Centrica plc
Preliminary Results

for the year ended 31 December 2018

Disclaimer

This presentation does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any Centrica shares or other securities.

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

Charles Berry

Non-executive Chairman

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Iain Conn

Group Chief Executive

Centrica team

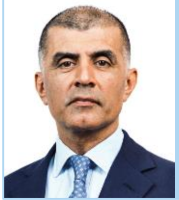
Charles Berry
Non-executive Chairman

Iain Conn
Group Chief Executive

Chris O'Shea
Group Chief Financial Officer

Richard Hookway
Chief Executive, Centrica Business

Mark Hodges
Chief Executive, Centrica Consumer



Sarwjit Sambhi
Chief Executive, Centrica Consumer
(from 1 March 2019)

Grant Dawson
Group General Counsel & Company Secretary

Justine Campbell
Group General Counsel & Company Secretary
(from 1 April 2019)

Jill Shedden
Group Human Resources Director

Mike Young
Group Chief Information Officer

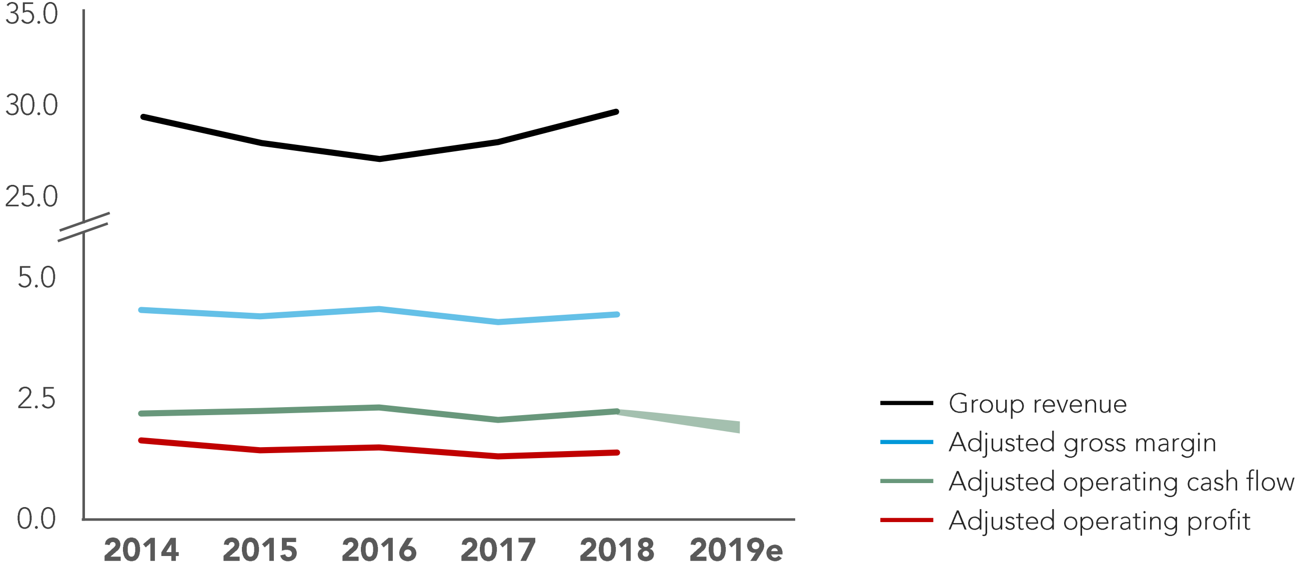
Charles Cameron
Group Technology and Engineering Director

Key financial messages

- 2018 financial performance mixed, with adjusted operating profit up 12%, but disappointing volumes in Spirit Energy and Nuclear and slower than expected recovery in North America Business
- 2019 AOCF impacted by UK default tariff price cap, continued weaker E&P and Nuclear volumes and higher cash tax payments, partially offset by underlying efficiency delivery. Targeting 2019 AOCF in the range £1.8bn-£2.0bn
- £2.1-2.3bn average AOCF target range for 2018-20 therefore under some pressure. Further actions to strengthen the company in 2019 and improve underlying performance in 2020
- Net Debt range for 2018-2020 underpinned
- Actions to improve performance and maintain a strong balance sheet
    - Further £500m of divestments of non-core assets in 2019. SPA signed for first £230m
    - 2019 capital reinvestment of ~£1.0bn
    - £250m efficiencies in 2019, delivering 2018-2020 target one year early
    - £500m of further efficiencies beyond 2019 as we target becoming 'most efficient price-setter'

Portfolio resilience, but impacted in 2019

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 in North America Business in 2017.

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

Strategic development

- Strategic direction aligned to external trends, including response to Climate Change
- Energy supply challenges - regulatory landscape and lower energy demand per GDP
- Shift of propositions towards what customers need and want, not limited to energy supply
- Centrica now exposed to an expanding opportunity-set - customers, channels, margin and geography
- Customer divisions have built material new capabilities. Indicators of stabilisation and growth potential
- Portfolio simplification continues - Nuclear sale process, Clockwork disposal, capital recycling
- Spirit Energy focus on portfolio improvement, while limiting Centrica's exposure, creating options for the future

Specific topics we will address today

- 2018 financial performance and 2019 outlook
- External context and Centrica's strategy
- UK Home Energy Supply performance and the impact of the UK default tariff cap
- UK Home Services performance, with material improvement expected in 2019
- Continued growth in NA Home but slower than expected recovery in NA Business
- Encouraging sources of growth in Connected Home, DE&P and EM&T
- Spirit Energy portfolio and performance, including the role of Greater Warwick Area
- Portfolio development - update on Nuclear and £500m planned divestments in 2019
- Cost efficiency delivery - track record and future plans

Chris O'Shea

Group Chief Financial Officer

Commodity prices

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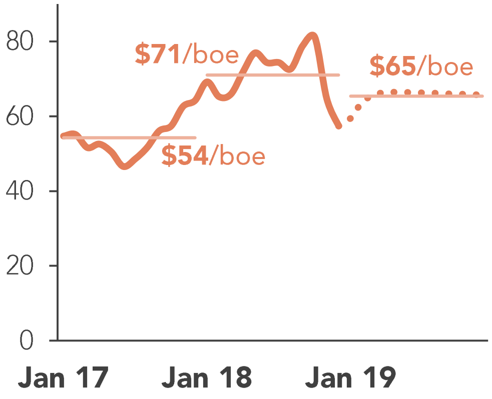
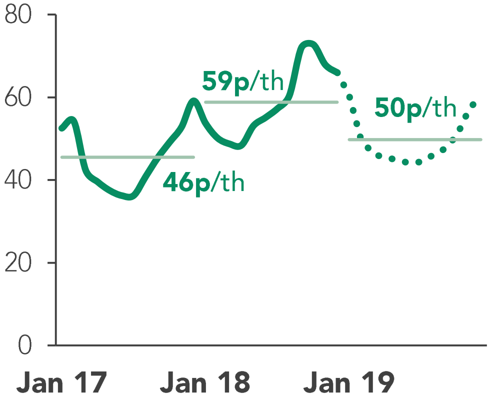
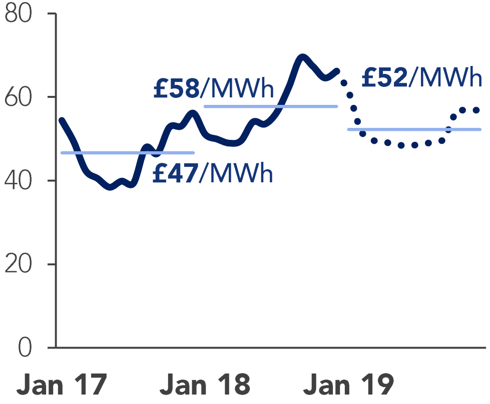
Average Brent oil prices ($/bbl)



Average UK NBP gas prices (p/th)



Average UK baseload power prices (£/MWh)



Historic month ahead prices

Forward month ahead prices

Brent oil, UK NBP gas and UK baseload power prices are month ahead prices as at 20 February 2019.

Financial headlines

Year ended 31 December (£m)	2017	**2018**	Δ
Revenue (£m)	28,035	**29,686**	6%
Adjusted gross margin (£m)	4,037	**4,253**	5%
Adjusted operating profit (£m)	1,247	**1,392**	12%
Adjusted effective tax rate	22%	**41%**	19ppt
Adjusted earnings (£m)	693	**631**	(9%)
Adjusted basic earnings per share (p)	12.5	**11.2**	(10%)
Full year dividend per share (p)	12.0	**12.0**	0%
EBITDA (£m)	2,137	**2,447**	15%
Adjusted operating cash flow (£m)	2,069	**2,245**	9%
Group net investment (£m)	46	**968**	2,004%
Net debt (£m)	2,596	**2,656**	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 77 to 80 of the Preliminary Results announcement.

2017 comparators have been restated on transition to IFRS 15. See note 1 of the Preliminary Results announcement for further details.

Centrica Consumer

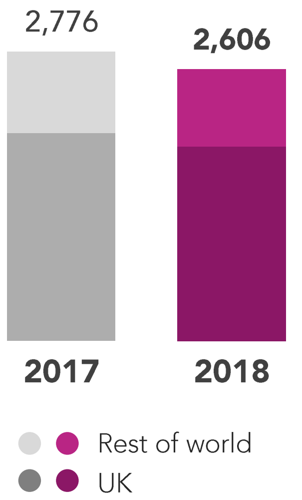
ADJUSTED OPERATING PROFIT / (LOSS)

Year ended 31 December (£m)	2017	**2018**	Δ
UK Home	819	**668**	(18%)
Energy	*572*	***466***	*(19%)*
Services	*247*	***202***	*(18%)*
Ireland	47	**44**	(6%)
North America Home	114	**123**	8%
Energy	*146*	***135***	*(8%)*
Services	*(32)*	***(12)***	*63%*
Connected Home	(95)	**(85)**	11%
Centrica Consumer	885	**750**	(15%)
ADJUSTED OPERATING CASH FLOW			
Centrica Consumer	1,023	**1,019**	(0%)

ADJUSTED OPERATING PROFIT / (LOSS)

Ireland (€m)	*54*	***50***	*(7%)*
North America Home ($m)	*148*	***165***	*11%*

Consumer gross margin
(£m)



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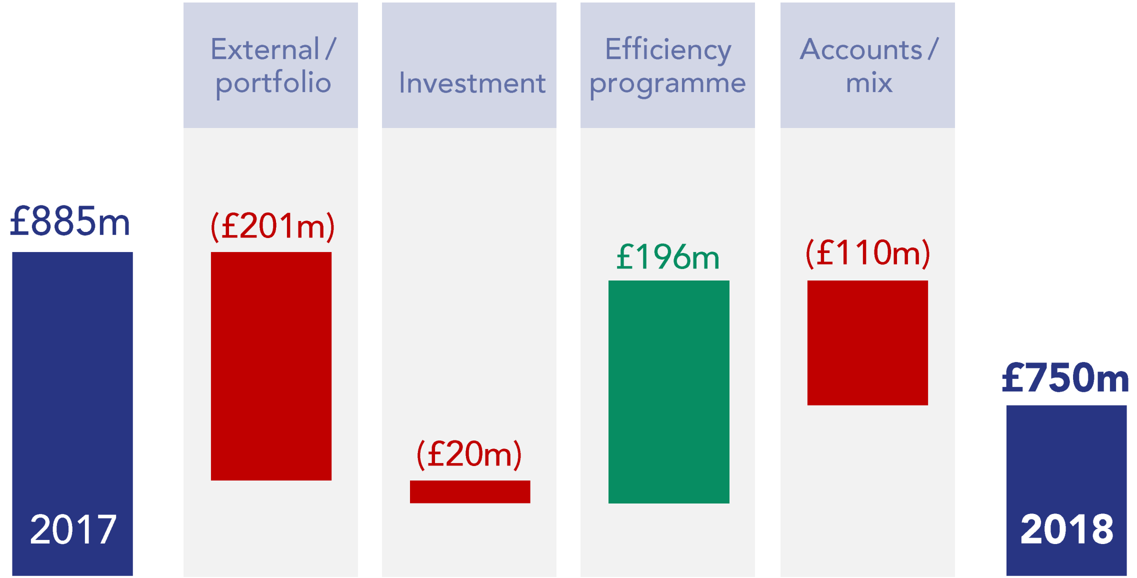
Consumer: adjusted operating profit drivers



