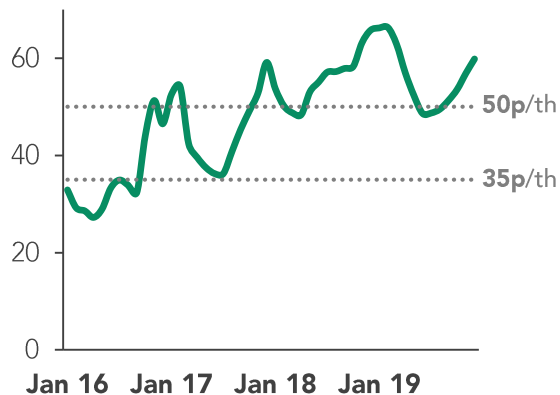
The above adjusted figures are before exceptional items and certain re-measurements. Adjusted operating profit includes share of joint ventures and associates before interest and taxation. Reconciliations of adjusted operating profit, adjusted earnings and adjusted operating cash flow are provided in the Group Financial Review and other adjusted performance measures are explained on pages 56 to 58 of the Interim Results announcement. 2017 comparators have been restated on transition to IFRS 15. See note 3 on pages 33 to 34 of the Interim Results announcement for further details.

Commodity prices

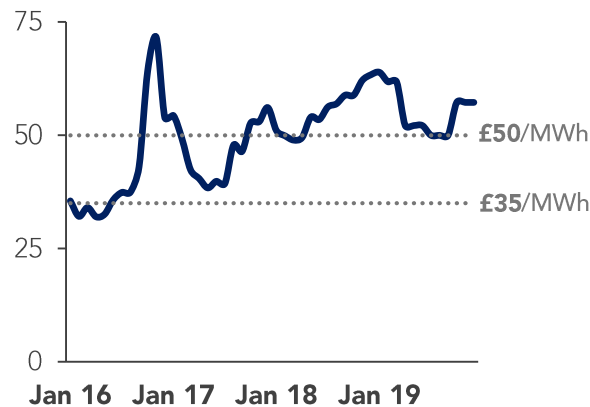
Average Brent oil prices (\$/bbl)



Average UK NBP gas prices (p/th)



Average UK baseload power prices (£/MWh)



Brent oil, UK NBP gas and UK baseload power prices are month ahead prices as at 30 July 2018.

Centrica Consumer

ADJUSTED OPERATING PROFIT / (LOSS)

Six months ended 30 June (£m)	2017	2018	Δ
UK Home	489	393	(20%)
Ireland	33	15	(55%)
North America Home	58	66	14%
Connected Home	(44)	(44)	0%
Centrica Consumer	536	430	(20%)

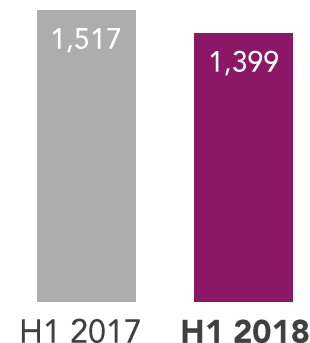
ADJUSTED OPERATING CASH FLOW

Centrica Consumer	484	194	(60%)
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ADJUSTED OPERATING PROFIT

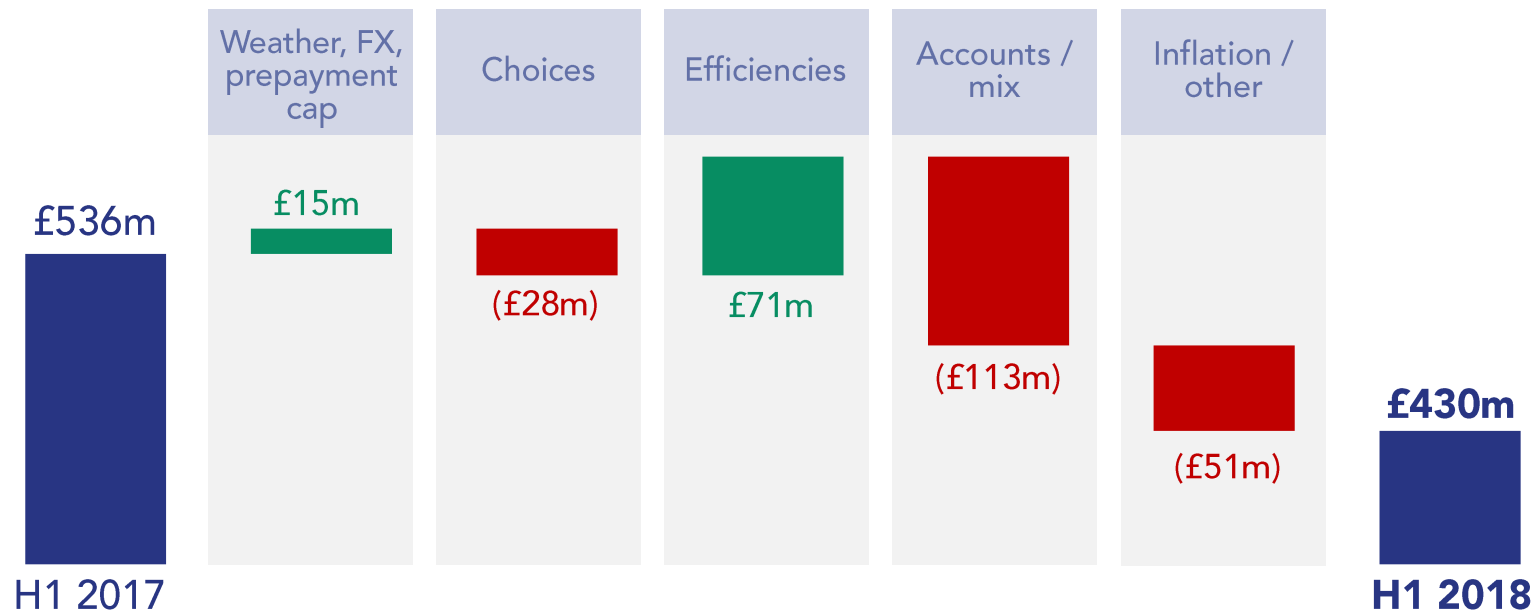
Ireland (€m)	39	17	(56%)
North America Home (\$m)	76	91	20%

Consumer gross margin (£m)



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Consumer: adjusted operating profit drivers



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Centrica Business

ADJUSTED OPERATING PROFIT / (LOSS)

Six months ended 30 June (£m)	2017	2018	Δ
UK Business	0	23	nm
North America Business	112	50	(55%)
Distributed Energy & Power (DE&P)	(19)	(37)	(95%)
Energy Marketing & Trading (EM&T)	105	48	(54%)
Central Power Generation	24	12	(50%)
Centrica Business	222	96	(57%)

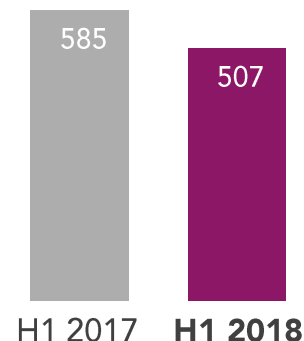
ADJUSTED OPERATING CASH FLOW

Centrica Business	445	262	(41%)
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ADJUSTED OPERATING PROFIT

