

AGM Presentation

10 May 2010

Presentation transcript

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 fourteenth 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 remember to switch off your mobile phones.

I am accompanied today by my colleagues on the Board, most of whom will be familiar to you. Our biographies can be found on pages 36 and 37 of the annual report and on pages 20 and 21 of the annual review.

There are a few changes in the senior team that I'd like to update you on.

Chris Weston joined the Board in July last year, and at the same time succeeded Deryk King as President and Chief Executive Officer of Direct Energy, and we welcome him to his first AGM. Chris was previously Managing Director of British Gas Services.

Also last year, Phil Bentley took responsibility for the whole of the integrated British Gas business.

And Nick Luff and Mark Hanafin now represent Centrica on the boards of the British Energy joint ventures in respect of our nuclear activities.

Lastly, Paul Walsh stepped down as a non-executive director at the last AGM. I am grateful for his contribution and finding a replacement for him of similar calibre is well under way.

Next, a word or two on procedure.

In a moment I shall say a few words on your Company's results and update you on our performance so far in 2010. Sam will then talk about 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 move to the formal business of voting on the resolutions. I shall be calling a poll on all resolutions, and once again we will be using electronic voting handsets which I am sure you are now very familiar with. 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 today.

I will explain the process of voting shortly before we consider each of the resolutions. Members of the Board will be joining you for tea and coffee after the meeting and we look forward to talking to you on a more informal basis at that time.

Now I'd like to turn to Centrica's performance over the past year. I am pleased to report that your company delivered strong financial results last year, despite the impact of recession both here and in North America and the continued volatility in wholesale energy markets.

This was underpinned by a good operating performance across the group; and 2009 was also a transformational year for Centrica in which we changed the shape of the business.

UK gas and electricity commodity prices fell sharply from the levels seen in 2008, and gas prices decoupled from oil prices which are now rising again.

However, this has allowed us to cut retail prices for customers three times since the beginning of last year, leading the market on each occasion. This has ensured that British Gas has maintained a strongly competitive price position which, coupled with much improved service, has translated into customer growth. At the same time we have restored the business to a sustainable level of profitability.

These are difficult times for many of our customers and I'm pleased to say that we have continued to provide support to around half a million vulnerable customers through our discounted social tariff and free energy efficiency measures and other forms of assistance. It is these values alongside our performance commitment that lie at the heart of the Centrica business model.

Upstream, the lower commodity price environment meant that profits from our UK oil and gas business were down year-on-year. At times, low wholesale prices meant that it was sensible for us to stop production at Morecambe and thus preserve the future value of our gas reserves.

However the low price environment also offered the opportunity to acquire more gas and power assets and improve our vertical integration and security of supply. The acquisitions of Venture Production and 20 per cent of British Energy have transformed the Group's strategic position, creating an upstream division that is a growth business in its own right.

We have now fixed the historic structural hedge issue, with the proportion of energy sourced from our own production now more closely aligned with the rest of the industry. Additionally, we believe the flexibility offered by our own enlarged gas production portfolio and a clearly differentiated, low carbon generation mix, strengthens our competitive position.

Our North American business had a challenging year, impacted by the recession, low wholesale prices and some one off factors, however it remains well placed for future growth.

We also made the strategic decision to exit from our downstream businesses in Europe. We sold our majority stake in SPE to EDF, and we are expecting to divest our small Spanish and Dutch businesses.

Our employees remain central to Centrica's success. We experienced one of our busiest periods for call-outs during what was the coldest winter in thirty years and I am proud of the dedication and determination our people have shown to keep customers' homes warm and well lit.

I'm also extremely grateful to the many men and women who spend long periods of time away from their families, often in demanding conditions throughout the world, operating and maintaining our gas fields, power stations and windfarms to provide safe and secure energy for our customers.

In March, for the second year running, British Gas was recognised by the Sunday Times as one of the '25 Best Big Companies to Work For', which is a significant achievement. Indeed, I would like to thank all of Centrica's employees for the dedication, loyalty and professionalism which they continue to display.

Earlier today we released our first interim management statement for 2010 to the London Stock Exchange, which makes clear that the outlook for Group earnings for the full year remains positive.

Downstream our advantaged competitive position, supported by our performance to date, should enable us to deliver strong returns while remaining price competitive.