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Centrica Business

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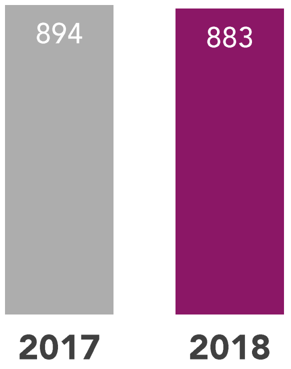
ADJUSTED OPERATING PROFIT / (LOSS)

Year ended 31 December (£m)	2017	**2018**	Δ
UK Business	4	**40**	900%
North America Business	71	**81**	14%
Underlying performance	*133*	*81*	*(39%)*
2017 accounting adjustment	*(62)*	*-*	*nm*
Distributed Energy & Power (DE&P)	(53)	**(81)**	(53%)
Energy Marketing & Trading (EM&T)	104	**54**	(48%)
Core EM&T activities	*68*	*107*	*57%*
Flexible legacy gas contracts	*36*	*(53)*	*nm*
Central Power Generation	35	**27**	(23%)
Centrica Business	161	**121**	(25%)
ADJUSTED OPERATING CASH FLOW			
Centrica Business	508	**263**	(52%)

ADJUSTED OPERATING PROFIT / (LOSS)

North America Business ($m)	*87*	***109***	*25%*

Business gross margin[1]
(£m)



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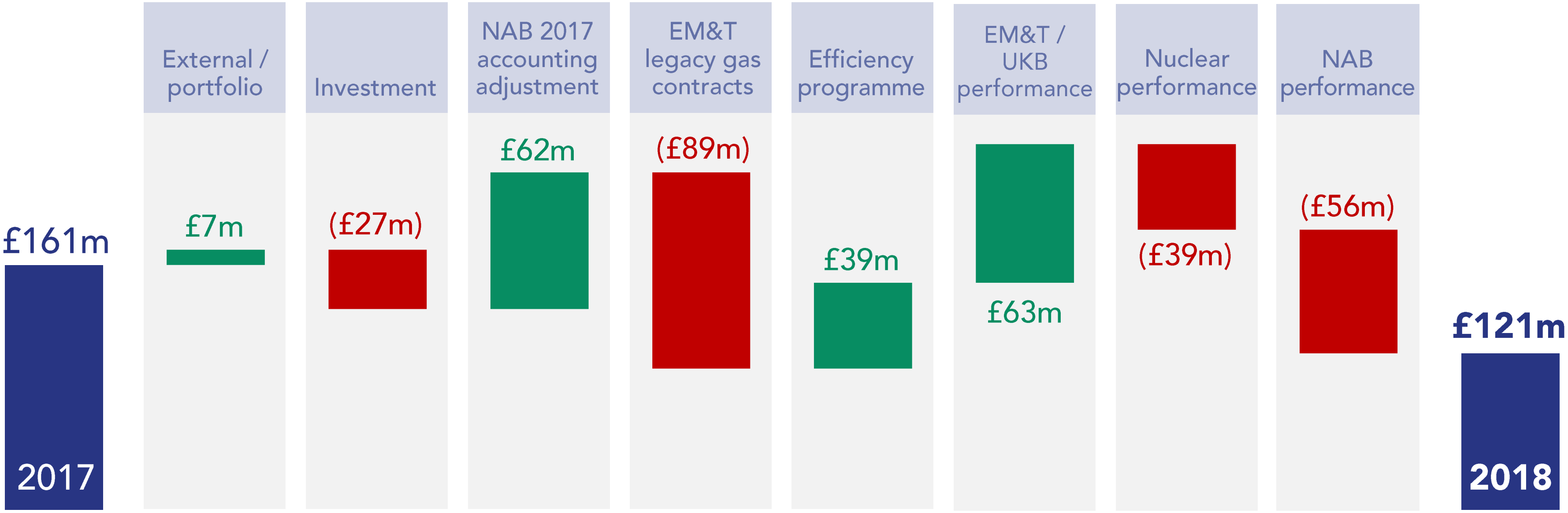
1. Business gross margin excludes Nuclear.

Business: adjusted operating profit drivers



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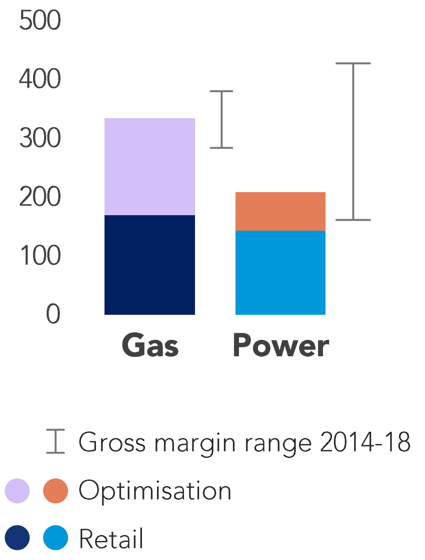
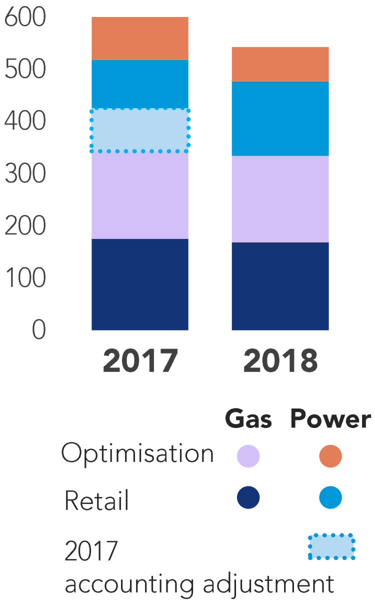
North America Business gross margin

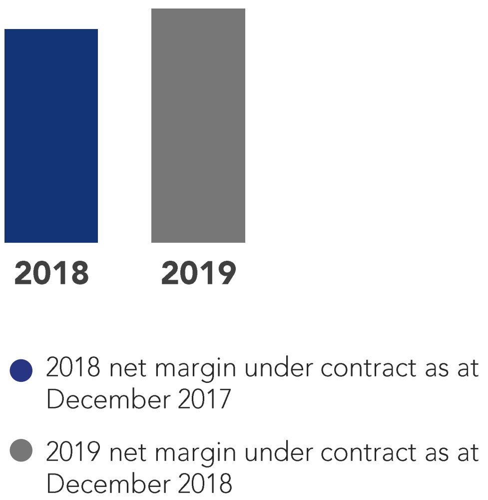
North America Business 2018 gross margin ($m)



North America Business gross margin ($m)



Forward net margin under contract ($m)



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

North America Business outlook

- Disappointing performance in 2017 and 2018
- Focus on driving profit and ROACE improvement
  - Enhanced products and propositions to meet customer needs and drive improvement in gross margin
  - Incremental trading and optimisation opportunities from new pipeline positions
  - Process improvements to drive efficiencies
  - Geographical diversification to improve returns and reduce risk
- Impact of lower capacity charges in 2019
- 2019 opening forward book higher than 2018
- Leveraging long-term customer relationships to drive DE&P growth

NAB return on average capital employed[1]

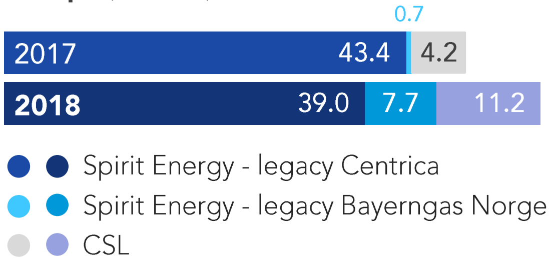
2015	2016	2017	**2018**
10%	10%	3%	**5%**

1. Average capital employed includes goodwill in line with the Group ROACE methodology as explained on pages 77 to 80 of the Preliminary Results announcement.

Exploration & Production

E&P			
Year ended 31 December (£m)	2017	**2018**	Δ
Gas and liquids realisations	1,555	**1,988**	28%
Adjusted operating profit	201	**521**	159%
Adjusted operating cash flow	509	**963**	89%
Free cash flow	396	**483**	22%

E&P production
Europe (mmboe)



Average gas sales price
Europe (p/therm)

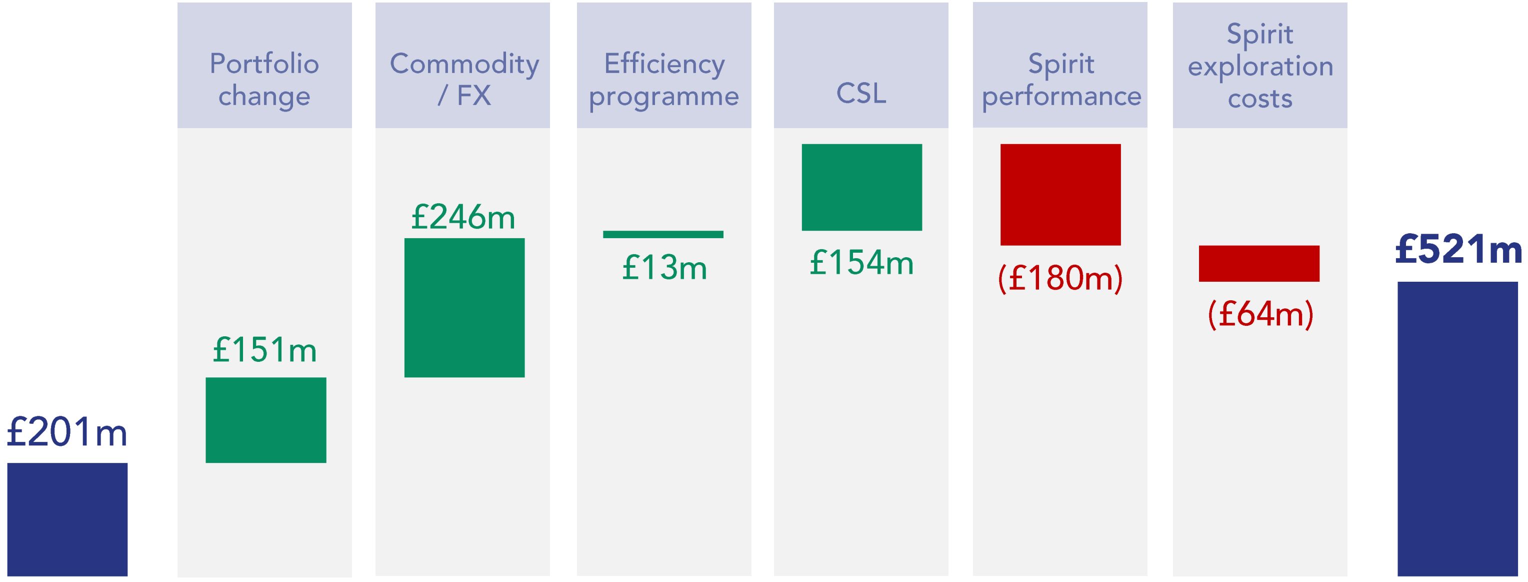
Average liquids sales price
Europe (£/boe)

Lifting & other cash production costs
Europe (£/boe)

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 77 to 80 of the Preliminary Results announcement.

