

## **AGM Presentation**

**12 May 2014**

### **Presentation transcript**

#### **Rick Haythornthwaite, Chairman**

Good afternoon Ladies and Gentlemen.

It is now 2.05 and it gives me great pleasure to welcome you to the Annual General Meeting of Centrica plc. My name is Rick Haythornthwaite. This is the eighteenth AGM in the company's history but my very first as Chairman. I'm delighted to see so many of you here – our shareholders. I know that I speak for all my colleagues on your Board when I say that we appreciate your interest in the Company and the support that you continue to give us.

I feel privileged to be here. Since I took on my new role at the beginning of the year, I have had a very clear aim. I have been using my time to listen to our customers, and many other people, to research and understand the real facts about our business. I'll be sharing my early findings with you in a couple of minutes and I'll be interested in your feedback. But first, I wanted to give you a couple of brief updates, starting with Board changes.

Mike Linn and I joined the Board during the year. However, both Mary Francis and Paul Rayner have now completed their nine-year term of office and will leave at the end of this year. So, we will be looking to recruit at least two new Non-Executive Directors this year and to replace Mary as our Senior Independent Director. Our Finance Director Nick Luff, will be leaving Centrica, after seven very successful years, to take up a role at Reed Elsevier. You will of course be asked to vote later on their reappointments to the Board for the remainder of their tenure but, as this is their last AGM, I am sure you would like to join me in thanking all three of them for their outstanding contributions during their time with Centrica and wishing them every success in their future.

I should add at this juncture, since it is often a topic of public speculation, that your Board is paying due attention to succession planning with searches to replace Nick Luff as Finance Director at or before the end of the year; and to understand better the options for replacement of Sam Laidlaw as Chief Executive when he and the Board mutually decide it would be timely for him to retire from a role that he has been performing with great distinction for 8 years thus far. I am sure I do not need to add that both executives remain fully committed to delivery of our declared strategy and managing the business.

I would also like to pay tribute to my predecessor, Sir Roger Carr, who stepped down at the end of last year and contributed so much to the business during more than a decade on the Board.

Next, a word or two on procedure. After I have finished my opening remarks, Sam Laidlaw will talk about our strategic priorities and how we are shaping the business for the future. We will then move to the formal business and I will invite you to put forward any questions that you may have.

This will be followed by your vote on the resolutions and, as in the past, I will call a poll on all resolutions. As last year, we will be using paper voting cards. These will have been handed to you when you registered earlier. So, your votes will be added to the votes already submitted by those shareholders who were unable to attend this meeting and that will give us a total voting result.

The results of the vote will be announced to the London Stock Exchange once they have been counted. They will also be available on our website. If this is after 4.30 today when the markets close, we will make sure this is available very first thing tomorrow morning.

I will explain the process of voting in more detail before we consider the resolutions. If you do not have your voting card don't worry, we'll make sure we hand out more voting cards before we get to the resolutions.

The members of the Board will be joining you for tea and coffee for one hour after the meeting and we look forward to talking to you on a more informal basis at that time.

So I'd now like to turn to Centrica, and, start to address some of the things on my mind. I look forward to the question and answer session later so I can hear what is on your minds and take the discussion further.

I have arrived as Centrica's Chairman at a turbulent time. But I want you to know that I am proud to take up his post, as I truly believe that this is a great company, capable of providing vital services for our customers who sit firmly at the core of Centrica's universe, while securing their energy needs for tomorrow and strengthening shareholder value to invest in these priorities for the long term.

As I mentioned, I have made it my priority as Chairman of Centrica to learn about our business, both in Europe and in North America, by listening to our people and by listening to our customers, particularly those here in Britain whose faith and trust in us is sometimes tested.

These voices were consistent in their message - the empty nesters in Edinburgh, the single mums trying to keep their kids warm and fed in Cardiff, the young struggling professionals in exorbitant London, the retired affluent baby boomers in Leicester and the dignified, battling elderly everywhere - all saying the same thing.

They all want to feel more in control of their energy use; they all want information that's straightforward and easy to understand; and they all want quick and efficient service on their terms. In a nutshell, our customers want to feel that we are trying to make their lives easier, not more difficult. And they want to feel that we care about them as people.

We haven't always managed to do that. Our complaints level in final quarter of last year was too high and our call handling times were too long. We know that our customers won't and shouldn't accept this level of service. We get it and we are fixing it.

