AGM Presentation

11 May 2012
Presentation transcript

Sir Roger Carr, Chairman

Good afternoon Ladies and Gentlemen.

It is now 2 o'clock and it gives me great pleasure to welcome you to the sixteenth annual general meeting of Centrica plc. I am delighted to welcome so many shareholders here today and we appreciate your interest in the Company and the support that you continue to give us.

One small reminder – please switch off your mobile phones.

I am accompanied today by my colleagues on the Board and all of our biographies can be found on pages 42 and 43 of the annual report and on pages 28 and 29 of the annual review.

I'm sure you will wish to welcome Lesley Knox, who joined us as a non-executive director in January and for whom this is her first AGM with Centrica. Lesley is chairman of the Remuneration Committee. Outside Centrica, Lesley is a non-executive director of SABMiller Plc and is a trustee of the Grosvenor Estates and chairman of Grosvenor Group Limited. She brings a wealth of strategic and financial experience across a range of businesses which will help in the delivery of Centrica's strategic objectives. I'm sorry to say that Andrew Mackenzie, one of our Non-Executive Directors, is unable to be here today due to an overseas business commitment. Andrew sends his apologies but we shall of course be able to carry on with our meeting today in his absence.

We continue to ensure that the Board's composition fully meets the needs of our Company. As I mentioned in my statement in the annual report, looking forward at our Board composition, our plan will be to reflect the increasing upstream content of our business mix with the recruitment of a Non-Executive Director who has both upstream and operating experience in North America. Longer term, we will seek to replace two further members of the Board who will complete their nine year term in 2013. As you can see – Centrica also continues to show leadership in ensuring a healthy gender mix, with 25% of our Board comprising women.

Next, a few words on procedure.

In a moment I shall say a few words on your Company's results.   Sam Laidlaw, our Chief Executive, will then update you on our performance so far in 2012 and talk about progress on our strategic priorities. After that, we will move to the formal business, and I will invite you to put forward any questions you may have.

We will then vote on the resolutions. I shall be calling a poll on all resolutions, and once again we will be using electronic voting handsets. Importantly, the display on the screens will show separately the total votes cast and those cast in the room today. This allows us to include the votes of those shareholders who were unable to attend this meeting as well as those of you here.

I will explain the process of voting shortly before we consider each of the resolutions.

Now I'd like to turn to Centrica's performance over 2011.

It was a year of turbulence and challenge, characterised by unprecedented world events. The Japanese nuclear power disaster at Fukushima drove up worldwide wholesale gas prices. Events in the Middle East and North Africa created further political and economic uncertainty.

Here at home, consumers experienced a continuing tight squeeze on household incomes and the Eurozone debt crisis had a severe negative effect on UK economic recovery.

Regulatory uncertainty damaged confidence in the energy sector and, in March, our own UK investment plans were undermined by the sudden imposition of higher taxes on production of oil and, most harmfully, gas.

But in spite of these headwinds - through a mixture of tenacity, innovation and endeavour - the Centrica management team still delivered another year of increased earnings.

These are the financial highlights of 2011.

The business achieved a further year of operating profit growth, up 1% to £2.4 billion.

Earnings increased by 3%, to £1.3 billion, equivalent to 25.8 pence per share.

This was despite our total tax charge rising to £891 million, reflecting the increased contribution from our more heavily taxed upstream operations. This resulted in an effective group tax rate of 40%.

Overall we were able to increase the final dividend paid to you, our shareholders, by 8% to 15.4 pence per share.

A strong result in a difficult trading environment.

Centrica remains a highly cash generative business, with more than £3 billion of free cash flow last year.

This allows us to fund, from our own financial resources, a substantial organic investment programme of on average one and a half billion pounds per year - comfortably exceeding our net profit of £1.3 billion.

Despite our substantial and rising tax bill, one of the highest among FTSE 100 Companies, the amount we return to you, our shareholders, in dividend payments has risen by nearly 20% over the past two years, to £762 million, a rate of growth underpinned by the success of the business that far exceeds inflation.

If 2011 was a challenging year, 2012 will be no less so, especially in making the decisions which will go a long way towards determining Britain's energy future.

We welcome the Government's proposals for Electricity Market Reform. However, there remains much detail to be resolved – and in a timely fashion – to ensure the necessary framework for investment is in place. We also welcome the Government's announcement of a Gas Strategy, recognising the vital role which gas will play in the low carbon generation mix of the future. This needs to be a holistic strategy looking at gas production and storage as well as power generation. But here again, much will depend on the detail of any proposals. And with all our investment, as always, we will only deploy our capital where we see attractive returns for you, our shareholders.