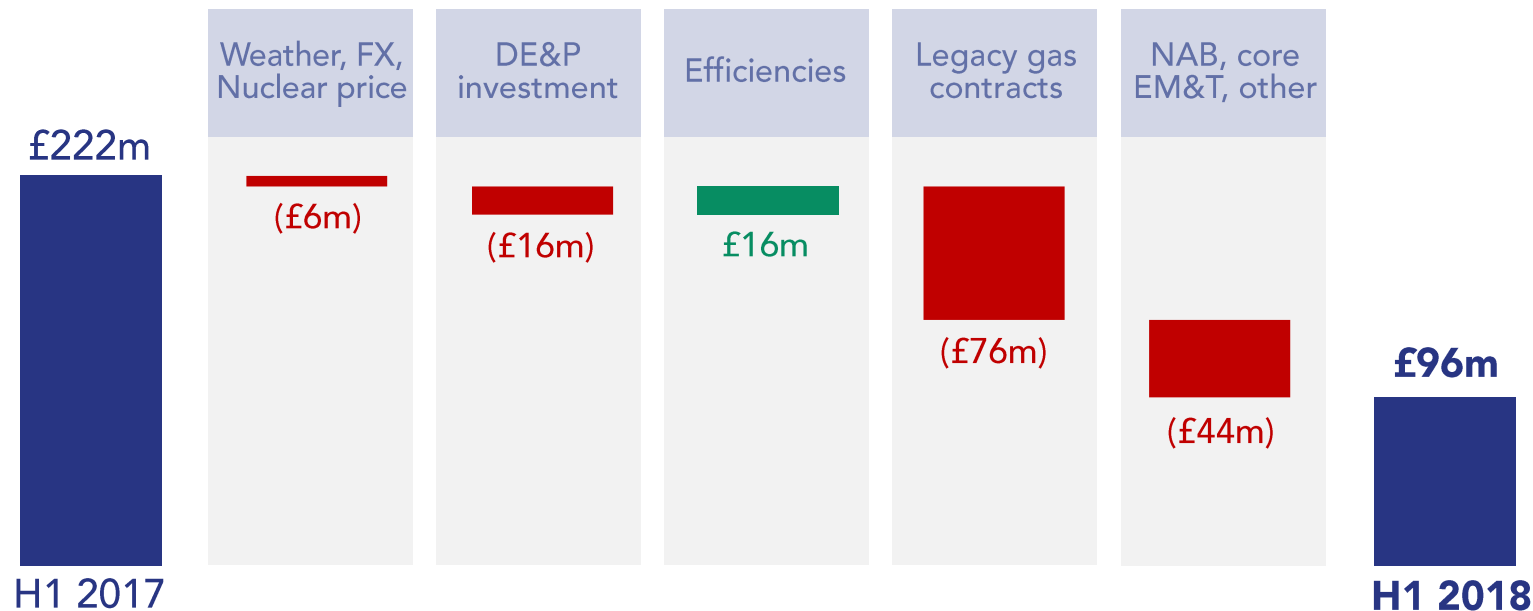
North America Business (\$m)	141	69	(51%)
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Business gross margin (£m)



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Business: adjusted operating profit drivers

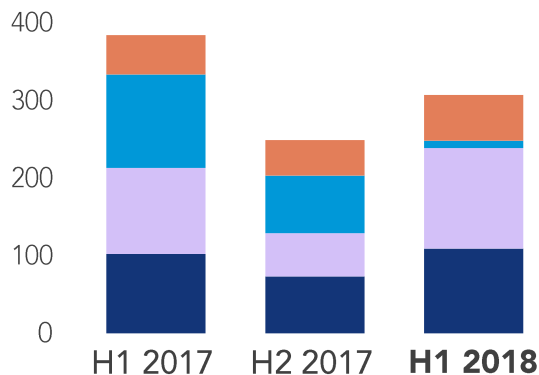


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Business: North America energy supply gross margin

North America Business gross margin

(\$m)



Gas Power
Optimisation Supply

NAB forward net margin under contract

(\$m)

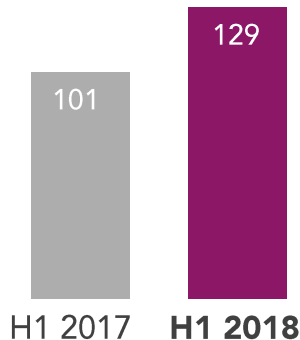


2018 net margin under contract as at June 2017
2019 net margin under contract as at June 2018

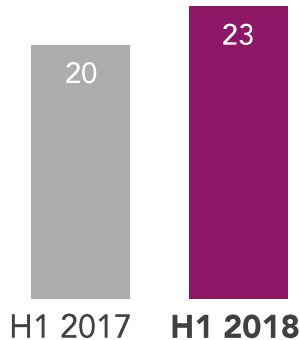
H2 2017 excludes one-off non-cash charge relating to a reassessment of the historic recognition of unbilled power revenues.

Business: UKB, DE&P and EM&T gross margin

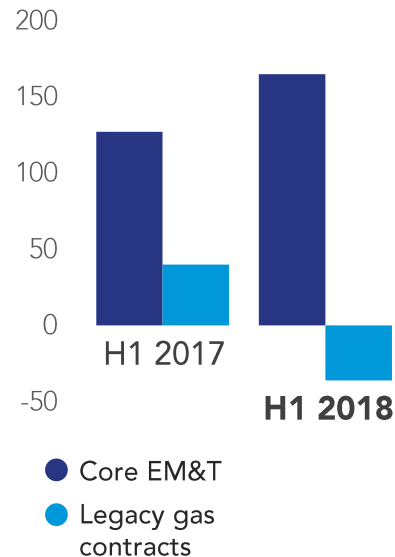
UKB gross margin
(£m)



DE&P gross margin
(£m)



EM&T gross margin
(£m)



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Exploration & Production

E&P

Six months ended 30 June (£m)	2017	2018	Δ
Gas and liquids realisations	696	1,101	58%
Adjusted operating profit	56	256	357%
Adjusted operating cash flow	234	667	185%
Free cash flow	34	442	1,200%

E&P production

Europe (mmboe)

2017	23.5
2018	32.0

Average gas sales price

Europe (p/therm)

2017	40.0
2018	46.5

Average liquids sales price

Europe (£/boe)

2017	31.2
2018	41.9

Lifting & other production costs

Europe (£/boe)

2017	13.7
2018	13.4

E&P capital expenditure

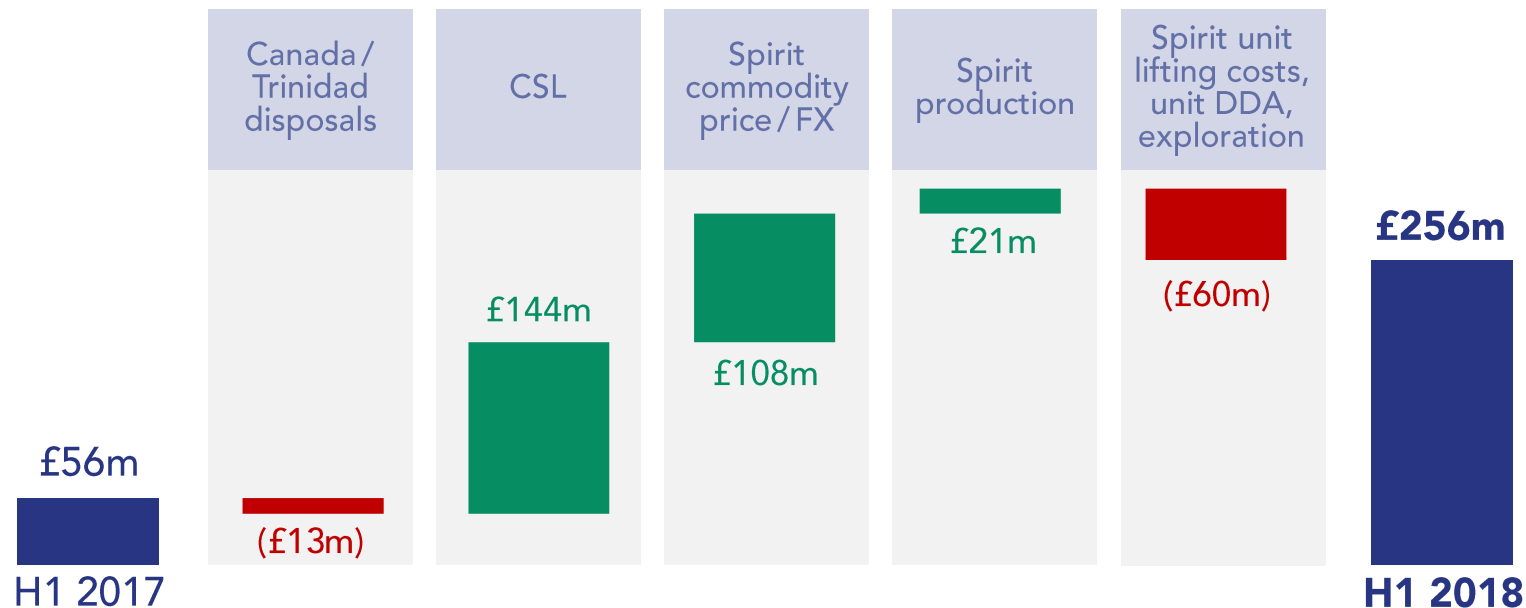
Total (£m)