This is the number one task now being undertaken by Chris Weston, who was appointed last summer as Managing Director of our international business downstream, and his leadership team. It requires real changes to the fabric of our business and how we connect with our customers.

Chris and his team are targeting a big improvement in the quality, consistency and relevance of our service, with an eye to a dramatic reduction in the number of complaints and a significant improvement in customer approval ratings. This is a complex business but we need to make it easier for customers. Although it will be a hard road, it is symbolic of our priorities. It is only by bridging the gap between customer expectation and delivery that we will begin to regain their trust.

I know that Chris and his team are dedicated to achieving this goal, because it has become plainly evident to me during my first months, that this is a good company, with good and dedicated people working for it, all of whom want to do the right thing and are making progress in delivering for our customers. This is just one of the many areas where I have found popular perception and the internal reality to be disconcertingly distant cousins. I will be happy to explore others of these areas later if you would find it helpful. Because it is time to dispel the myths surrounding our business and refocus attention on the real issues at large and to listen to all voices.

And with this in mind let me show you a short video, which serves to remind us that Centrica - across the range of its activities - makes a big contribution to its customers, its shareholders and to Britain as a whole.

Ladies and gentlemen as I said, Centrica - across the range of its activities - makes a big contribution to its customers, its shareholders and to Britain as a whole. We need to restore our place at the table of objective, calm, collaborative debate about Britain's energy future, keeping our attention firmly centred on restoring trust in the energy sector, rather than reacting to the gusty political winds that are going to blow between now and the May 2015 election.

And to this end, we welcome the expected investigation by the Competition and Markets Authority. We need a clean bill of health and a definitive, objective assessment of the competitive dynamics of the sector.

But the investigation should, in our view, have the widest possible scope. Regaining trust will not simply depend on excellent service. Our customers, understandably, want sustainably affordable bills as well.

So let's start by looking at every aspect of that bill.

85% of the costs - such as wholesale energy prices, environmental and social levies, and transportation charges - are external to our business. Yet it is these

costs which have largely driven the rise in household energy bills over the past few years.

Then we need radical transparency – from all stakeholders, including the Government - in the way that we communicate about energy and its costs and its use in the home.

And finally, we need to give customers greater control of their energy use by helping them to embrace new, smart technology and achieve a robust, wider recognition of the importance that such innovation will play both in intensifying the competitive market place to the benefit of the consumer and in bringing down consumption and, therefore, costs.

I was delighted to find, on my arrival, that Centrica is a passionate champion of smart meters and we will soon have provided these to one million residential customers. Smart meters are a game changer. They guarantee accurate billing; they enable our customers to see exactly how much energy they are using; they reduce switching times; and they enable ground-breaking new offerings, such as free power on Saturdays, which we already provide to our customers in the United States and are trialling in Britain.

So, service and affordability are key to rebuilding trust. They are essential but insufficient on their own. We also have a duty to ensure security of supply for our customers and to play our part in doing so for Britain as a whole.

In future, our capital spending will focus on areas where we can make the biggest difference; through our North Sea investments and shale gas options; and by securing long term gas supply contracts to shield customers from price volatility in an increasingly uncertain world, as the situation in Ukraine reminds us every day.

We are particularly concerned about getting energy policy right in Britain, not only because the country faces significant energy challenges but because, let us remember, Centrica is a British company. Yes, we do have a growing and successful business in North America. But that doesn't detract from being British; quite the opposite. We are stronger for our shareholders, and for Britain as a whole, if we look to identify overseas opportunities where our expertise enables us to create value.

I am deeply conscious of Centrica's heritage of providing gas in this country, which can be traced back more than 200 years, and of our continuing importance to Britain's wider economy and wellbeing. It is something we ignore at our peril.

We are one of Britain's biggest employers and taxpayers, with over 30,000 direct employees, and a total tax bill of around £1 billion a year. We have one of the most extensive supply chains, procuring more than £9 billion worth of goods and services annually from 6,000 British companies and supporting 174,000 jobs more broadly throughout the economy.

We currently have 1,200 apprentices in training across the Group, gaining the vital technical skills which Britain needs as it strives to rebalance the economy. We provide energy and services to more than half of Britain's homes, not to mention thousands of businesses, schools and hospitals.