E&P: adjusted operating profit drivers



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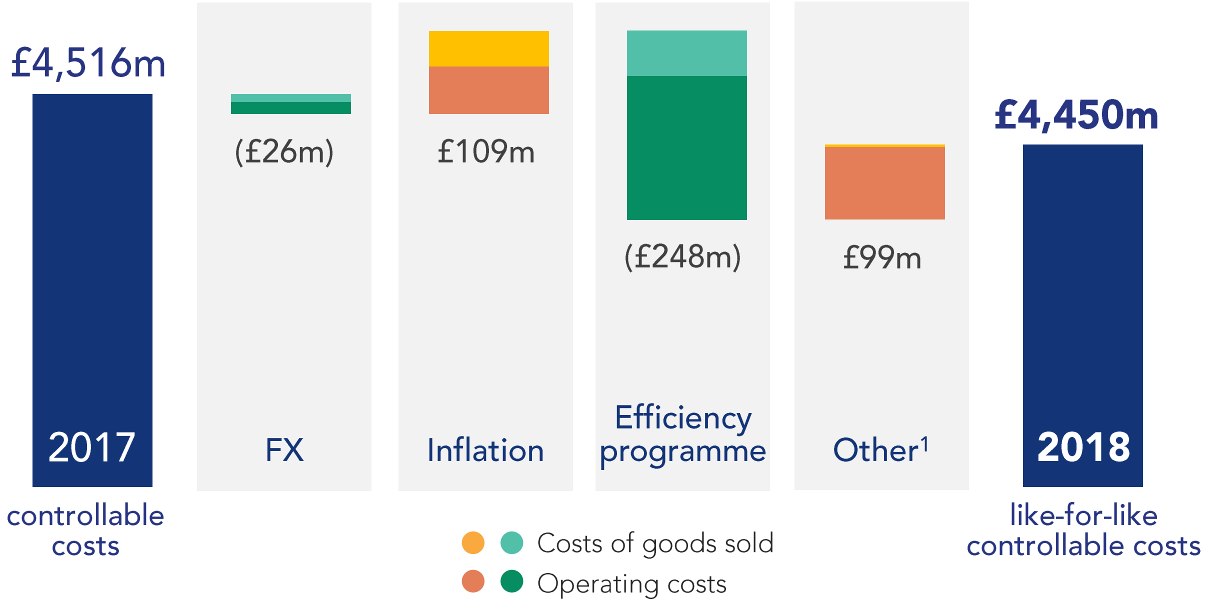
2017-18 efficiency programme delivery



1. Other includes revenue investment, service investment, portfolio change and other recurring and non-recurring adjustments

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 77 to 80 of the Preliminary Results announcement.

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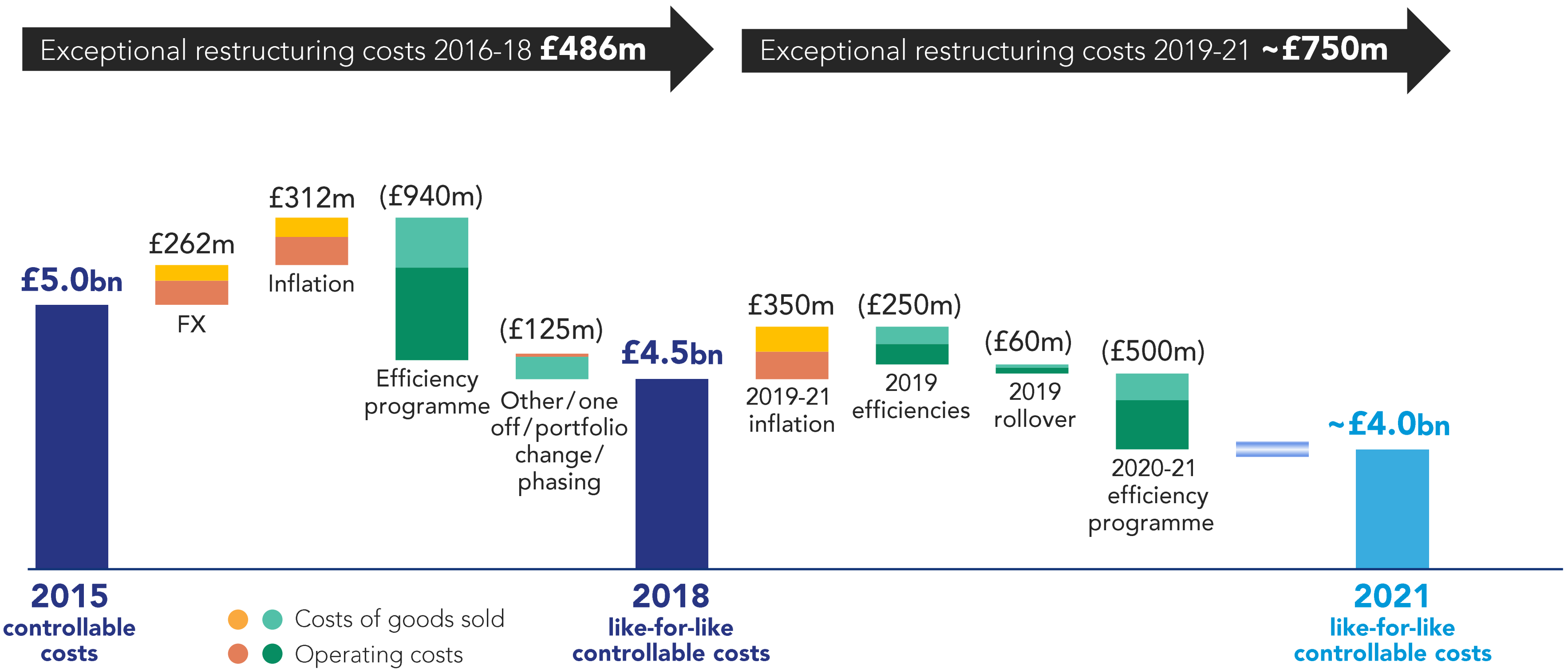
£1.75bn of cost efficiencies by 2021



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Cash flow

Year ended 31 December (£m)	2017	**2018**
EBITDA	2,137	**2,447**
Tax	(102)	**(61)**
Dividends received	58	**22**
Working capital & other	(24)	**(163)**
Adjusted operating cash flow	2,069	**2,245**
Net investment	(46)	**(968)**
Interest (including debt purchase)	(296)	**(429)**
Dividends	(463)	**(551)**
Exceptional payments	(176)	**(248)**
Pension deficit payment	(131)	**(98)**
Other[1]	(18)	**(11)**
Adjusted net cash inflow / (outflow)	939	**(60)**

A reconciliation of adjusted operating cash flow is provided in the Group Financial Review in the Preliminary Results announcement. See pages 77 to 80 in the Preliminary Results announcement for an explanation of the use of adjusted performance measures.

1. Other includes purchase of own shares and distributions to minority shareholders

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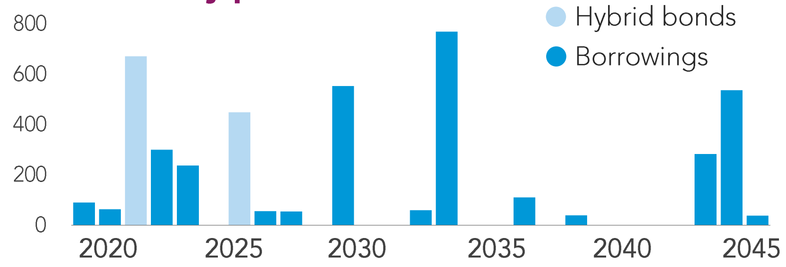
Divestments

- Nuclear divestment targeted by 2020
  - First round of sales process commenced in H2 2018
- Further £500m of non-core divestments in 2019
- Disposal of Clockwork Home Services operations in North America for £230m
  - Channel and brand rationalisation
  - Focus on efficiency, effectiveness, quality and simplification
- Disposal of further non-core assets planned during the year including possible capital recycling in DE&P and E&P

Balance sheet

- Closing 2018 net debt of £2.7bn
  - 2019 opening net debt of £3.1bn including IFRS 16 impact
- Debt repurchase programme completed
- IAS 19 net pension deficit reduced to £79m
  - Triennial review ongoing
- Continued focus on balance sheet strength

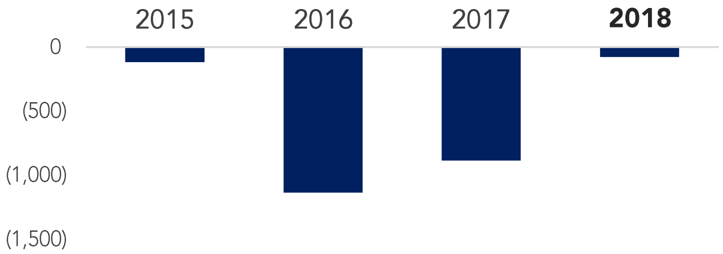
Debt maturity profile



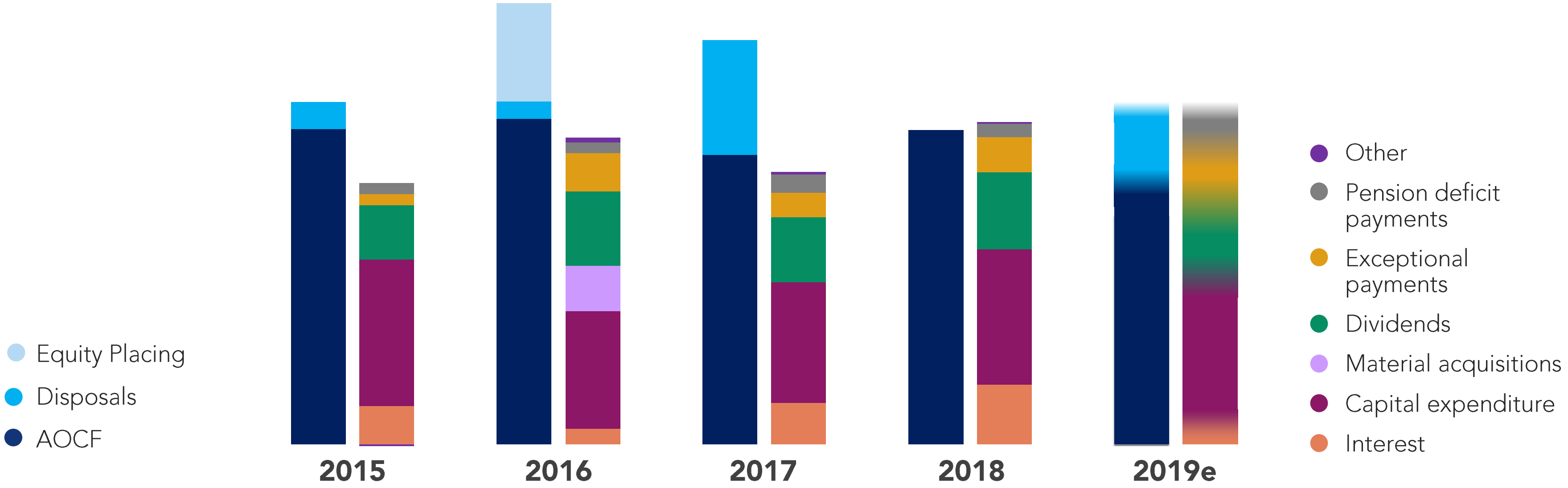
Average debt maturity - 8.9 years
Average interest rate – 4.8%

IAS 19 Pension deficit

(£m)



Sources and uses of cash



	2015	2016	2017	2018	2019e
AOCF	£2.3bn	£2.3bn[1]	£2.1bn	£2.2bn	£1.8bn-£2.0bn
Net Debt 2018 basis	£4.7bn	£3.5bn	£2.6bn	£2.7bn	£2.6bn-£3.1bn
Net Debt (IFRS 16)				£3.1bn	£3.0bn-£3.5bn