2017	233
2018	231

2017 comparatives have been restated to reflect the change to the Group's operating structure, as a result of which the segment formerly known as Centrica Storage is now presented as part of Exploration & Production.

The above figures are stated before exceptional items and certain re-measurements and include share of joint ventures 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 56 to 58 of the Interim Results announcement.

E&P: adjusted operating profit drivers

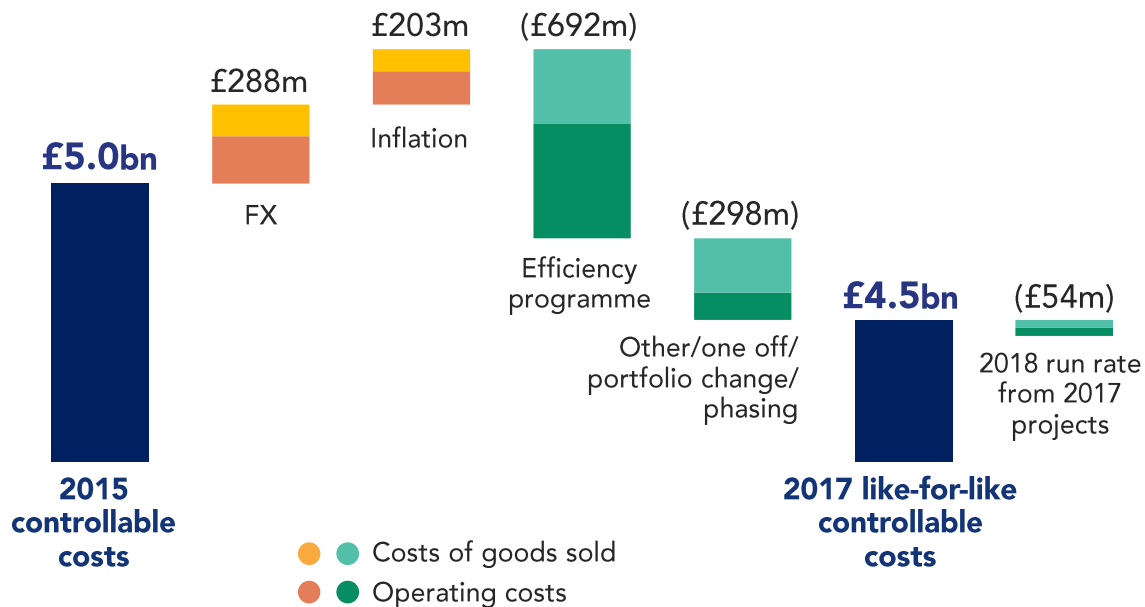


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£1.25bn per annum of cost efficiency 2015-20

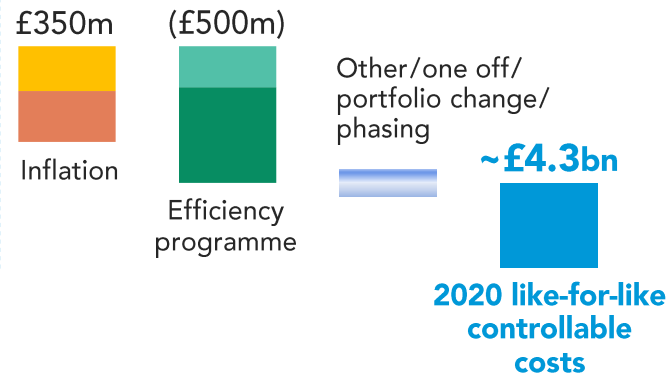
£750m

Efficiency programme delivered

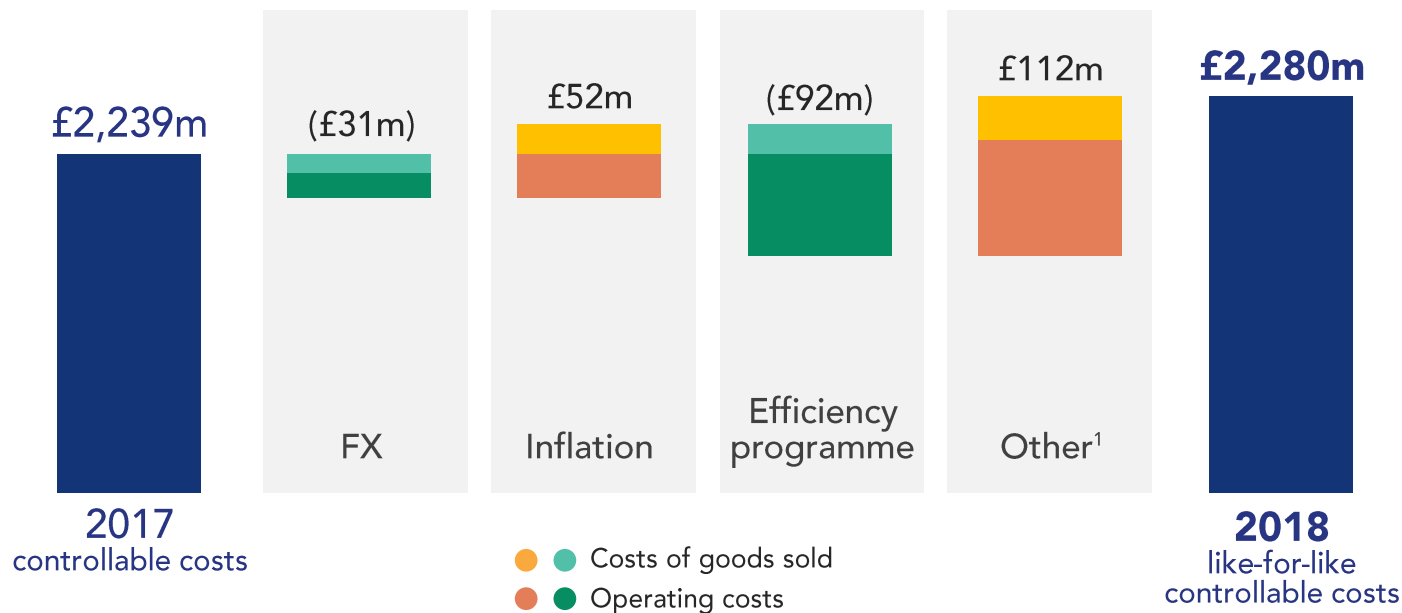


£500m

New efficiency programme



Efficiency programme delivery



1. Other includes E&P exploration and project costs (£33m), bad debt (£29m), one-off 2017 cost savings (£11m) and other costs that are non-repeating in nature, or as a result of phasing or portfolio change between periods (£29m).