We also contribute to the retirement savings of millions of people in Britain through the pension funds who invest in us. And you, gathered here today, are part of an army of 700,000 individual shareholders who rely on Centrica as an important source of income and savings. I know that you have had some anxious moments over the past few months as our share price has been buffeted by, in particular, the political storm. I want to assure you that increasing the returns that we make to you remains a core strategic priority; and that we are still committed, through the disciplined way in which we run our business, to deliver real dividend growth.

I agreed to take on the chairmanship of this great British company because I believed that - by being anchored in customer service and using the global influence that scale and stature brings - Centrica was in an excellent position to serve our customers, shareholders and the nation, helping to deliver affordable energy and steer us towards a low carbon future. Standing here today, I still believe that to hold true. But we must help to restore objectivity, calmness and collaboration to a national energy debate which is so important to our collective and successful future.

I will now hand over to Sam, who will update you on our strategy and the outlook for the business.

### **Sam Laidlaw, Chief Executive**

Thank you Rick. Good afternoon ladies and gentlemen. Thank you for joining us at this year's Annual General Meeting.

2013 was an unprecedented year for the UK energy industry. As I indicated several years ago, the industry is going through a period of dramatic and fundamental change. Our dependence on imported gas is increasing, the UK's power generation fleet needs replacing and customers' homes need insulating.

All of this comes at a cost, at a time when household budgets remain under pressure in the aftermath of the greatest recession since the Second World War. With a forthcoming general election and an increasing awareness of the implications of these costs, political parties are offering different policies which aim to address the problem. Political consensus has now broken down and the energy industry, which is essential to the solution, has been portrayed as being part of the problem.

This has damaged both public trust and much needed investment in our country's long-term energy security.

So, it has been a challenging environment. But at Centrica there has been progress too. We have simplified our energy offer and we have lead the industry in smart

meter technology and the transparency of our reporting. There have been changes to the Government's ECO energy efficiency programme, which have allowed us to be the first to reduce bills and will help more people to cut their carbon emissions at lower cost. And we have delivered solid earnings in difficult market conditions.

As we said last week in our Interim Management Statement, earnings are forecast to be lower in 2014, not least because of the milder than normal weather that we have just experienced here in Britain. But we do expect a return to normal growth next year, based on the solid foundations we have laid for the business.

To remind you, last year I set out our new strategic priorities, in response to the evolving energy market.

Downstream, to innovate to drive growth and service excellence.

Upstream, to integrate our natural gas business, linked to our core markets with the focus on the Atlantic Basin.

And across the Group, to increase our returns through efficiency and continued capital discipline.

Our overall objective remains the same; to be the leading integrated energy company with customers at our core.

Developments over the last year have reaffirmed these priorities and validated our strategic direction -

- with the emphasis on securing supplies of gas for our customers and positioning the business for the longer term.

In British Gas, we simplified our UK residential product range to four tariffs and led the way with our unique "Tariff Check", which helps customers to make sure they are on the best British Gas deal for them. We have installed 1.3 million smart meters in both homes and businesses. And we launched our Hive remote heating product which enables customers to control their energy bills by using their smart phones.

In North America, we transformed our capabilities with the acquisition of the Hess Energy Marketing business, which makes us the largest competitive provider of energy in the US North East.

We have also made good progress in integrating our natural gas business.

We brought on stream three new fields in the North Sea and invested £1.5 billion in new sources of gas and power for our customers.

We agreed contracts worth £14 billion for gas exports from Qatar and the United States. With our Qatari partners, we also completed the purchase of \$1 billion worth of Canadian gas production assets from Suncor, significantly increasing our North American gas production and reserve base. And last week we announced a

further deepening of our relationship with Qatar Petroleum International by placing the rest of our Canadian gas assets into our operated joint venture.

Here in the UK we acquired a 25% stake in the Bowland shale exploration licence in Lancashire, bringing our expertise and resources to bear on a potentially important long term source of gas for UK customers. We and our partners will work closely with local communities to share the benefits of shale development and particularly to safeguard the environment.

We continue to upgrade our upstream portfolio and we announced a range of divestments - including selected North Sea assets, our Texas gas-fired power stations and non-core UK wind assets – underlining our commitment to both capital discipline and value.

All this has been achieved against a background of growing instability in the UK energy market. Respected industry participants and commentators, including the Government, Ofgem and National Grid, all agree that reserve margins in power generation are at historic lows and that investment in new supplies of energy is urgently required, not only in power but also in gas. Meeting this investment challenge requires not only regulatory certainty - founded upon a clear consensus about the future shape of energy markets – but also strongly capitalised, financially sound companies with a low cost of capital.