At Centrica we continue to take the lead in investing for energy security. We recently completed two significant acquisitions of oil and gas production assets in the Norwegian sector of the North Sea worth more than £1 billion. The lack of certainty over taxation and regulation at home means that an increasing portion of our investment is, inevitably, being made outside the UK.

Downstream, the regulator is currently consulting on proposals for Retail Market Review which are due to come into effect at the end of this year. While we support tariff simplification and transparency, we are concerned that these reforms will have unintended negative consequences, restricting consumer choice and adding costs for hard pressed households.

Customer trust is central to our ability to do business. With affordability an increasingly pressing issue, it's vital that the Government, the Regulator and the industry foster an open debate about the true costs of securing the energy supplies that Britain needs as we make the transition to low carbon generation.

Of course, our people are central to the success of the Company and I thank each of our employees for their hard work and dedication, particularly as we reappraise the cost structure of the group to address the challenging conditions facing our business.

With considerable co-operation of the staff and unions, we were able to improve engineers' rostering and customer service, lower future pension costs and reduce overheads through the loss of some 2,300 posts across the Group. This was painful but necessary to support our competitive position for the benefit of customers.

Maintaining an efficient cost structure has not been at the expense of building talent for the future. British Gas invested more than £25 million last year in academies and apprenticeships, helping to train the young and re-skill older employees.

As always, the safety of our employees and customers remains our top priority. Our overall safety performance continues to improve and there were no major incidents in 2011. We are, however, constantly seeking improvement.

So in summary, 2011 was a year of continued earnings growth for Centrica, demonstrating resilience in the face of volatile commodity prices and turbulent world events.

We deployed our capital to generate growth, investing £1.6 billion across the group. We will continue our strong organic and inorganic investment programme, with plans for a record £2.8 billion of investment this year

We have renewed our focus on keeping costs down so we can pass the savings on to customers, helping them to save energy and supporting the most vulnerable.

And we maintain our commitment to provide real growth in the dividend each year, supported by the robustness of the overall business and our strong cashflow.

Our continued strong performance in the first four months of this year is set out in our trading update which we published today. A copy of this statement is available from the shareholder enquiry desk outside and on our website.

I will now hand over to Sam, who will update you on the outlook for the business and on progress in delivering our strategy to build value for you, our shareholders.

Sam Laidlaw, Chief Executive

Thank you Sir Roger. Good afternoon ladies and gentlemen. Thank you for joining us at our Annual General Meeting.

I would like to start by addressing our responsibility to ensure the safety of our employees and customers, and to protect the environment.

In a business with high hazard operations such as ours, we must always stay focused on safety. We also have a responsibility to minimise not only our own carbon footprint, but also to help our customers reduce their own.

I am therefore pleased to report that last year we reduced our lost time injury rate by 42% to 0.25 per hundred thousand hours worked and our emissions fell from 10.9 million tonnes of CO_2 to 7.9 million tonnes, down by more than 25%.

We have also continued to strengthen our procedures around both customer and process safety as part of our continued drive towards a best in class safety culture.

As the chairman outlined, 2011 was a challenging year for Centrica. Our robust performance in difficult conditions demonstrated the resilience of our business model. Our strategic priorities remain unchanged and during the year we made considerable progress against each one, which I would now like to take you through.

In British Gas, despite the twin impacts of higher commodity prices and lower consumption, we grew the total number of residential customer accounts last year.

We improved our delivery to customers through our new partnerships with Nectar and Sainsbury's, and through a better online offering which allowed us to meet the needs of our customers more accurately and efficiently.

Your company remains at its heart a customer facing business. I'm therefore pleased to say that we were awarded a 4 Star rating by Consumer Focus for the first time. This is a mark of the improvements in our service quality in residential energy, the core of our downstream business.

Earlier this year, we were the first of the major energy suppliers to reduce residential energy bills, making an immediate 5% cut in electricity prices in January, as soon as wholesale market conditions improved.

In residential services, we continued to see growth in the number of accounts, despite the squeeze on household budgets, as our competitive offering delivered essential everyday protection to an increasing number of homes. We continue to see growth in services accounts this year.

And we made further progress in new markets, including social housing, insulation, microgeneration and smart meters, where we are leading the roll out to homes and businesses. Three quarters of the smart meters in the UK have been installed by British Gas.

We have taken the lead in holding our honest conversation with our customers about the realities of energy in Britain, what makes up their energy bills, and how we can help them.

We are building customer trust by making the purchase of gas and electricity simpler, more transparent and fairer. We have simplified our tariffs and have also written to each of our customers, inviting them to check that they are on the most appropriate tariff for them.

We are setting out the true facts about energy prices, providing each customer with a full breakdown on their bill of the actual costs of providing the energy they consume.