The above figures are stated before exceptional items and certain re-measurements. Total like-for-like controllable costs is controllable operating costs, excluding growth investment in Connected Home and Distributed Energy & Power, and controllable cost of sales, excluding the impact of portfolio changes, foreign exchange movements and growth investments in Connected Home and Distributed Energy & Power. Other adjusted performance measures are explained on pages 56 to 58 of the Interim Results announcement.

Net investment

Six months ended 30 June (£m)	2017	2018
Centrica Consumer	59	110
Centrica Business	81	132
Exploration & Production ¹	233	231
Other	12	20
Capital expenditure (including acquisitions)	385	493
Net disposals ²	(254)	(30)
Group net investment	131	463

1. 2017 comparatives have been restated to reflect the change to the Group's operating structure, as a result of which the segment formerly known as Centrica Storage is now presented as part of Exploration & Production.

2. Net disposals in 2017 include the 50% interest in the Lincs windfarm and the Trinidad and Tobago E&P assets.

See pages 56 to 58 in the Interim Results announcement for an explanation of the use of adjusted performance measures.

Cash flow

Six months ended 30 June (£m)	2017	2018
EBITDA	1,291	1,324
Tax	(24)	6
Dividends received	20	22
Working capital & other	(45)	(251)
Adjusted operating cash flow	1,242	1,101
Net investment	(131)	(463)
Interest (including debt purchase)	(128)	(292)
Dividends	(258)	(427)
Other ¹	(182)	(204)
Adjusted net cash inflow / (outflow)	543	(285)

Comparatives have been re-presented to be consistent with the current period separate presentation of cash flows related to financing interest, disclosed in accordance with the amendment to IAS 7: 'Statement of cash flows'.

A reconciliation of adjusted operating cash flow is provided in the Group Financial Review in the Interim Results announcement. See pages 56 to 58 in the Interim Results announcement for an explanation of the use of adjusted performance measures.

1. Other includes exceptional operating cashflows (predominantly restructuring), purchase of own shares and pension deficit payments.

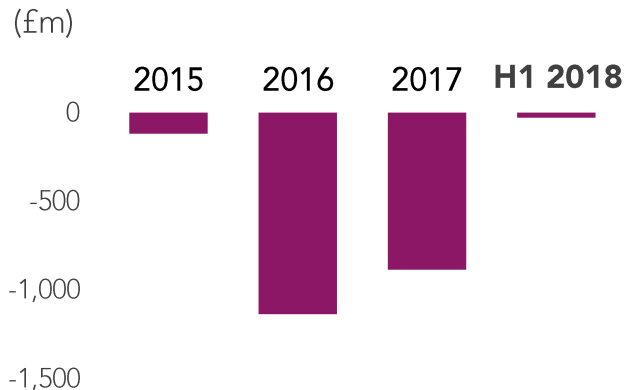
Balance sheet

- Net debt remains within 2018 targeted range of £2.5-£3bn
- Achieved target financial metrics at end of 2017
- Debt repurchase programme completed
- IAS19 pension deficit reduced to £29m
- Continued focus on capital discipline

Current credit ratings



Pension deficit



2018 Group targets

- Adjusted operating cash flow of £2.1bn-£2.3bn
- Capital reinvestment <£1.1bn; Spirit Energy capex ~£500m
- Expect flat 2018 full year dividend per share of 12.0p
- £200m of efficiency savings in 2018
- Like-for-like headcount reduction of around 1,000 in 2018
- Net debt in a £2.5bn-£3.0bn range at end 2018



Iain Conn

Group Chief Executive

Agenda

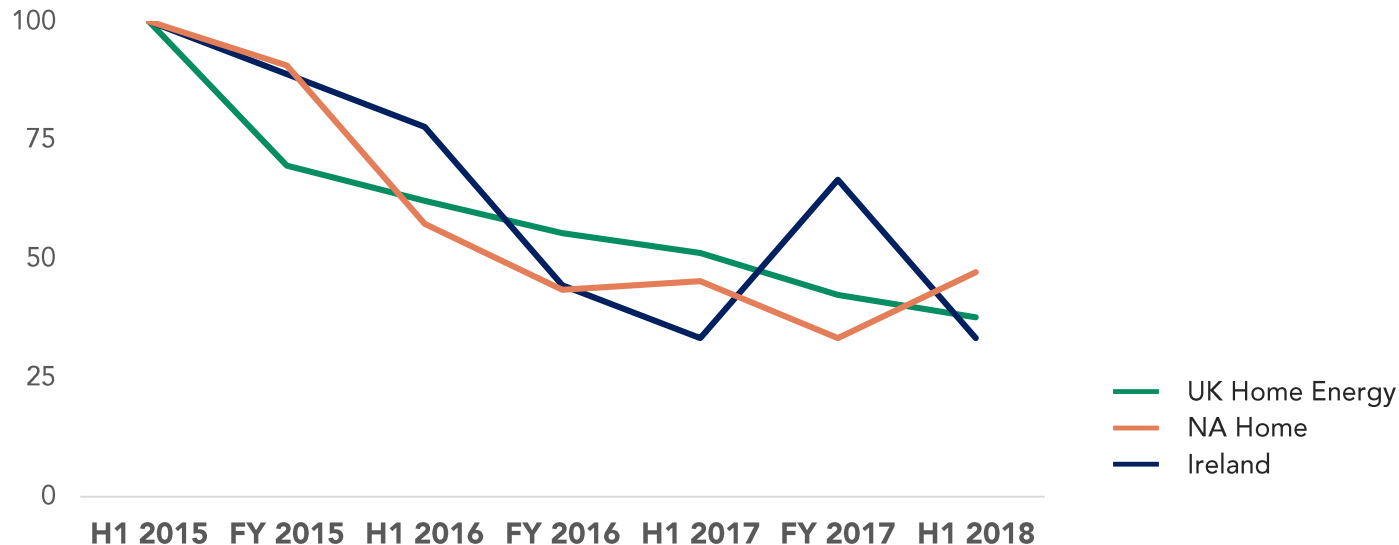
- 2018-20 focus – performance delivery and financial discipline
- Customer-led gross margin growth
- Asset business update
- UK energy supply default price cap

2018-20 focus - performance delivery and financial discipline

- Demonstrating customer-led gross margin growth
- Driving cost efficiency towards being 'most efficient price-setter'
- Improving organisational effectiveness
- Securing the capabilities we need for 2020 and beyond
- Maintain capital discipline and balance sheet strength