1. 2016 adjusted operating cash flow excludes £357m UK Business working capital inflow

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Group financial framework

Targets	Metric
Adjusted operating cash flow	• 3-5% underlying growth p.a. on average
Dividend	• Progressive in line with adjusted operating cash flow
Controllable costs	• Operating cost growth < inflation
Capital re-investment	• Investment <70% of adjusted operating cash flow • Limited to £1.2bn p.a. 2018-20
Credit rating	• Strong investment grade (Baa1/BBB+ or above)
ROACE	• 10-12%

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2019 Group financial targets

- Targeting AOCF in the range £1.8bn-£2.0bn, including impact of UK price cap, continuing lower Spirit Energy and nuclear volumes, higher cash taxes
- Further £250m of efficiency savings
- Headcount reduction of 1,500-2,000
- Capital reinvestment expected to be ~£1.0bn
- £0.5bn of divestments
- 2019 net debt in range £3.0bn-£3.5bn, including impact of adopting IFRS 16

Iain Conn

Group Chief Executive

Agenda

- External context – opportunity and challenge
- Indicators of stabilisation and growth potential in customer divisions
- Centrica Consumer – capability transformation, UK energy supply market, Services and Connected Home growth
- Centrica Business – capability transformation, DE&P growth, B2B propositions and scale
- E&P portfolio and performance
- Group financial targets
- Summary

External context – opportunity and challenge

- Fundamental trends in energy and services
  - Decentralisation and decarbonisation of the energy system
  - Increased choice and power shifting to the customer
  - Advancements in digitalisation and technology
- Centrica's strategy and Climate Change
- Energy demand in core markets declining
- UK regulatory intervention
  - Price caps
  - Capacity Market uncertainty
- Services propositions an important differentiator
- Brexit

Centrica and Climate Change – progress to date

- Centrica's strategy built around the customer and decarbonisation, decentralisation, digitisation of energy
- Reduced exposure to E&P and gas-fired CCGT. Development of new efficient and lower-carbon solutions
- Propositions in both Consumer and Business to help lower carbon footprint of our customers
- Development of technology and capability for energy system optimisation
- Reporting of 'Scope 3' emissions since 2007
- Reduction of own emissions by 80% over the last decade
- Retained Climate Disclosure Project (CDP) 2018 rating of A-
- Engagement with Climate Action 100+ investor initiative
- Development of new ambition, framework and goals reflecting the 2015 Paris Accord

Centrica's climate change ambition and targets

'Enabling all our customers to use energy more sustainably'

Help our customers reduce emissions in line with Paris goals	Enable a decarbonised energy system	Reduce our own emissions in line with Paris
2022 Help our customers reduce their emissions by 15%, by direct (target 2%) and in-direct action	**2022** Deliver 4GW of flexible, distributed and low-carbon technologies as well as provide system access and optimisation services	**2025** Reduce our 'internal carbon footprint' by 35% (from 2015)
2030 Help our customers reduce their emissions by 25%, by direct (target 3%) and in-direct action	**2030** Deliver 7GW of flexible, distributed and low-carbon technologies as well as provide system access and optimisation services	**2030** Demonstrate we are on track with Paris and develop a path to net zero by 2050

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

Customer divisions – focus for gross margin stabilisation and growth

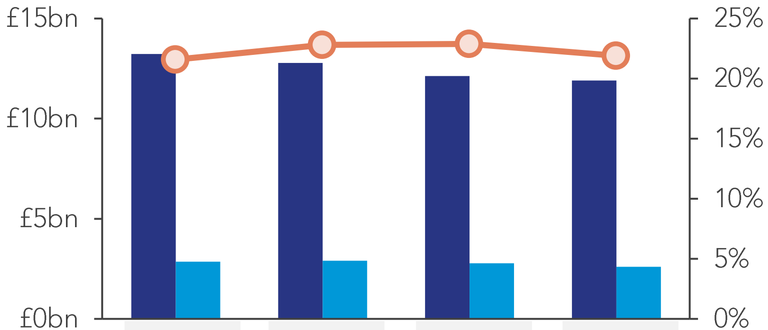
- Cross-sell/up-sell across 5 pillars in each division
- Shift to digital customer journeys, and proprietary platform development enabling digital sales
- Increasing personalisation of propositions
- Exposure to new gross margin pools through new propositions, customers, channels, and geography

Customer divisions – indicators of stabilisation and growth potential

- Consumer account reduction slowed to 249k in 2018 and to 23k in the second half
- Two years of stable UK Home services accounts and gross margin. Competitive cost focus in 2019
- Growth in protection plans and home warranties in North America Home services
- CH addition of 444k customers, expanding product ratio, and doubling of subscriptions to 194k
- Recovery and growth in UK Business with increase in SME margin. Slower than expected improvement in North America Business
- DE&P order intake up 158% and secured order book up 51%. Growth in insight, optimisation and solutions
- EM&T underlying growth excluding legacy contracts and expanding LNG portfolio

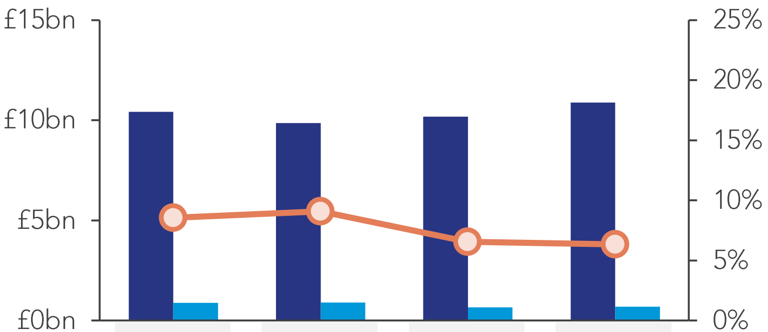
Customer-led gross margin

Consumer



	2015	2016	2017	2018
Closing accounts	27.4m	26.7m	25.3m	25.1m
Gross margin /account	£104	£109	£110	£104

Business[1]

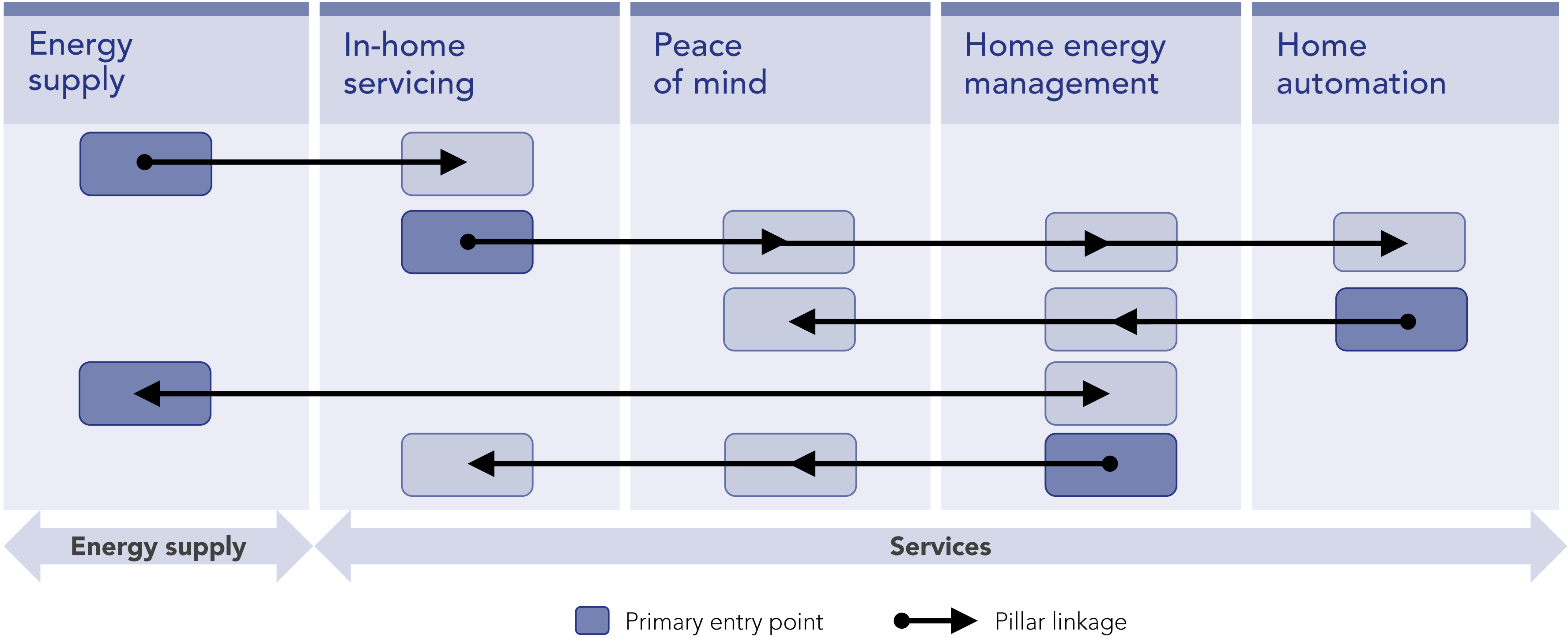


	2015	2016	2017	2018
Closing accounts	1.4m	1.4m	1.3m	1.2m
Gross margin /account	£638	£663	£523	£571

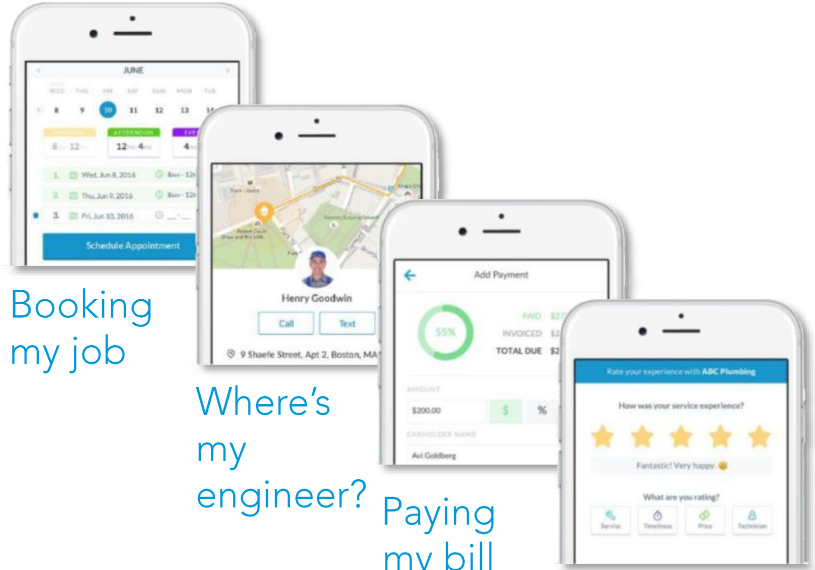
Revenue (£bn) Gross Margin (£bn)
Gross Margin (%)

1. Includes UK Business, NA Business and DE&P. EM&T and CPG excluded due to revenue and gross margin not being directly attributable to individual customer relationships.

Consumer strategic framework



Improving our customers digital experience



Booking my job

Where's my engineer?

Paying my bill

How did we do?