And in April this year, we launched a simple comparison table on annual statements to highlight to customers if British Gas is able to offer them a better deal.

At the group level, in order to remain competitive in all our divisions, we are undergoing a group-wide process to reduce costs.

We expect to deliver £500 million of cost savings over the next two years. This programme is already well under way, and we expect to realise around half of these savings in 2012.

The purpose of this intensified focus on costs is to further sharpen the efficiency of the business and continue to offer competitive prices and products for our customers. The savings realised will allow us to continue to invest for growth and remain competitive in a market where commodity costs - and environmental, social and transportation charges - continue to rise.

Upstream, our focus is twofold: to grow our gas and oil business both organically and through acquisition; and continuing to expand the scale of our offshore wind operations.

We delivered strong production performance last year which, together with the impact of higher wholesale commodity prices, resulted in significantly higher operating profits.

We deployed our distinctive capabilities to increase our North Sea gas reserves and bring new fields online, with first gas from our Ensign field achieved last weekend.

We recently completed two significant acquisitions in the Norwegian sector of the North Sea: a package of oil and gas assets from Statoil and an additional stake in the Stafjord field – together worth around £1.2 billion. Overall, these deals increased our total reserves by 40% and our production by over 30%. This brings our worldwide production to over 200,000 barrels of oil equivalent per day.

We also signed a ground breaking deal with Qatargas for the supply of liquefied natural gas (LNG) to the UK, and announced an extension of our supply agreement with Statoil for a further 10 years to 2025. Our commitments to secure supplies of gas for this country now total more than £50bn and the strong partnerships we have forged with world leading gas companies position us well to continue to secure the UK's long term energy needs.

With the UK now importing half of its total gas requirements, a proportion that will continue to rise over the coming years, securing the country's energy supplies is becoming increasingly urgent.

Equally, to meet our climate change objectives, significant investment is required to deliver the low carbon power industry of the future, an estimated £200 billion by the end of this decade.

Important investment decisions lie ahead this year, as we seek to establish the appropriate market mechanism for renewables and new nuclear as part of the Government's Electricity Market Reform.

In this context, it's critical that we not only have the right regulatory structures and tax regimes in place, but also the confidence that they will endure for the long term to enable you, our investors, to receive an appropriate return for the risks involved.

In North America, despite very low natural gas prices, the general economic outlook is improving and the performance and prospects of the businesses remain positive.

We expect continued growth across our operations, both upstream and downstream, as we make good progress towards our target of doubling profits by 2014.

We increased our scale in residential energy in 2011 with three major acquisitions, Gateway Energy, First Choice Power and Vectren Source, as well as achieving good organic customer growth in the US Northeast. We also continued to achieve volume growth in business energy where we also maintained healthy margins.

With the integration of Clockwork, the US services business we bought in 2010, and the acquisition of insurance capability through Home Warranty of America, we now have a good platform to build the same type of home protection plan business in the United States as that pioneered by British Gas in the UK. We are now the largest services business in North America and are well placed to cross sell to our energy retail customer base.

Upstream in North America, our gas production business achieved a return to profitability through operational improvements and cost efficiencies, despite the lowest wholesale natural gas prices for a decade.

Looking ahead, as we indicated in this morning's Interim Management Statement, we continue to experience tough economic conditions, but remain on track to deliver growth.

Our priority is to maximise the returns from our existing assets. In the upstream, we are focusing on delivering increased production, power generation and cash flow whilst containing costs. In the downstream, we are sharpening the efficiency of the business and building our smart meter enabled energy efficiency capability.

We will maintain a disciplined approach to investment, only deploying our capital where we see an appropriate return.

We will preserve a strong balance sheet, with a healthy cashflow and relatively low levels of debt.

We will also maintain the diversity in our business that has enabled us to deliver sustained real dividend growth.

In summary, we continue to demonstrate the value of our integrated business model.

In 2011, we showed the resilience to deliver year-on-year earnings growth during what was a tough year, both for the company and our customers.

We made good progress against our strategic priorities, despite the adverse market conditions in our downstream business.

With an improved service offering for our customers, both in the UK and North America, the continued expansion of our upstream business, and stronger performance in Gas Storage, Centrica is well positioned for long term growth across the group.

But much of our success also depends on our people, who have not only increased our customer base and captured new opportunities, but also undertaken the hard but necessary task of re-evaluating our cost base to enable us to continue to offer competitive prices and products.

I would like to offer my personal thanks to each and every one of our people for their hard work and resilience, and to the management team that continues to lead them so well.

With our dedicated staff, financial strength and operational expertise, I am certain that we will continue to deliver on our commitment of superior financial returns to you, our shareholders. Thank you.