Consumer energy customer complaints

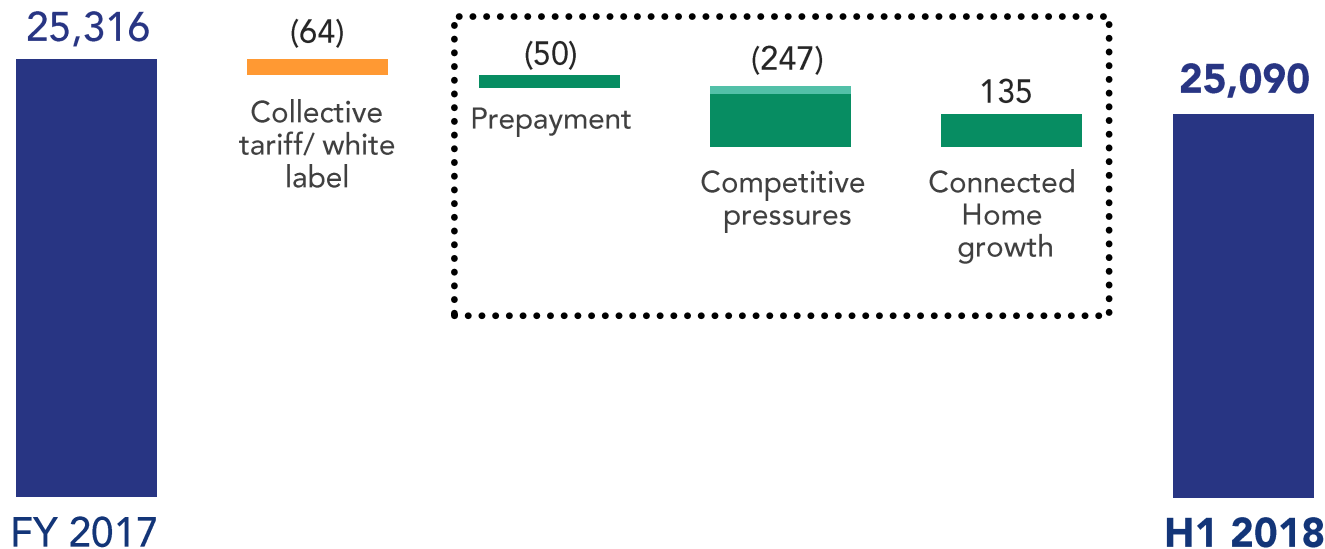
Energy supply complaints per 100,000 customers
(rebased to 100)



Consumer accounts

Customer accounts

('000)



Choices made: ● UK&I ● NA

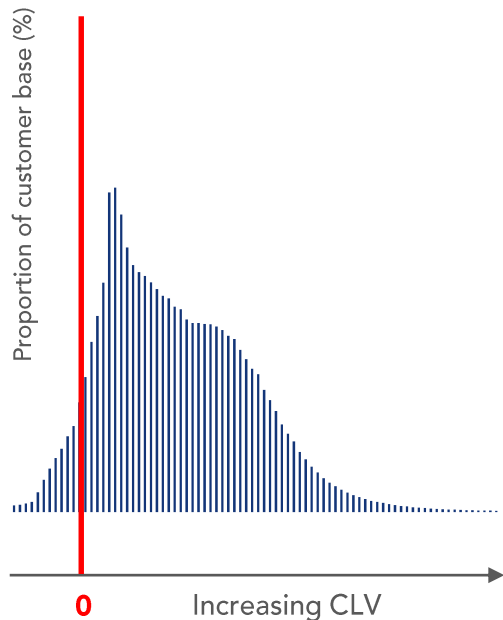
Underlying holdings movement: ● UK&I ● NA

Deploying segmentation capability across Consumer

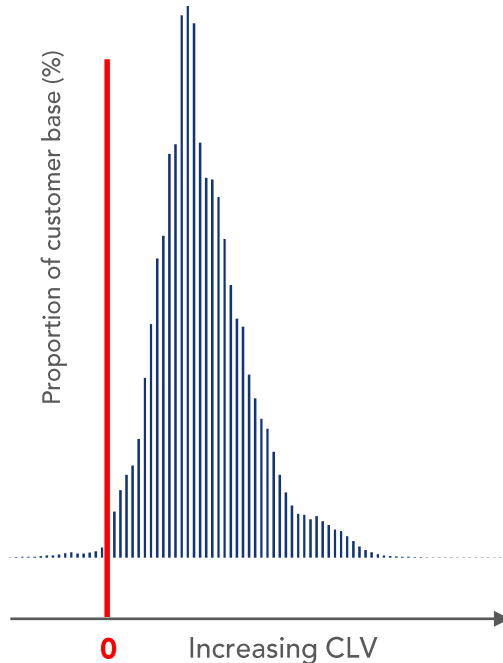
- Understanding of individual customer behaviour
- Driving differentiated pricing
- Developing new propositions tailored to differing needs
- Rewarding loyal customers with differentiated offers
- Optimising sales and marketing activity towards most valuable channels and customers

Customer lifetime value – UK Home

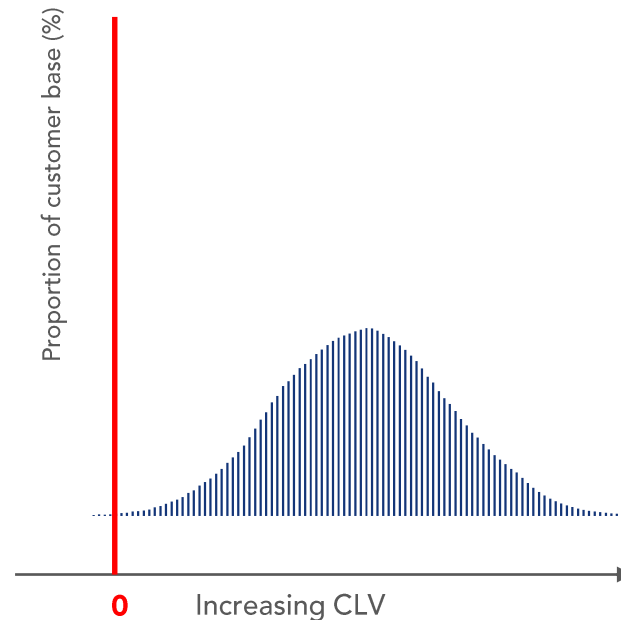
UK energy supply



UK services



Joint energy supply and services



Consumer - segmentation in action

Top line growth

- Improved retention
- Improved acquisition

- Targeted customer acquisition
- Tailored roll-off offers for high value customers
- Use of Rewards to improve customer retention

Increased customer lifetime value

- Cross sell / up sell
- Increased holdings per customer
- Pricing sophistication

- Customer-led propositions
- Risk based pricing for insurance products

Reduce cost

- Differentiated service levels
- Reduced cost to acquire

- Minimised customer wait time and call length
- Tailored on-line journeys
- Marketing spend targeted at highest value channels

British Gas Rewards growth

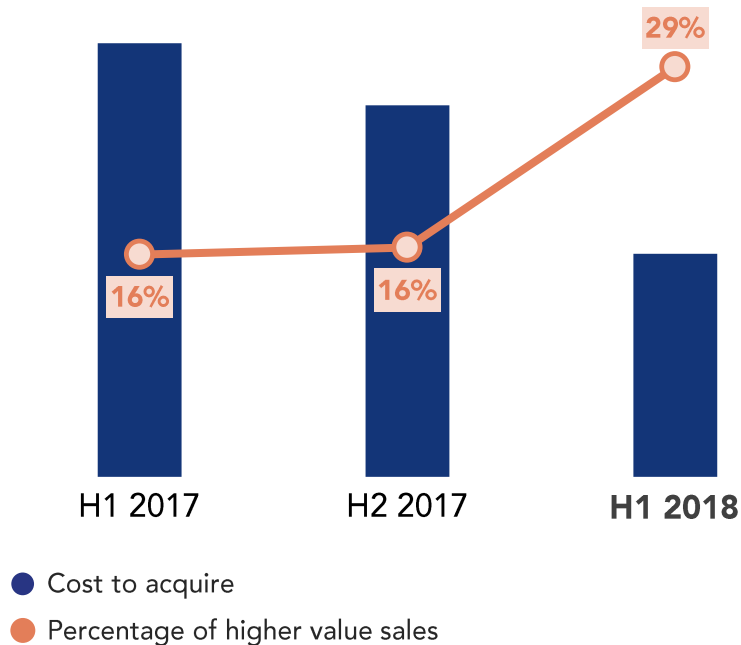
Total British Gas Rewards sign ups

('000)



- Over 1m customers signed up
- Wide range of personalised offers, including free energy days, supermarket and restaurant vouchers
- Greater rewards for higher value customers
- 22% average churn reduction vs. non-Rewards customers
- NPS 6 points higher vs. non-Rewards customers
- Promotes online relationship and cross-sell