- 60% of customers signed up to digital channels
- 50% of UK customer transactions now online
- Continued enhancement of functionality
- Customers experience improved through digital
  - UKH NPS +5 points higher digital vs. offline
  - NAH 'one-click' renewals drove 11ppt improvement in renewal rates

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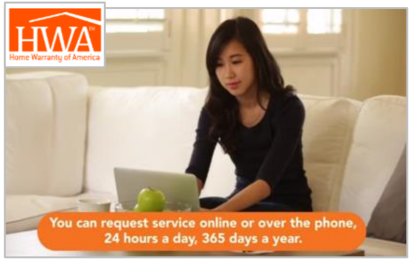
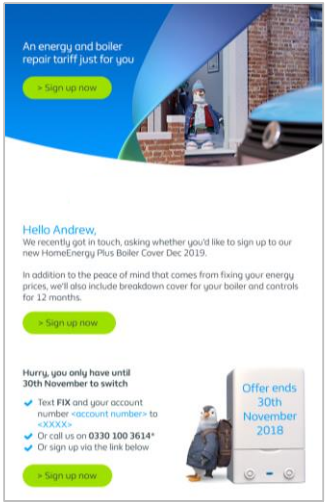
Personalisation for our customers



- Driving growth through tailored offers
- Rewards programmes launched in UK and Ireland
  - >2m Rewards members and >150 offers across UK and Ireland
  - UK churn halved for Rewards customers
- Sophisticated pricing in UK Home Services resulting in gross margin improvement
- NA Home Warranty online claims tool resulting in reduced touchpoints
  - Renewal rates up 7ppt due to improved service
- Connected Home personalisation increased multi-product proposition take-up

More choice for our customers





- Increased speed of product development and testing
- Broadened product features
- Modularising & bundling our products
- Expanding our offering to more customer segments
- More trades and markets for on-demand services

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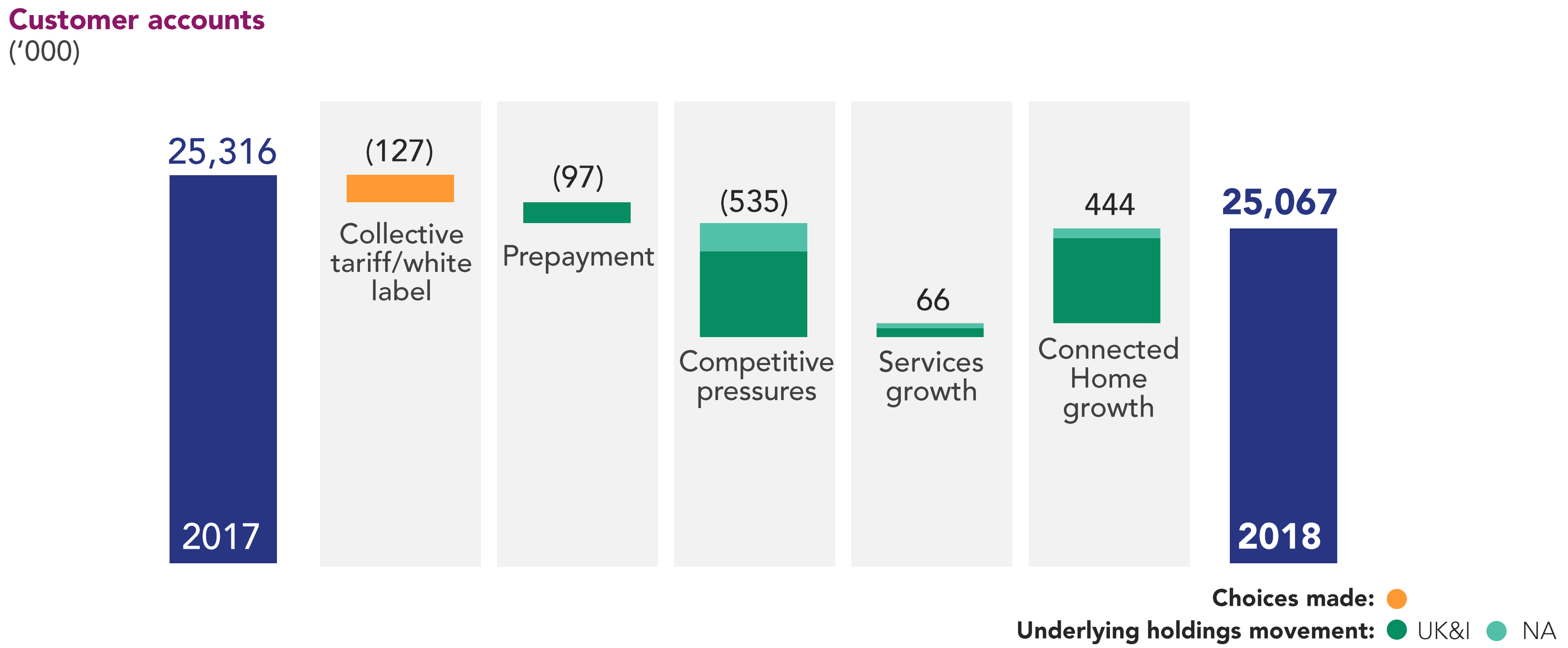
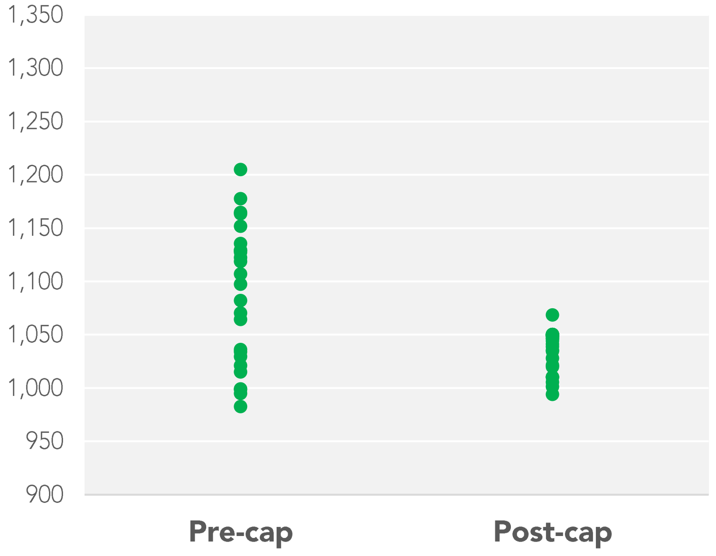
Consumer accounts



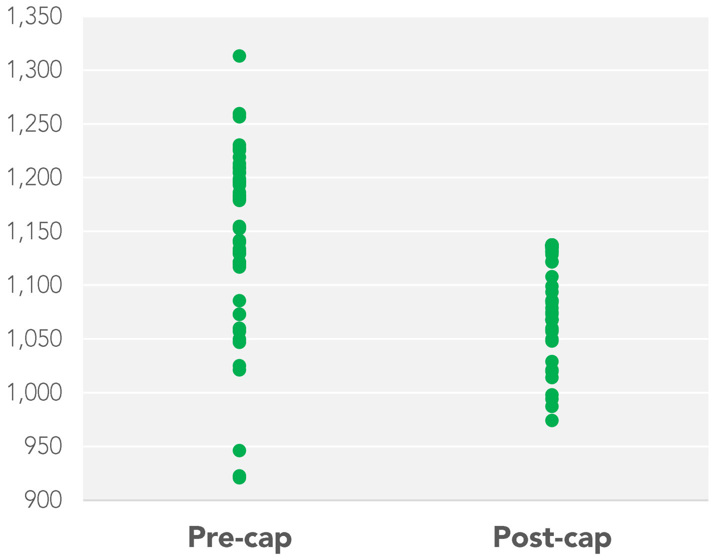
UK energy supply market price differentials

Average market dual fuel prepayment price (£)



Pre-cap date used is 1st December 2016. Post-cap date used is 15th April 2017

Average market dual fuel SVT price (£)



Pre-cap date used is 1st November 2018. Post-cap date used is 20th January 2019

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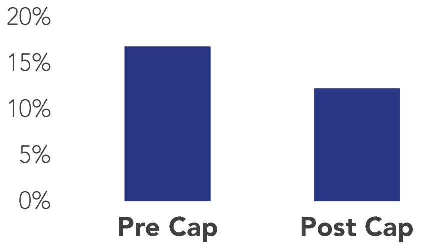
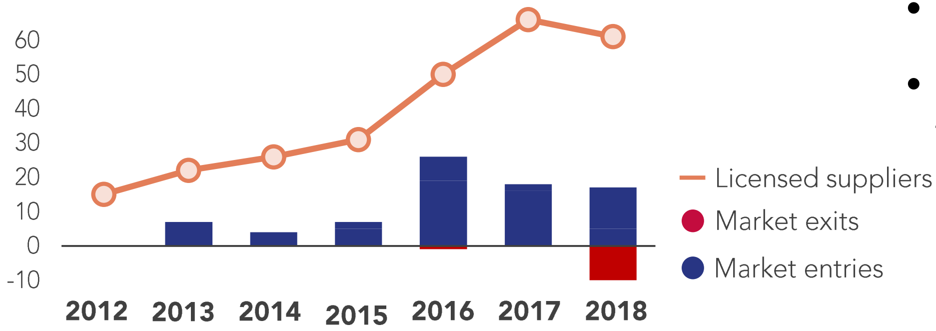
UK energy supply market dynamics

Annualised prepayment account churn



Number of domestic suppliers



- Reduced pricing differentials
- Annualised prepayment churn declined by 5ppt since price cap implementation
- Ofgem announced cap increases in April 2019
  - £117 in default tariff cap
  - £106 in prepayment cap
- Ofgem estimate customer switching will reduce
- 10 domestic suppliers exited the market in 2018, two in 2019 to date

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Driving sustainable change in the UK energy market

14 point plan to improve UK energy supply market

Centrica unilateral actions implemented	Engaging with BEIS & Ofgem on market reform
✓ Drive further improvements in customer service and our own efficiency	● Level the playing field on government environmental and social policy costs
✓ Unilaterally withdraw SVT for new customers	● Simpler customer communication
✓ Offers responding to customers changing needs	● Review prepayment cap methodology
✓ Proactively offer customers a choice of fixed price tariffs	● More consistency for vulnerable customers
✓ Introduce a new fixed-term default tariff	● Make the smart meter roll-out more efficient
✓ Engage customers on SVT and offer them better deals	✗ Phase out the SVT and prohibit evergreen tariffs
✓ Introduce simpler bills for all customers	✗ Move funding of policy costs from energy bills

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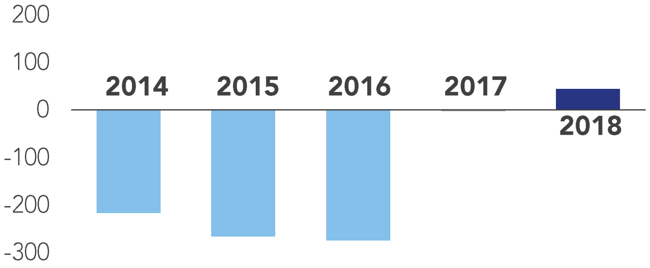
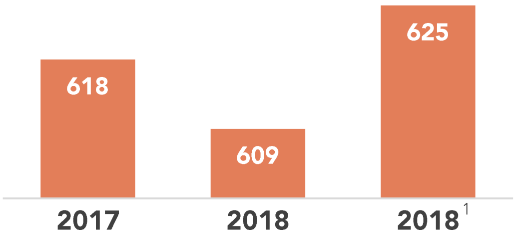
UK Home Services

UK Home services account growth
('000)



UK Home services gross margin (£m)



- 2018 performance
  - Negative impact from 'Beast from the East' of ~£20m
  - Investments delivering account growth
  - Underlying improvement in gross margin
  - 150k Connected Home products sold through field force
  - 2018 efficiencies offsetting inflation
- Significant momentum into 2019
  - Targeting further account growth
  - Enhanced pricing sophistication
  - 2019 efficiencies expected to be at least £50m after inflation