As we make the transition to importing gas and building new, low carbon generation, it is worth remembering - amid all the negative commentary – that the UK energy market remains one of the most competitive in the world, with prices well below the European average and household consumption declining due to improvements in energy efficiency.

The regulator, Ofgem, is still consulting on whether to refer the energy supply industry to the Competition and Markets Authority for a market investigation.

We have participated fully in this process and welcome any move by an independent and respected body to ensure that the market works in the best interests of consumers.

In our view, competitive pressure in the retail market has never been stronger. The number of suppliers -19 - in the domestic market is at an all-time high and switching rates have been at some of the highest levels seen since the early days of market liberalisation. In the wholesale energy market, competition is similarly strong.

As we have said, although we welcome the opportunity to clear the air, we do have real concerns that the additional uncertainty caused by a two year CMA market investigation may deter much needed investment in the energy sector in Britain.

But, if this investigation is to proceed and restore public trust, it's vital that it should have as wide a remit as possible. Since escalating energy costs are the primary cause of customer dissatisfaction, the scope of the investigation needs to



encompass all the drivers of increasing energy prices. This includes the operation of the generation sector, the impact of low carbon subsidies and also the cost of transportation and distribution, given that network charges represent such a large proportion of the bill.

Customers are at the core of Centrica's business and the key to rebuilding trust.

We must do more to engage directly with our customers to help them understand the costs and components of the energy bill. You will have found one of our famous "light bulb" charts on your seat today. I hope you will find it informative and ask us any questions you have about it. We believe that transparency is the key to rebuilding trust in the industry. That is why we have also engaged in discussions with all our stakeholders about how we can achieve the UK's climate change targets in a more affordable way.

We were the first major energy supplier to announce a reduction in bills following the Government's changes to the ECO energy efficiency programme. And we were the first to implement that price cut, worth an average of £53 in total this year, for all our customers. No further change is expected in British Gas residential energy prices this year, reflecting the competitive market and the trend in wholesale prices.

Over the longer term, we will continue striving to deliver industry leading quality of service and price competitiveness for our customers to sustain the supply margins which are appropriate for the level of risk we carry.

In this challenging external environment, we are positioning the Group for the future by maintaining our focus on operational and capital efficiency.

In 2013 we completed our £500 million cost reduction programme and we have now set specific new efficiency targets for each area of the business, including cost saving programmes in British Gas Business and in North America.

Downstream, the focus is on improving core operations, and new targets to deliver better customer service and lower costs. Our customer service in both our services and energy businesses is improving and our net promoter scores are increasing.

In Upstream gas, the emphasis is on cost control and selective capital investment. We are targeting flat production costs over the next three years, together with a smaller refocused capital expenditure programme with a higher percentage invested in North America.

In power, as we set out in our Interim Management Statement, we have undertaken a strategic review of our loss making gas-fired generation assets. This will free up capital to invest in upgrading our older power stations through the Government's new capacity market mechanism.

As well as maintaining our focus on efficiency, we are also identifying and developing the drivers of growth.



In British Gas, we are targeting growth through innovative product offerings. We see the smart connected home as a core focus area, transforming the customer experience and enabling the development of attractive, proprietary products, such as the Hive remote heating control which we are now selling to some 2,000 customers a week.

We have also scored an industry first in offering Hive to our customers as part of a bundled energy supply deal. We have one of the most competitive fixed price tariffs in the market, which has seen us win customers from other energy suppliers. As a result, overall residential customer account numbers have stabilised in recent weeks.

In North America too, we are building a range of innovative product offerings – such as “Free Power Saturdays”. We also see significant potential in supplying both energy and services to our customers as a joint proposition, together with protection plans - offering heating and air-conditioning breakdown cover – along the lines pioneered by British Gas in the UK. Our acquisition of Hess, as I mentioned, now makes us the largest retailer of gas in the North East US, and gives us a great platform for further expansion, aggregating low cost shale gas to supply industrial and commercial customers.

Upstream, in our gas production business, we are successfully delivering value through reserve additions, particularly in Norway – underlining the quality of our previous acquisitions. We will be refocusing our investment spend on lower cost opportunities and we are accelerating our drilling programme in Canada, where we are well placed to benefit from any upside in North American gas prices.