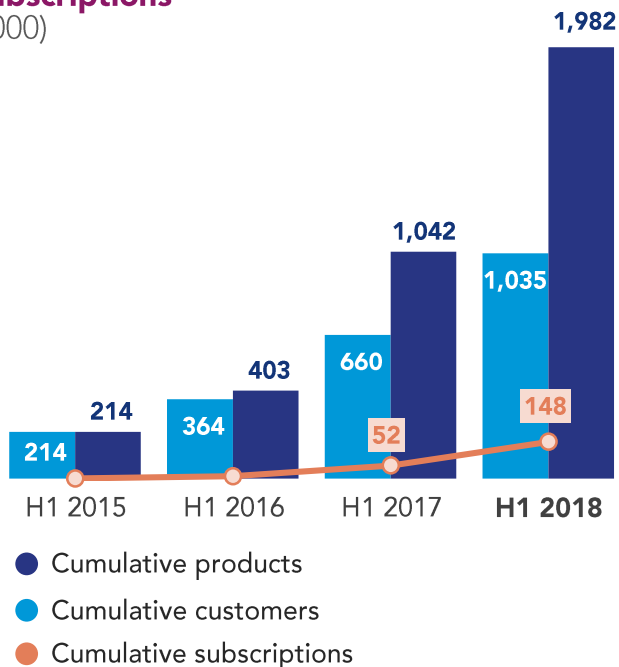
Segmentation in North America Home



- Segmentation of individual customers based on unique characteristics
- Optimal sales channel and product mix to better target marketing spend
- New offers targeted at highest value segments via preferred channels
 - Higher value sales up >100%
 - Cost to acquire down >10%

Connected Home growth

Cumulative products, customers, subscriptions ('000)



