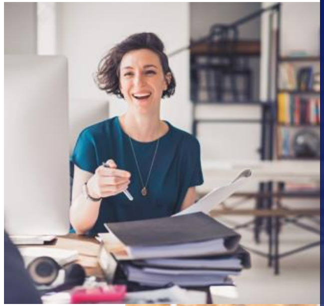
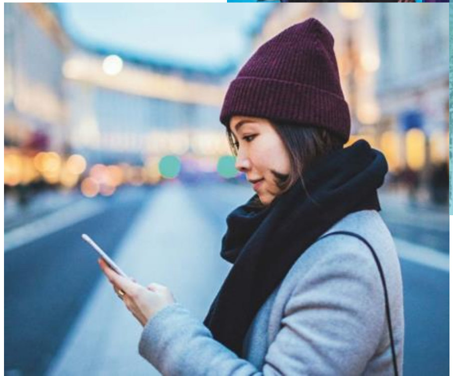
centrica

Centrica plc
Interim Results and Strategic Update – Introductory slides

for the period ended 30 June 2019





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

Summary

Performance	• Exceptionally challenging H1 circumstances but momentum into H2 and 2020 • Consumer account growth in H1. Expect to meet 2019 Group targets
Strategy	• Completing the shift towards the customer, exiting E&P and Nuclear • Energy Services and Solutions Company, focused on distinctive strengths • Centrica well positioned for the transition to a lower carbon future
Dividend and balance sheet	• Regrettably dividend rebased to 5.0 pence per share. Scrip alternative cancelled - Changed circumstances, specifically the UK price cap and additional pension deficit contributions - Requirement for strong investment grade ratings - Restructuring charges as company repositioned post divestments