In addition to the £10 billion contract that we signed to export gas from the US beginning in 2018, we are beginning to build an increasingly important LNG business along the gas value chain.

So overall, we are positioned for growth, and we anticipate that this will start to come through in 2015, particularly in North America with the benefit of the Hess acquisition, margin improvement, and the hope of more normal weather conditions – as well as the prospect of improvements in the UK business in gas storage and energy services and our B2B operations.

But performance is not just about financial returns. It runs much deeper than that. It is also about building a sustainable business rooted in strong social values.

That is why we will continue to do whatever we can for our customers and the communities we serve, particularly the most vulnerable in society, helping people today while securing energy for tomorrow. Last year we provided some 1.8 million low income customers with special discounts and energy efficiency measures. As a result, their bills last winter were significantly lower than the previous year.

Sustainability is also about helping the communities where we operate. Our partnership with Shelter has helped nearly 150,000 low income or vulnerable households and we have a target to help one million homes. Last year we also

launched a ground breaking Social Enterprise programme, called Ignite, with funding of £10 million to help a new generation of social entrepreneurs deliver affordable, sustainable solutions for the future for local communities.

We have a vital role to play as a major employer in continuing to upgrade our workforce, both through our own Academies and in partnership with others. We are pleased to have taken on more than 350 new apprentices last year and we participate actively in the Movement to Work programme to help find jobs for young people.

Sustainability also means a relentless focus on our Health and Safety performance.

Last year, the Group's lost time injury frequency rate reduced by 45%, reflecting our efforts to build a safety-first culture which has helped to drive consistent improvements. We work in a hazardous industry. So, process safety is vital to ensure the integrity of our operating systems and it is something we continually strive to improve. I am pleased to report that there were no significant process safety events in 2013.

Underlying our sustainability objectives is a real belief that we have a responsibility, not only to reduce our own carbon emissions, but also those of our customers. Since 2010, we have helped to save around 9.8 million tonnes of CO<sub>2</sub> through the products we have installed in Britain's homes and businesses. That is equivalent to taking more than 650,000 cars off the road.

Creating a sustainable and growing business is only possible, of course, with the commitment of our people. So I would like to offer a special and personal vote of thanks to each and every one of my colleagues - whether in our call centres, in their vans, in our offices or in our gas production field and power stations - for their unstinting commitment, hard work and resilience, especially given the challenges we faced during the year. Their dedication, along with that of the management team that leads them so ably, will continue to serve us well as we lay the foundations for long term growth.

We will continue to deliver value to you - our shareholders - as we have done throughout our history. Despite the sharp fall in our share price at the end of 2013, prompted by heightened political risk, we will continue to grow our dividend, supported by a healthy cash flow and strong balance sheet. We have consistently provided an all-cash yield of close to 5% and remain committed to growing our dividend in real terms each year.

In summary then, 2013 was a difficult year for Centrica. But, despite that we have made good progress across the Group.

Our strategic priorities remain robust, and have been re-affirmed by recent developments. In addition to the growth opportunities in our core businesses on both sides of the Atlantic, the Hess, Suncor and Cheniere transactions each provide new platforms for growth. And we have specific plans in place to drive increased operational efficiencies and capital discipline.

We are engaging with all stakeholders in the UK to help inform the political debate, at a time when a stable investment climate is urgently required. Only solutions grounded in economic reality are likely to deliver the investment needed to secure the country's energy needs.

We have a strong balance sheet, providing flexibility for targeted investments, where we see value. And by executing against our strategy, we are building a solid platform for the long term.

As we look to the future I have one overall observation. We always knew it would be tough. Britain faces a unique combination of energy challenges. We, as a nation, have become a net importer of energy for the first time since the Industrial Revolution. We urgently need to replace our ageing power station fleet. And we are trying to hit some ambitious carbon reduction and renewable energy targets. All this is happening at a time when household incomes have suffered their biggest decline for a generation.

But we can meet these challenges, both as a nation and as a business. Centrica has a unique combination of characteristics; our commitment to service excellence and affordability; our highly trusted British Gas engineers; leadership in new technology; investment in new energy supplies; a healthy balance sheet; and we are a major contributor to the wider economy through employment, training, investment, taxes and dividends. These strengths make us resilient to the difficulties we face now and well placed to deliver growth in the future.

Thank you.