Product launches



Hive View



Hive GU10 bulbs



Hive Hub 360

Subscription launches



Hive Leak



Camera Storage

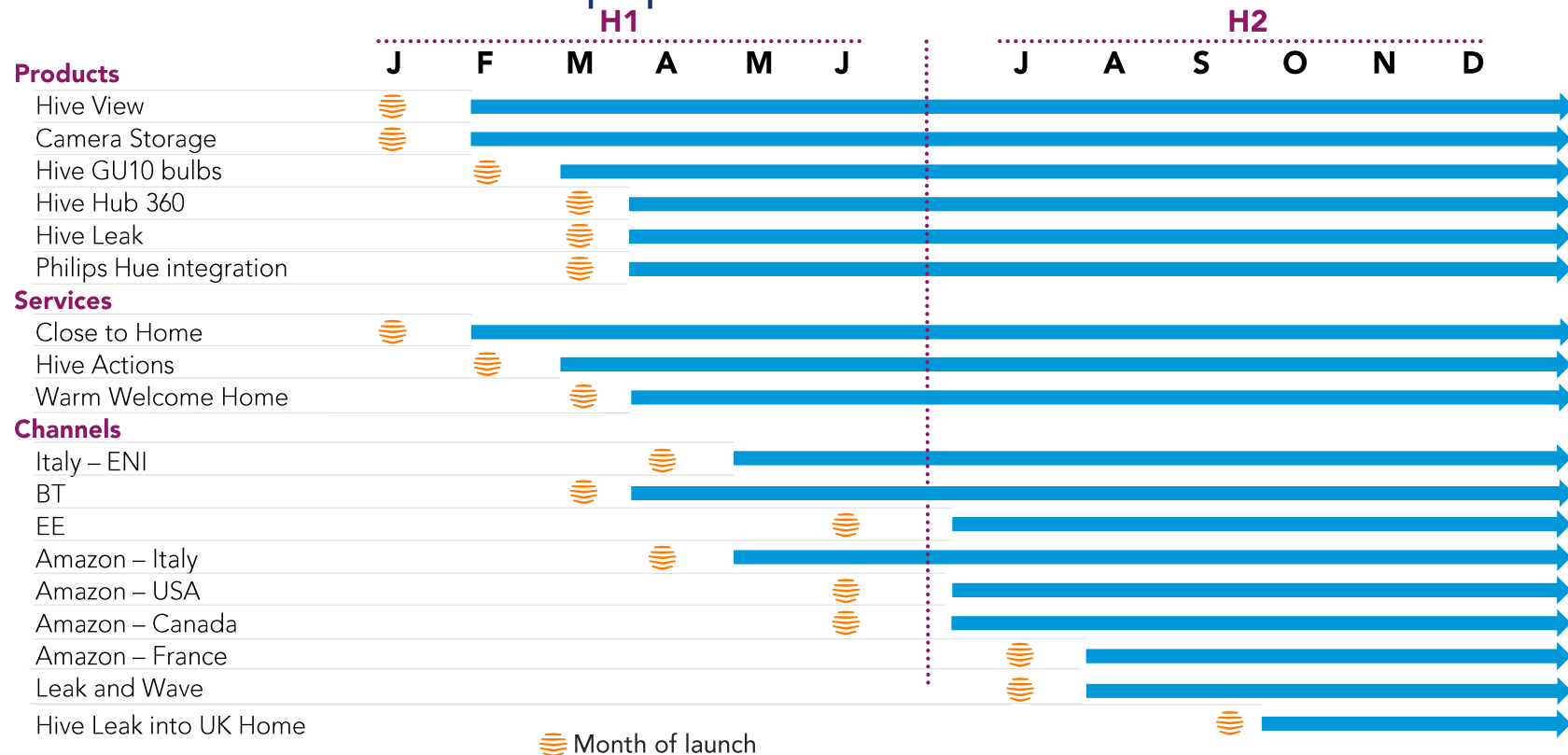
Geographical expansion



Partnerships

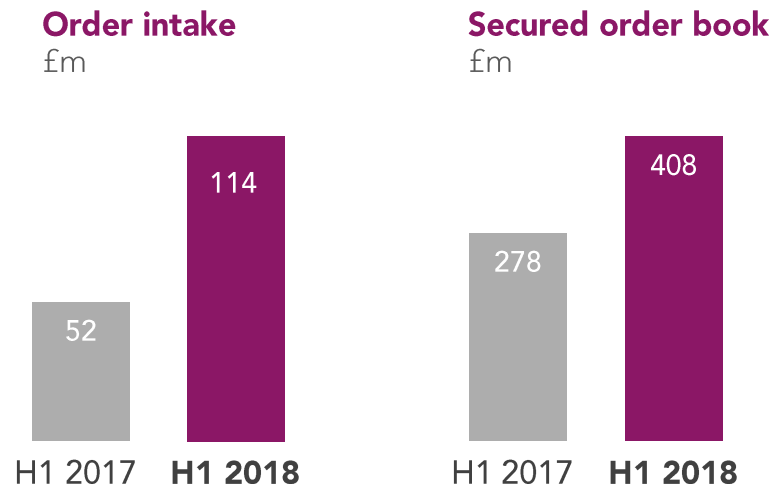


Connected Home pipeline

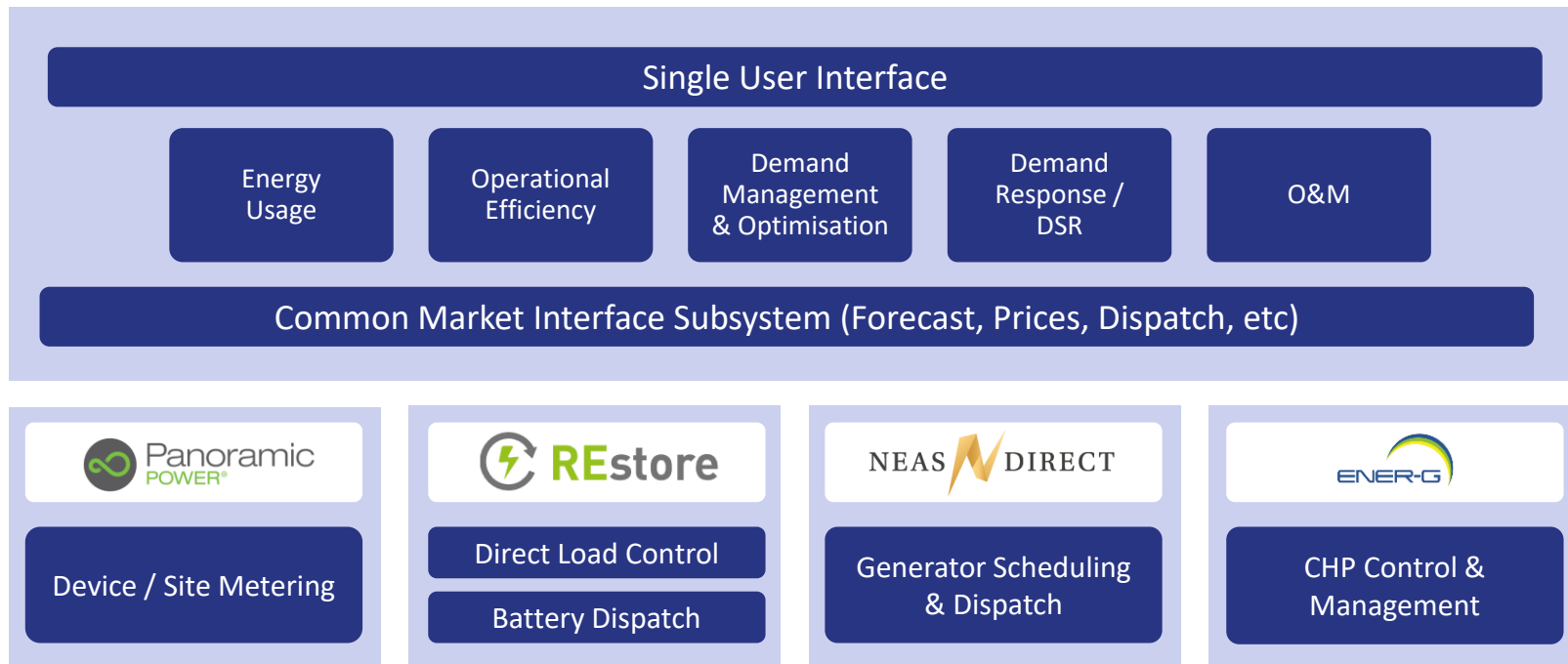


Distributed Energy & Power growth

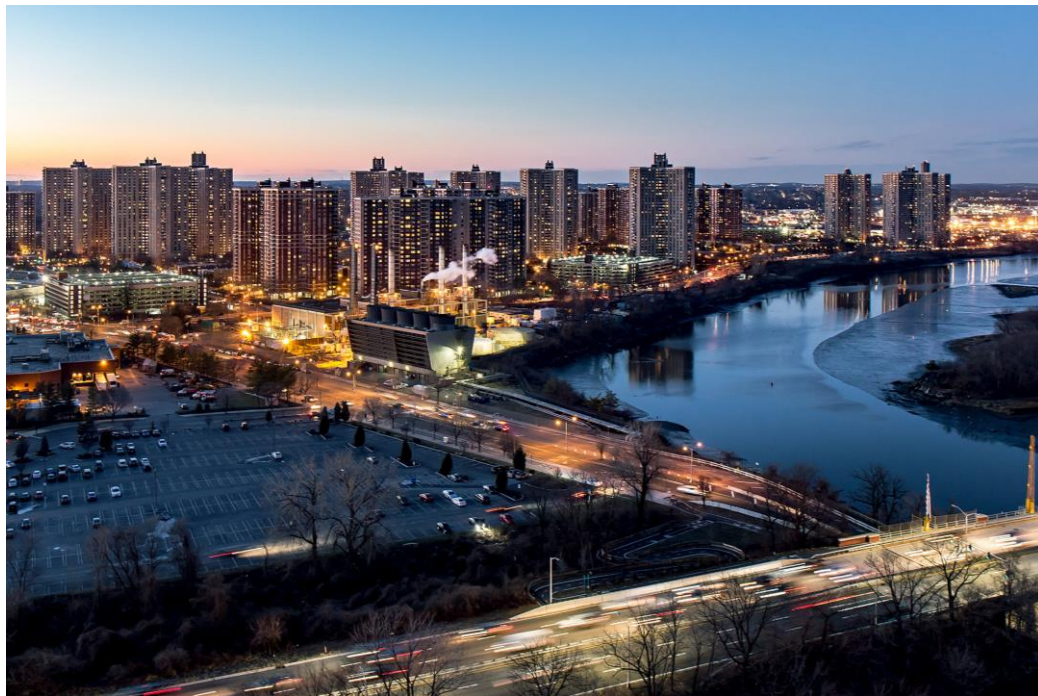
- Significant sales momentum
 - Order intake up 119%
 - Order book up 47%
- Revenue weighted to H2
 - Targeting full year revenue growth of 40% (restated for IFRS 15)
 - Dependent on phasing of pipeline conversions



Integrated Solutions Platform



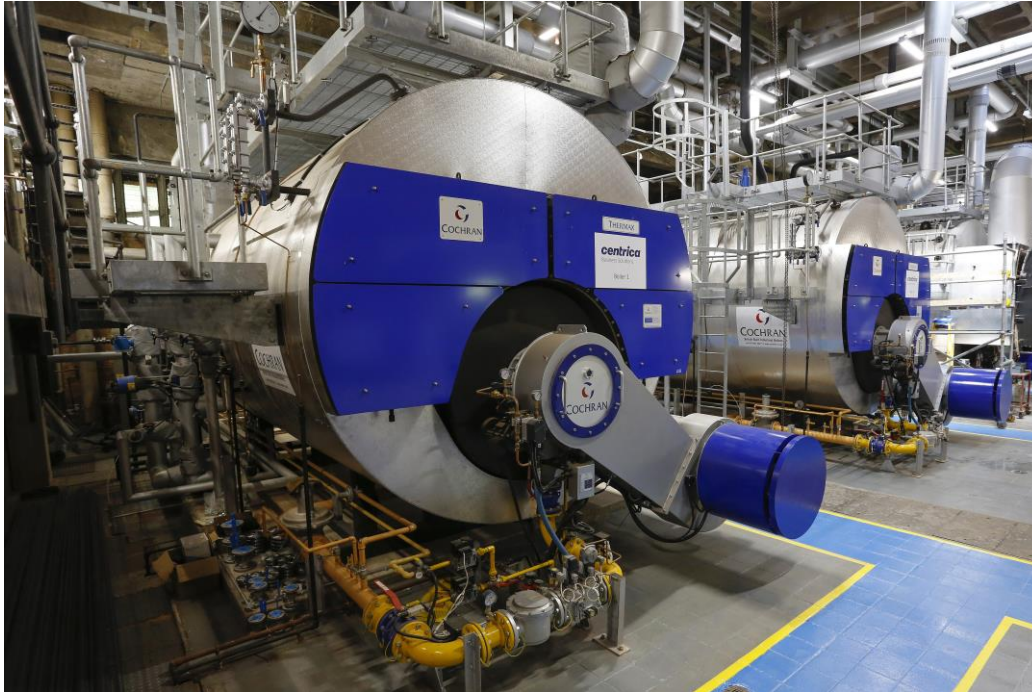
Riverbay Co-op City



- Housing Corporation in US North East
- Wide suite of services
 - Wholesale Energy Management
 - Power and gas procurement and supply
 - Demand Response

centrica
Business Solutions

St George's Energy Centre



- Hospital in London
- Two CHP units, four boilers, chiller system, lighting and controls
- £1m annual savings guaranteed
- Reduced carbon emissions