1 Adjusted for 'Beast From the East' weather impact of £16m, ~£4m impact in operating costs.

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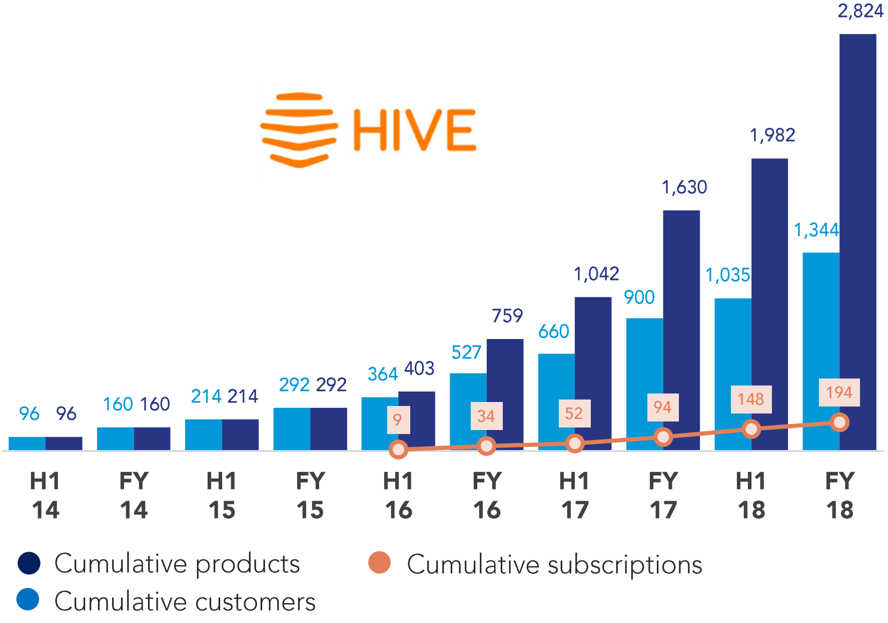
Connected Home growth

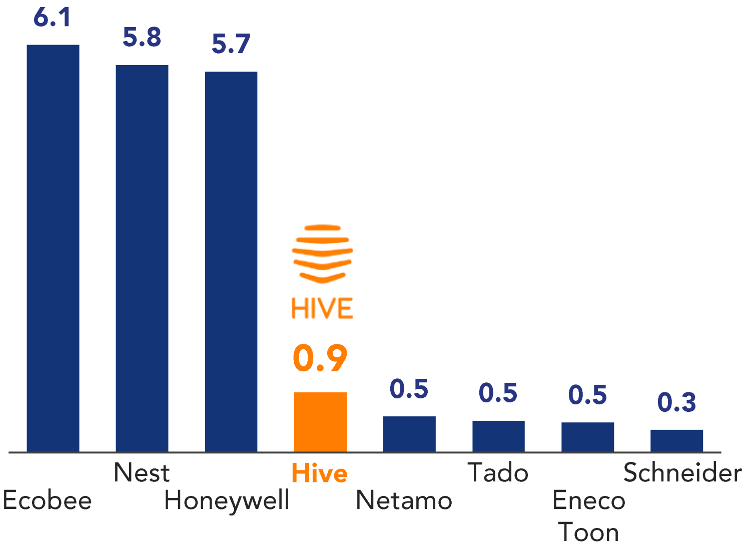
Cumulative products, customers, subscriptions
('000)



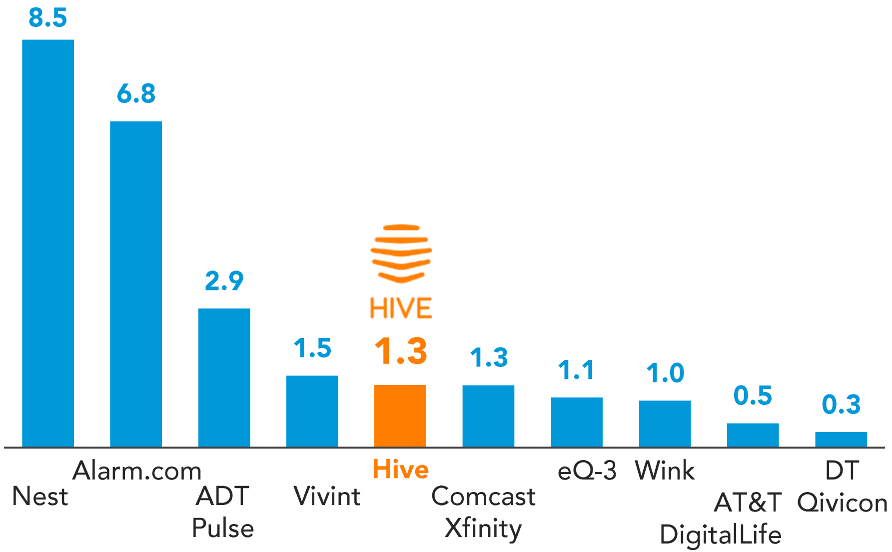
- Full year growth vs 2017
  - Product sales up 37% to 1.2m
  - Customer growth up 19% to 444k
  - Revenue growth of 60%
- Growth accelerating in H2 18 vs H2 17
  - Product growth of 43%
  - Customer growth of 30%
  - Revenue growth of 77%
- Subscriptions doubled over 2018
- Increase in products sold per new customer from 2.3 to 2.7
- Reduced operating loss and cash outflow

Connected Home competitive position

Estimated cumulative smart thermostat sales[1]
(m customers / hubs)

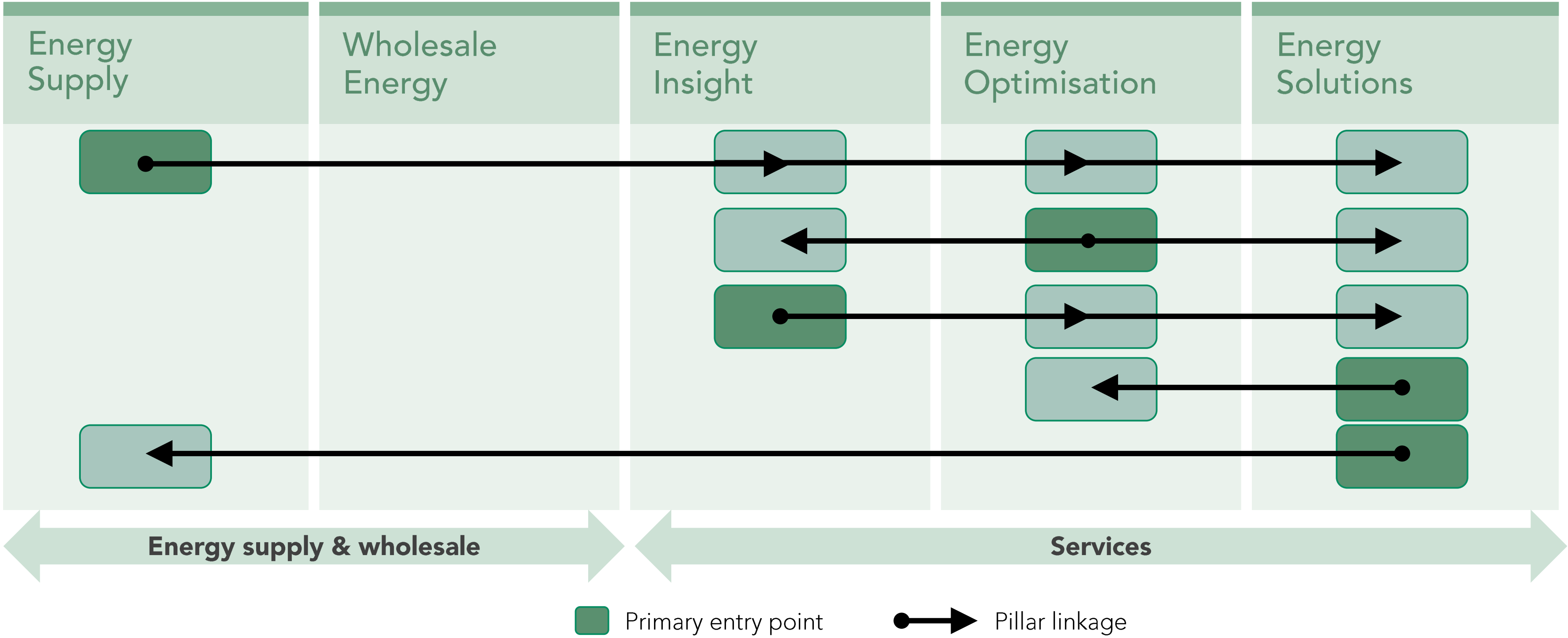


Estimated eco-system deployment [2]
(m customers / hubs)



1. Key smart thermostat providers estimated based on publicly available data (reported and press) and analyst house estimates for period ending Q3 or Q4 2018;
2. Selection of major competitors categorized by market strategy (not exhaustive) estimated based on publicly available data exists with customers = households (where necessary assumptions are made on number of devices per household)

Business strategic framework



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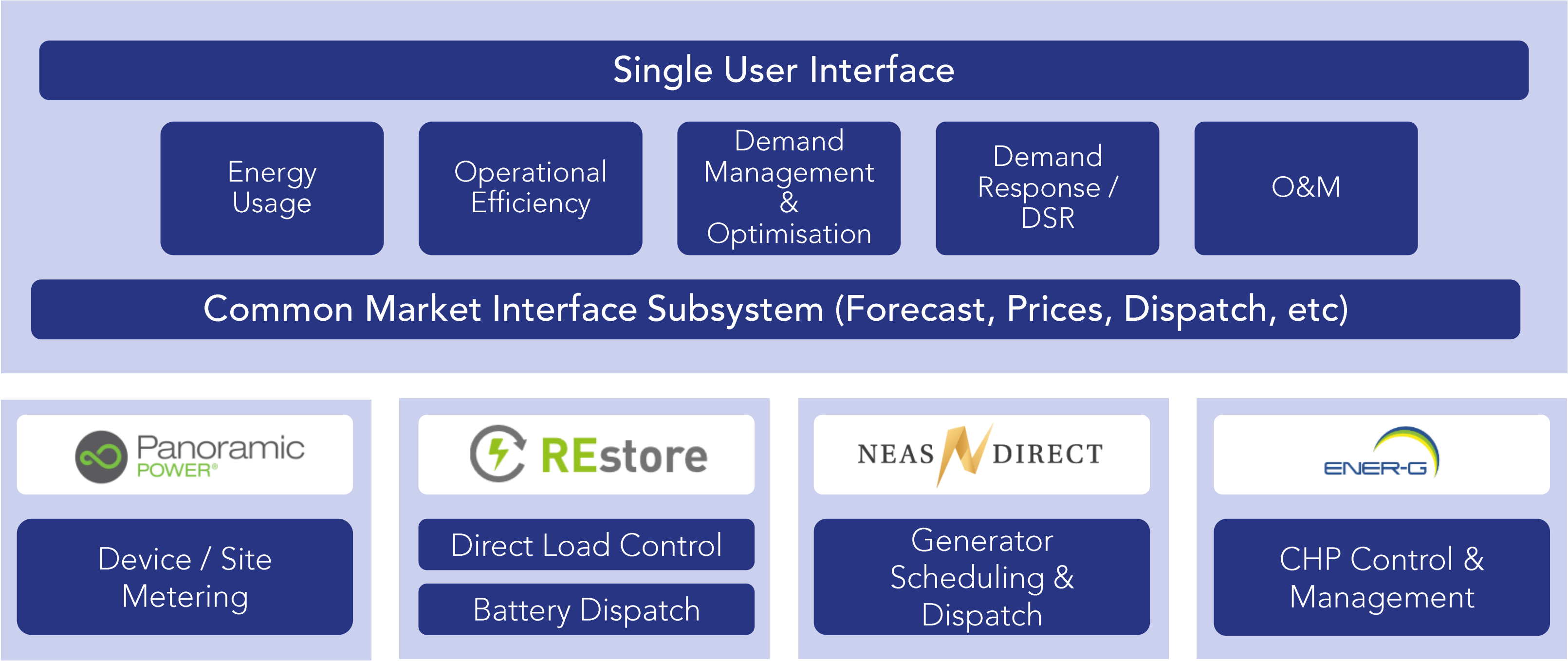
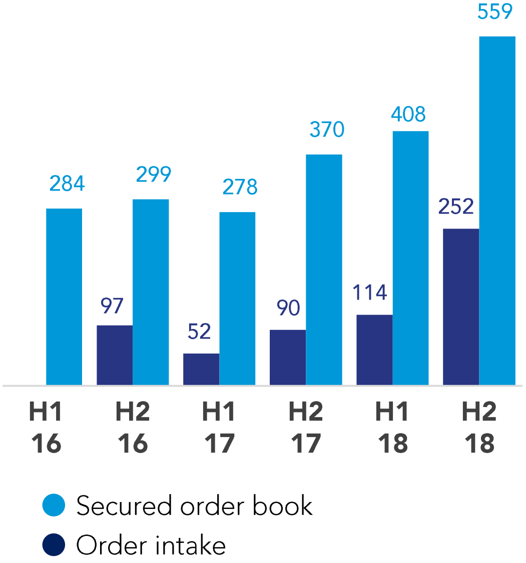
Integrated Solutions Platform