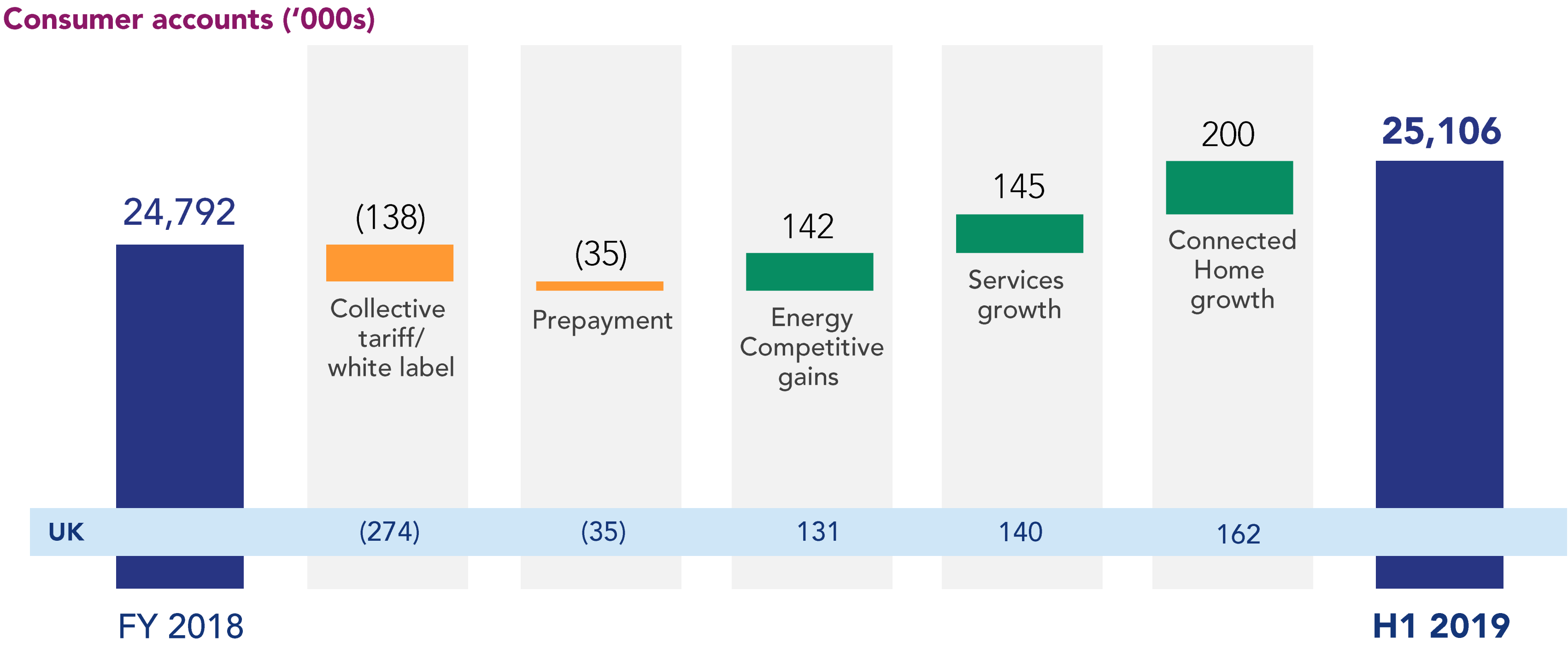
What to expect

- Focus on distinctive strengths in Energy Services and Solutions:
  - Energy supply and its optimisation
  - Services and solutions centred around energy
- Growing importance of Home Energy Management and Electric Vehicle Integration – exclusive Ford deal announced today
- Repositioning of UK Home, Connected Home and North America Business
- Efficiencies over 2019-22 increased to £1bn with accelerated delivery unlocked through refocused portfolio
- Target is most competitive provider, enabling stabilisation of customer numbers and margin growth
- Future dividend policy from rebased level will be progressive over time and linked to cash flow growth, with targeted earnings cover of 1.5-2.0. Scrip alternative will be cancelled
- Post 2020 organic sources and uses of cash expected to be balanced with rebased dividend, with E&P and Nuclear divestment proceeds reinvested to fund restructuring and reduce net debt
- Beyond period of material restructuring in 2020-2021, expect growth in net cash flow

Exceptionally challenging H1 2019

- H1 2019 heavily impacted by a number of external environment and regulatory issues:
  - UK energy default tariff cap including Q1 one-off impact
  - Very low UK natural gas prices
  - Nuclear inspection outages at Hunterston B and Dungeness B
  - Very warm weather in UK and North America
- Weak adjusted earnings:
  - Adjusted operating profit of £399m, down 49%
  - Adjusted basic EPS of 2.4p, down 63%
- Cash flow relatively robust:
  - EBITDA of £1,075m, down 19%
  - Adjusted operating cash flow of £744m, down 32%
- Consumer account growth in H1
- Continue to expect to meet full year cash flow and net debt targets

Growth in consumer accounts in H1 2019



FY 2018 is presented on a like-for-like basis excluding customer accounts relating to the Clockwork US home services business which was disposed of in April 2019 and minor contract add-ons on US home warranty contracts which are no longer considered standalone accounts.

Earnings momentum in H2 2019 and into 2020

- FY 2019 earnings expected to be weighted towards H2 due to a number of factors:
  - Absence of Q1 one-off price cap impact
  - Hunterston B and Dungeness B expected to come back on line
  - North America Business margin under contract is H2 weighted
  - Cost efficiency delivery accelerates in H2, including structural changes to cost of goods
- 2020 expected to benefit from H2 2019 momentum:
  - Absence of one-off price cap impact
  - Higher expected Nuclear availability
  - Cost efficiency momentum
  - Reduced cost of goods in UK Home Services
  - Reduced capacity charges in North America Business
  - Reduced losses in Connected Home and DE&P

Portfolio update

- Will exit hydrocarbon production, creating a leading international Energy Services and Solutions provider
- Will continue to serve Consumers and Business Customers, with a geographic focus on the UK, Ireland, North America and Continental Europe
- Centrica Consumer will focus on three strategic pillars: Energy Supply, In-Home Servicing and Home Solutions
- Centrica Business will focus on three strategic pillars: Energy Supply, Energy Optimisation and Business Services & Solutions
- Will exit interests in Spirit Energy and Nuclear by end 2020. Expect to exit Spirit Energy via a trade sale

Business unit decisions

- UK Home to be fundamentally repositioned, driving structural changes in customer journeys, internal processes and the cost base
- Connected Home will be refocused on the UK and Ireland and around Home Energy Management, will be renamed Centrica Home Solutions
- North America Business structural interventions made to improve through-cycle returns and reduce returns volatility
- Distributed Energy & Power will continue to invest for growth in Europe and North America, will be renamed Centrica Business Solutions

Improving competitiveness

- Wholly customer-facing company will enable material simplification and greater focus, unlocking and accelerating significant further efficiency potential
- Having reached competitive cost levels on average, Centrica will target becoming the lowest cost provider in all its markets, consistent with chosen brand positioning and propositions
- Will deliver £1bn of annualised efficiencies over the period 2019-2022, in addition to the annualised savings of £1bn delivered to end 2018. Increase of £250m compared to previous target
- Delivering this level of competitiveness and cost base requires material restructuring charges over 2019-2021

Dividend and capital structure

- Pressure on dividends in the near term:
  - Changed context including impact of UK price cap on operating cash flow
  - Higher pension cash requirements following triennial valuation
  - Restructuring costs to achieve targeted cost competitiveness
  - Lower net debt capacity to meet expected higher credit thresholds for a wholly customer-facing company
- Regrettably Centrica will therefore rebase the expected dividend to 5.0p for 2019
- A progressive dividend from the rebased level, linked to growth in earnings and cash flow
- Targeting dividend cover from earnings of 1.5-2.0
- Scrip alternative cancelled
- Continue to target strong investment grade credit ratings
- Annual capital investment expected to be around £500m post-divestment of interests in Spirit Energy and Nuclear