centrica
Business Solutions

Terhills



- Holiday resort in Belgium
- 27MW “Virtual Power Plant”
- 18MW battery combined with flexible load and generation

centrica
Business Solutions

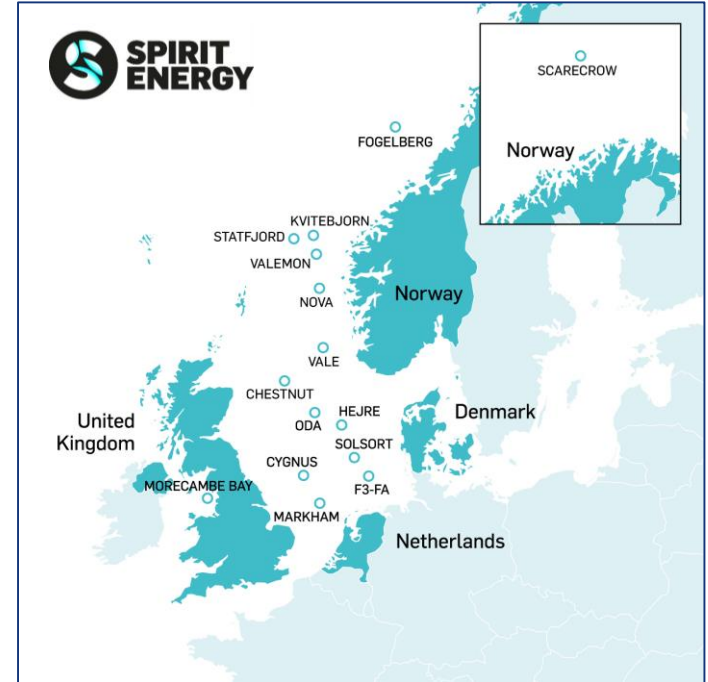
Exploration & Production

- Diversity of cash flow and balance sheet strength
- Spirit Energy successfully established
 - Strong and sustainable self-financing European E&P business
 - Focus on reliable operations and value creation through cost savings and portfolio optimisation
 - Sustainable medium-term production range of 45-55mmboe; capex of £400-600m
- CSL now an E&P business
 - Strong production performance from Rough
 - Realising value from Easington through third-party gas processing contracts



Spirit Energy project delivery

- Development projects
 - Offshore installation commenced at operated Oda project; on track for first oil in Q4 2019
 - FID on non-operated Nova oil field
 - Successful appraisal at operated-Fogelberg discovery; FID expected in 2019
- Exploration
 - Discoveries at Hades/Iris and Lille Pransen; sub-commercial volumes at Tethys
 - Drilling commenced at Scarecrow
 - UK and Norway exploration licence awards



Nuclear

- Announced intention to pursue sale
 - Partner alignment
 - UK Government sensitivities
- Targeting divestment by 2020
- Pre-marketing process now commenced

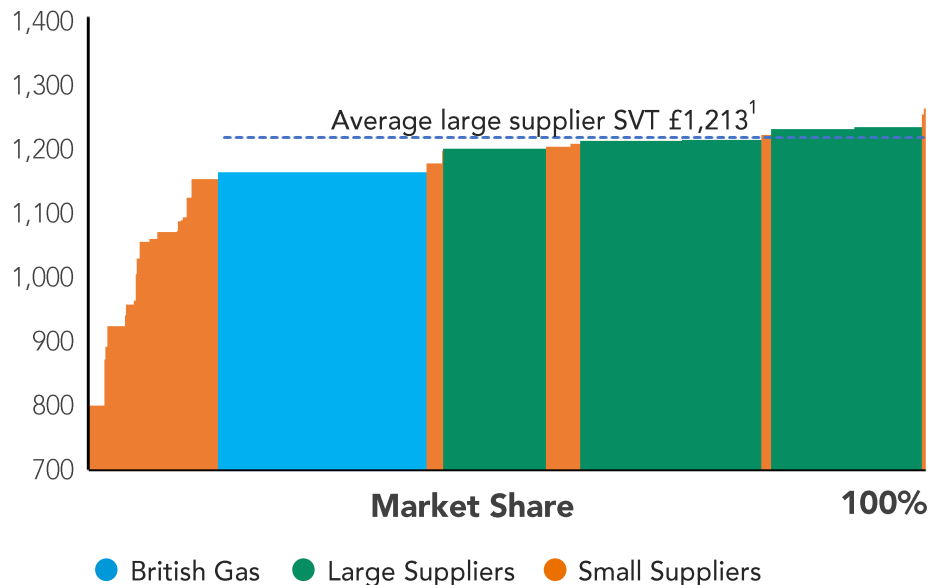


UK energy supply - default tariff cap

- Default tariff cap bill passed in July 2018
- Ofgem statutory consultation due to be published August 2018
- Final decision due October 2018
- Level of price cap set by end of October 2018, cap in place at the end of the year
- Engaging constructively with Government and Regulator
- Focused on lowering impact on Centrica through implementation of mitigating actions
 - Withdrawal of SVT and encouraging customers onto alternative attractive tariffs
 - Competitive default tariff pricing
 - Driving cost efficiency

Exposure to UK default tariff cap risk

Standard tariff price and market share (£)



- 3.5m customers on SVT at end of June 2018, down from 4.3m at start of year; 0.3m customers on new temporary tariff
- Expecting 3m customers on SVT by end 2018
- SVT £52 below large supplier average; temporary tariff £77 below
- Driving cost reduction - efficiency programme to deliver £20 cost per customer improvement by 2020
- EBIT margin compression possible in 2019 before full benefit of cost efficiency

1. Average of other largest six suppliers for customers on paper billing inclusive of any applicable dual fuel discount

Summary

- Challenging H1 environment
- Stable adjusted gross margin and adjusted operating profit. AOCF of £1.1bn. EPS impacted by higher tax rate
- Continued strong progress on cost efficiency delivery
- Developed new capabilities to capture, optimise and grow gross margin
- On track to deliver 2018 Group financial targets
- Awaiting final outcome of UK default tariff cap regulation
- Portfolio of businesses demonstrating resilience
- Expect to maintain current dividend at 12.0p, provided AOCF and net debt within target ranges

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

Adjusted operating profit

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Total Centrica	814	782	(4%)

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Adjusted operating cash flow

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Other	79	(22)	nm
Total Centrica	1,242	1,101	(11%)

1. 2017 comparatives have been restated to reflect the change to the Group's operating structure, as a result of which the segment formerly known as Centrica Storage is now presented as part of Exploration & Production. A reconciliation of adjusted operating cash flow is provided in the Group Financial Review in the Interim Results announcement.

Net debt

Six months ended 30 June (£m)	2017	2018
Opening net debt	(3,473)	(2,596)
Adjusted net cash inflow	543	(285)
Other movements in net debt	(11)	(5)
Closing net debt	(2,941)	(2,886)
Cash posted as collateral	(427)	(350)
Closing net debt excluding cash posted as collateral	(3,368)	(3,236)

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 12 of the Interim Results announcement.

Operating costs

Six months ended 30 June (£m)	2017	2018	Δ
Reported operating costs before exceptional items	1,466	1,482	1%
FX impact	(18)	-	-
Adjustments	(208)	(196)	-
Controllable operating costs	1,240	1,286	4%
Growth investment	(36)	(42)	-
Controllable operating costs excl. growth investment	1,204	1,244	3%

The above figures are stated before exceptional items and certain re-measurements. Controllable operating costs exclude depreciation and amortisation, smart metering and solar expenses, dry hole costs, profit on fixed asset disposals, business performance impairments and foreign exchange movements. 2017 adjustments have been restated by £13m to reflect portfolio change between years.