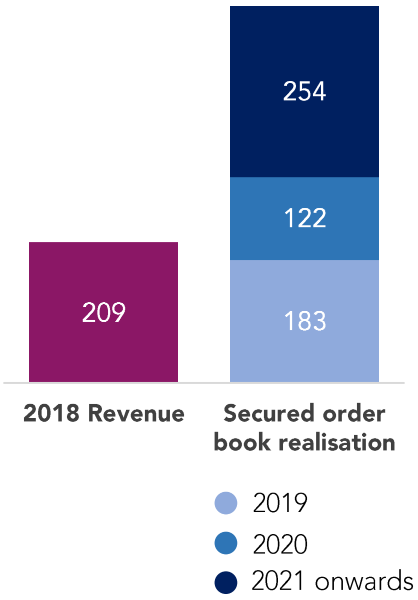


Distributed Energy & Power growth

DE&P order intake and order book
£m



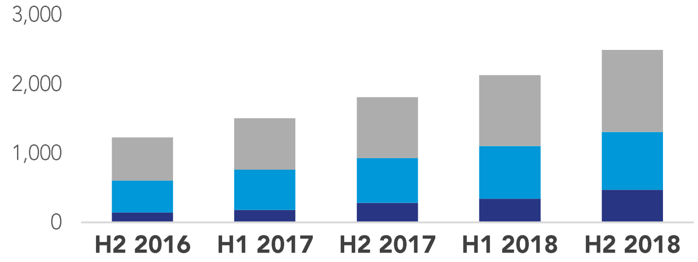
Secured order book realisation
£m



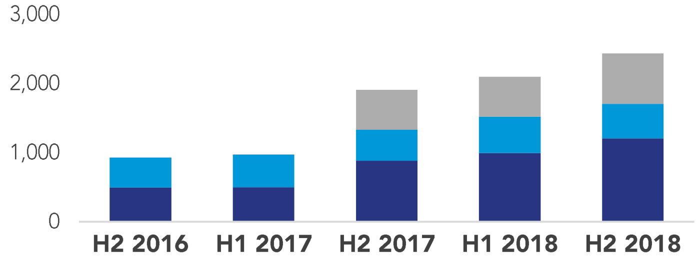
B2B propositions and scale

- Rest of world
- North America
- UK

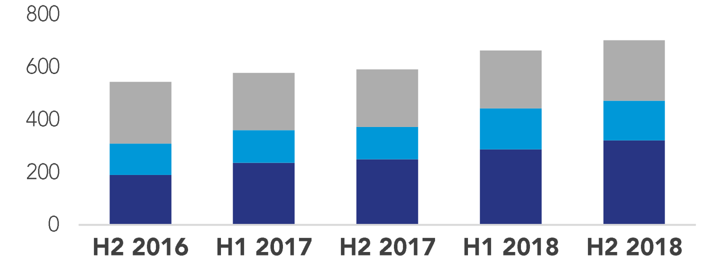
Panoramic energy insight customer sites
(number)



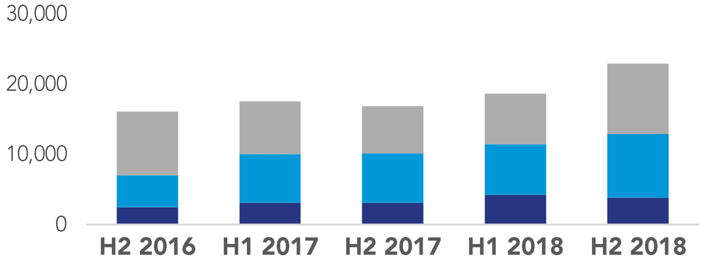
Optimisation capacity[1]
(MW)



Energy solutions capacity under management
(MW)



Route-to-market capacity under management
(MW)



1. Optimisation capacity comprises Demand Response and Centrica owned flexible plant

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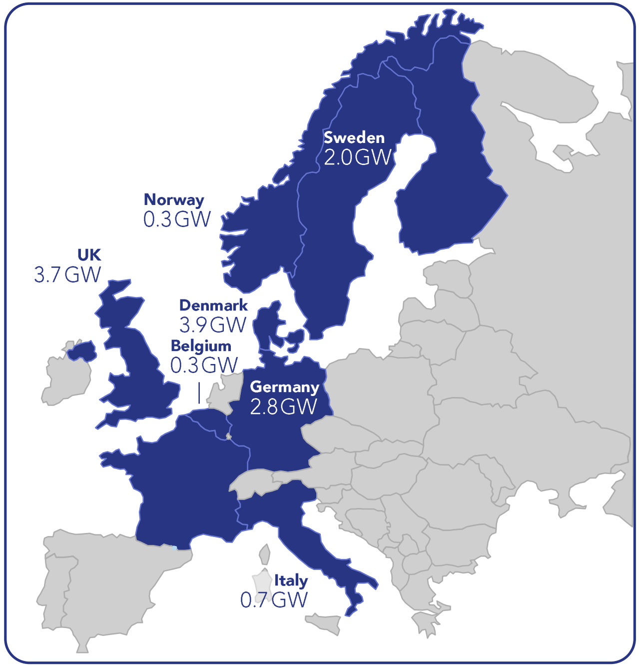
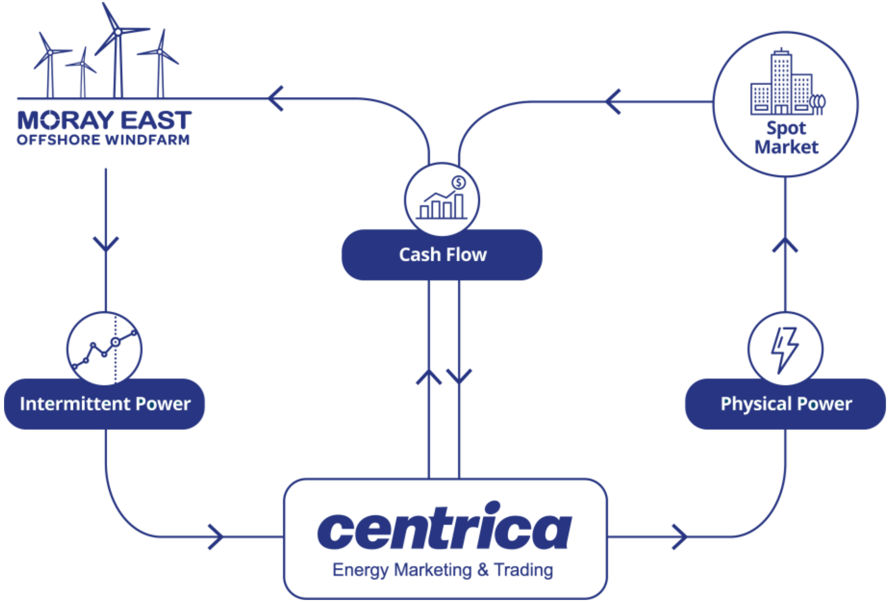
Route-to-market services in Europe

Route-to-market contracted capacity by geography

(GW)



Moray offshore windfarm trading & balancing PPA



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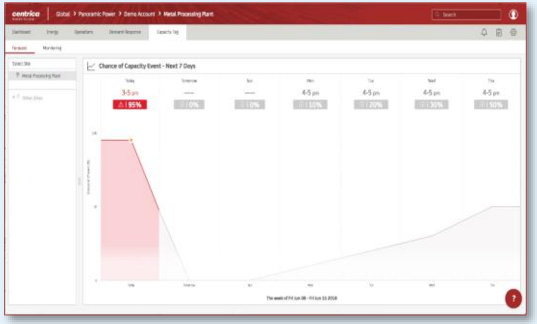
Demand response in North America

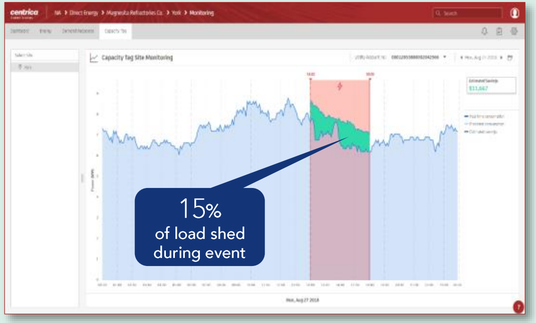
Centrica offers software, hardware and expertise in exchange for a share of customer savings

Event forecasting



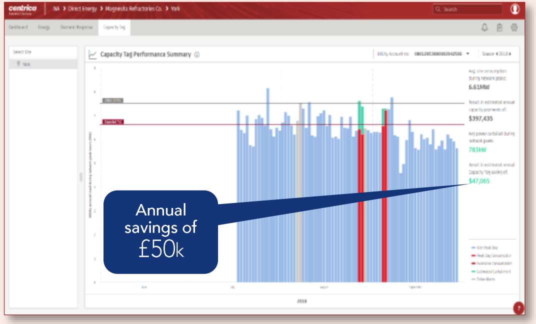
- REstore forecasting algorithm integrated in Integrated Solutions Platform
- Customer notified of anticipated network peak load

Event monitoring



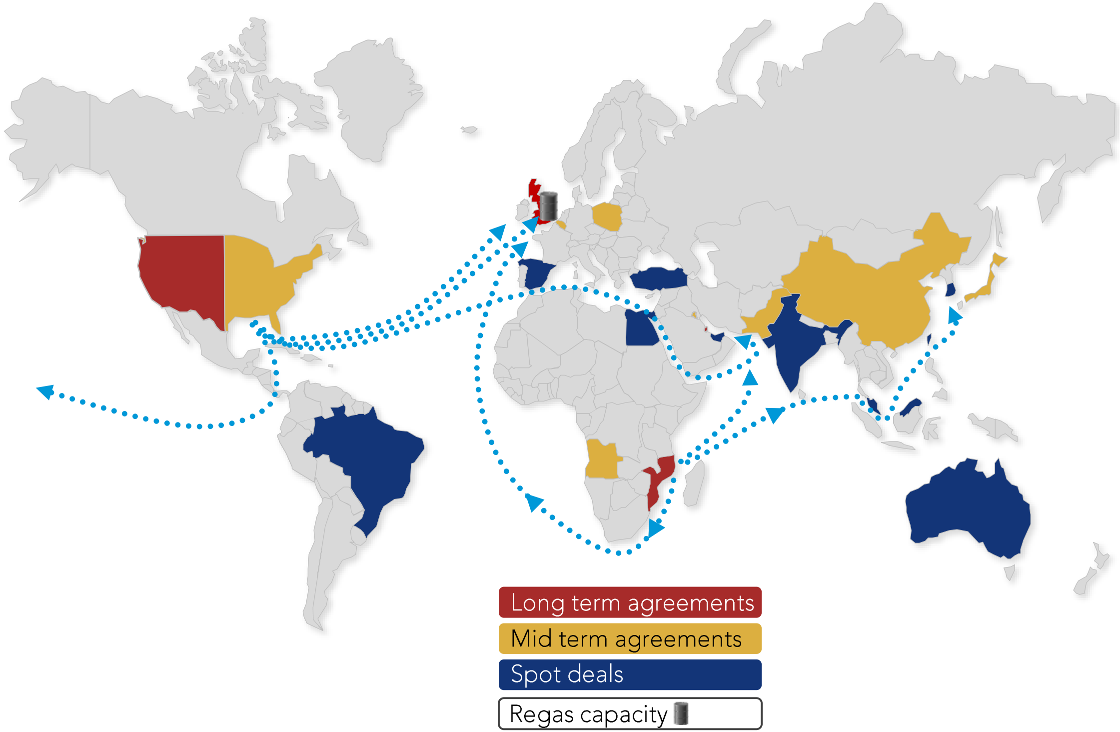
- Utilisation of Panoramic Power hardware
- Real time data feed of site demand
- Identifies savings from response actions

Value reporting



- Customer's performance scorecard
- Dynamic updates throughout the peak demand season

Building a global LNG portfolio



- Structured offtake contracts to buy LNG (Cheniere, Qatar Gas, Mozambique LNG)
- Sale of cargoes to lock value from locational gas price spreads
- Value from optionality to send divertible cargoes to other markets
- Over 200 cargoes transacted across more than 20 countries since 2014
- Infrastructure investment in shipping and regas capacity at Isle of Grain

E&P portfolio and performance

- Role - cash flow diversity and balance sheet strength
- Spirit Energy successfully established
  - Self-financing European E&P business
  - Disappointing 2018 production; focus on improving performance and strengthening
  - Progressing development projects and exploration
  - Pursuing partnership and shareholding options
- CSL now an E&P business
  - Strong production from Rough
  - Tolmount gas processing contract extends Easington terminal life

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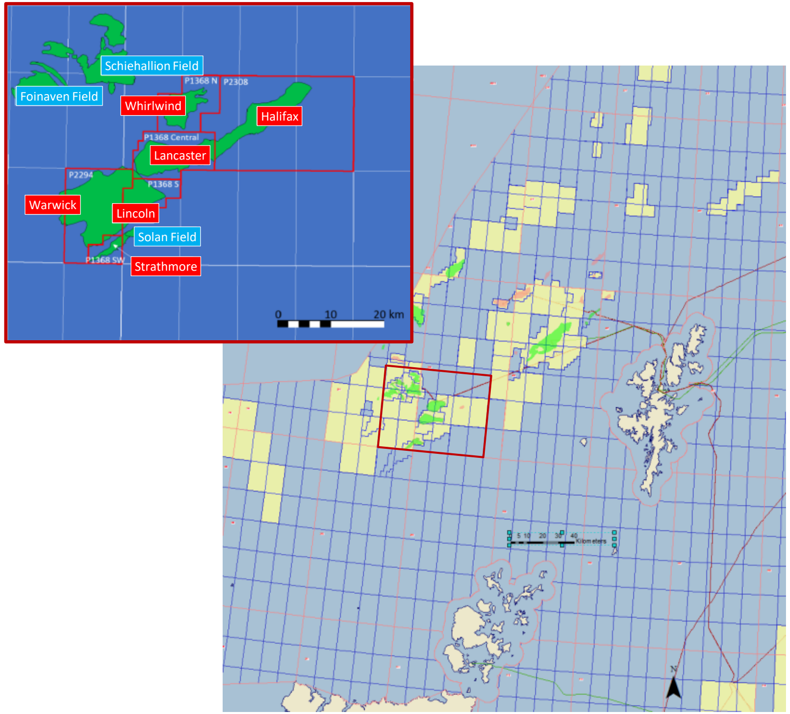
Greater Warwick Area

- Exploration and appraisal West of Shetland
- $180m campaign to drill three wells at Hurricane-operated Lincoln discovery and Warwick prospect
- Rig secured to commence drilling in Q2
- Plans to tie-in a first successful well to Hurricane Energy's Aoka Mizu FPSO at the Lancaster field
- Hurricane extended test on Lancaster field in coming months
- Potential for further appraisal wells and full field development



Current outlook and response

- Delivered group financial targets in 2018, but weak performance in E&P, Nuclear and NAB
- Facing unusual combination of factors in 2019
  - £300m operating profit impact from price cap
  - Continued lower volumes in E&P and nuclear
  - Recent commodity price correction
- 2018-20 AOCF target under some pressure
- Priorities to strengthen 2019 and 2020
  - £500m additional divestments
  - Cost efficiency acceleration
  - Additional £500m cost efficiencies
  - Tight capital reinvestment control

2019 Group financial targets

- Targeting AOCF in the range £1.8bn-£2.0bn, including impact of UK price cap, continuing lower Spirit Energy and nuclear volumes, higher cash taxes
- Further £250m of efficiency savings
- Headcount reduction of 1,500-2,000
- Capital reinvestment expected to be ~£1.0bn
- £0.5bn of divestments
- 2019 net debt in range £3.0bn-£3.5bn, including impact of adopting IFRS 16

Summary

- 2018 financial performance mixed, with adjusted operating profit up 12%, but disappointing volumes in Spirit Energy and Nuclear and slower than expected recovery in North America Business
- Targeting 2019 AOCF in the range £1.8bn-£2.0bn. £2.1bn-2.3bn average AOCF target range for 2018-20 therefore under some pressure. Net debt range underpinned
- Actions in 2019 to improve underlying performance and strengthen 2020
- Continued focus on performance delivery, cost efficiency and balance sheet strength
- Portfolio simplification continues
- E&P being strengthened, while limiting Centrica's exposure, and creating options for the future
- Strategic direction aligned to external trends, exposing Centrica to an expanding opportunity-set
- Material new capabilities in Consumer and Business with indicators of stabilisation and growth potential

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Q&A

Iain Conn
Group Chief Executive

Chris O'Shea
Group Chief Financial Officer

Mark Hodges
Chief Executive, Centrica Consumer

Richard Hookway
Chief Executive, Centrica Business

Adjusted operating profit

Year ended 31 December (£m)	2017	**2018**	Δ
UK Home	819	**668**	(18%)
Ireland	47	**44**	(6%)
North America Home	114	**123**	8%
Connected Home	(95)	**(85)**	11%
Total Centrica Consumer	885	**750**	(15%)
UK Business	4	**40**	900%
North America Business	71	**81**	14%
Distributed Energy & Power	(53)	**(81)**	(53%)
Energy Marketing & Trading	104	**54**	(48%)
Central Power Generation	35	**27**	(23%)
Total Centrica Business	161	**121**	(25%)
Exploration & Production[1]	201	**521**	159%
Total Centrica	1,247	**1,392**	12%

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

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. A reconciliation of adjusted operating profit is provided in the Group Financial Review. 2017 comparators have been restated on transition to IFRS 15. See note 1 of the Preliminary Results announcement for further details.

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Adjusted operating cash flow

Year ended 31 December (£m)	2017	2018	Δ
UK Home	928	**805**	(13%)
Ireland	62	**74**	19%
North America Home	154	**187**	21%
Connected Home	(121)	**(47)**	61%
Total Centrica Consumer	1,023	**1,019**	(0%)
UK Business	131	**62**	(53%)
North America Business	87	**278**	220%
Distributed Energy & Power	(30)	**(61)**	(103%)
Energy Marketing & Trading	262	**(66)**	nm
Central Power Generation	58	**50**	(14%)
Total Centrica Business	508	**263**	(52%)
Exploration & Production[1]	509	**963**	89%
Other	29	**-**	nm
Total Centrica	2,069	**2,245**	9%

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 Preliminary Results announcement.

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Net investment

Year ended 31 December (£m)	2017	**2018**
Centrica Consumer	166	**223**
Centrica Business [1]	239	**243**
Exploration & Production	480	**499**
Other [2]	64	**49**
Capital expenditure (including small acquisitions)	949	**1,014**
Cash acquired through Spirit Energy transaction	(78)	**-**
Net disposals [3]	(825)	**(46)**
Group net investment	46	**968**

1. 2017 includes acquisition of Restore for £59m. 2018 includes North America Business bolt-on acquisitions.
2. Other includes Corporate Functions.
3. Net disposals in 2017 include the 50% interest in the Lincs windfarm, the Langage and Humber CCGTs and the Canada and Trinidad and Tobago E&P assets .

See pages 77 to 80 in the Preliminary Results announcement for an explanation of the use of adjusted performance measures.

Net debt

Year ended 31 December (£m)	2017	**2018**
Opening net debt	(3,473)	**(2,596)**
Adjusted net cash inflow / (outflow)	(939)	**(60)**
Other movements in net debt	(62)	**0**
Closing net debt	(2,596)	**(2,656)**
Cash posted as collateral	(336)	**(290)**
Closing net debt excluding cash posted as collateral	(2,932)	**(2,946)**

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 of the Preliminary Results announcement.

IFRS 16 impact

	Pre-IFRS 16	Post-IFRS 16	Variance
Year ended 31 December (£m)	2019	**2019**	
Operating lease payments	86	**-**	**-86**
DD&A	-	**88**	**+88**
Operating cost	86	**88**	**+2**
Operating profit			***-2***
EBITDA	86	**-**	**+86**
Interest expense	-	**7**	**+7**
Pre-tax profit / (loss)	(86)	**(95)**	**-9**
Adjusted operating cash flow *	(99)	**-**	**+99**
Financing cash flow	-	**(99)**	**-99**
Net cash flow	(99)	**(99)**	**-**
Net Debt	-	**+420**	**+420**

*Includes £13 million of payments related to capital leases

Illustrative guidance for the 2019 impact of IFRS 16 on key financial metrics. Excludes the impact of the Spalding contract. We estimate that the impact would have been similar in 2018.

Disclaimer: Rules of thumb

The rules of thumb were provided in February 2019 based on the then current prevailing range of oil, gas and power prices. They are illustrative and are intended as directional only and exclude any potential impairment or impairment write-back. The actual impact of price changes in the exploration and production and power environments on Centrica's profit after tax will likely differ from the indicators and do not represent any forecast, target or expectation as to future results or performance.

These rules of thumb are directionally approximate and based upon Centrica's current portfolio. Please note that the relationship between oil, gas and power prices and results is not necessarily linear across a wide range of oil and gas prices. Changes in margins, differentials, seasonal demand patterns, operational issues, tax rates and other factors including timing of acquisition and divestment activity indicated, also materially impact the profit after tax impact of a change in underlying commodity prices. In addition, profit after tax and cash flow impact may differ due the timing of tax payments. Furthermore, there are a number of other factors that could cause actual results or developments to differ materially from those implied by the application of these rules of thumb.

Rules of thumb: E&P and Nuclear

Please refer to disclaimer on slide 69 of this presentation before using this information.
The table shows Centrica's profit after tax (PAT) and adjusted operating cash flow (AOCF) sensitivity to changes in commodity prices on a hedged basis for 2019 as at 31 January 2019

	Movement	2019 Earnings impact	2019 AOCF impact
Spirit Gas	5p/therm	~£11m	~£30m
Spirit Liquids	$10/boe	~£11m	~£45m
CSL Gas	5p/therm	~£8m	~£11m
Baseload power	£5/MWh	~£6m	~£7m

Assumes all European gas is sold in the UK.
Sensitivities are based on 2018 Spirit production volumes of 1.9 billion therms and 16 mmboe, the midpoint of 2019 guidance of 6-8mmboe for CSL and 2018 Nuclear production of 11.8 TWh
Earnings impact assumes blended tax rates of Spirit Energy 60%, CSL 40% and UK nuclear 19%.