Upstream, the business continues to face low gas and power prices, although our results in 2010 will benefit from a full year's contribution from the Venture and British Energy acquisitions.

There is a link to the announcement on the Company's website and copies are available here today on request. I thank you for your loyalty and support.

I will now hand over to Sam, who will outline developments over the past year and update you on progress with regard to delivering our strategy to build value for you our shareholders.

Sam Laidlaw, Chief Executive

Thank you Roger, good afternoon ladies and gentlemen. It's a pleasure to join you for our annual general meeting. As the Chairman has noted, 2009 was a big year for Centrica.

We delivered a strong set of financial results despite tough economic conditions and sharp falls in commodity prices. We delivered a good operating performance from the combined British Gas business. And we made excellent progress strategically with the acquisitions of Venture Production and the stake in British Energy.

The progress we made last year was the fulfilment of a strategy we set out three years ago. This has enabled us to move on and in February we set out a new set of strategic priorities for the next three to five years, which are focused on growth, and maximising the value we can deliver from this business for you, our shareholders.

I will talk about these new strategic priorities in more detail later, and also discuss some of the key external issues and trends which shape the market place we operate in.

RESULTS OVERVIEW

First though, I would like to talk briefly about Centrica's financial results for 2009. Despite the challenges we faced from the global recession and the volatility in energy markets, Centrica delivered a good performance.

However wholesale energy prices meant that Group operating profit was down by 7% to £1.85 billion, with upstream profits in Centrica Energy falling by 40%. But this was largely offset by a return to more sustainable levels of profit at British Gas Residential, and overall, the integrated British Gas business, which includes our growing services and commercial businesses, delivered a profit of over £1 billion for the first time.

After tax, the reduction of profits in our highly taxed upstream business meant that we benefited from a lower tax rate overall, which helped to lift earnings after tax up by 22 per cent to £1.1 billion. So overall, despite the increased number of shares in issue following our rights issue at the end of 2008 we still maintained our earnings per share at 21.7p. This good performance has enabled us to set the dividend at 12.8 pence per share, an increase of 5%, in line with our objective of delivering real growth in the dividend each year.

THE FUTURE

In terms of the bigger picture looking forward, after months of uncertainty a new government will need to focus on energy policy at a time when some big changes are facing the industry and urgent decisions are needed.

These changes will be driven primarily by the need to sharply reduce carbon emissions while at the same time stimulating the required investments to secure energy supplies for the future.

Taken together, achieving these objectives will require investment of some £200 billion for the industry as a whole over the next decade.

We're seeing similar trends emerging in North America, although the push for emissions reductions there is further behind the UK.

As you may know, the UK has put in place firm targets to cut greenhouse gas emissions by 80% by 2050 and to deliver 15% of all energy from renewables by 2020. Meeting these targets relies very heavily on decarbonising electricity generation by building new low emission generating plant – particularly renewables and new nuclear. Low carbon electricity will then pave the way for electric vehicles and low carbon heat for buildings.

This is a massive change and a new Government has a responsibility to provide the stable investment climate which investors need to make this happen.

We believe that this can be best done by maximising the use of market-based structures, and minimising intervention.

Such structures are the ones most likely to offer investors, including Centrica, clear price signals on which to base investment decisions. This approach has already been successful in delivering over £10 billion of investment in new UK gas import infrastructure in recent years, which kept gas supplies flowing throughout the extreme cold of the recent winter.

One key area of focus for a new Government will be the price of allowances to emit carbon dioxide. Carbon prices – which are designed to ensure that the polluter pays – offer an important incentive to help deliver the new fleet of low carbon power stations, particularly nuclear and renewables.

This decarbonisation of electricity needs to happen at a time when maintaining our security of energy supply in both electricity and gas is particularly important. In electricity generation over the next five years, the UK will be retiring over 15% of the old existing generation fleet. In gas by 2015 we will be importing some 70% of our gas requirements.

To meet the challenges of both climate change and energy security, energy efficiency has a vital role to play. We at British Gas are uniquely positioned to lead this agenda and it is a core part of our future strategy. Even, however, with a strong drive towards energy conservation, we should not forget that in a world where the majority of our gas is now imported and an increasing percentage of our power generation will be in the form of intermittent wind, energy prices are likely to continue to be volatile.

And it is against these broad themes that we have been forming our strategic thinking.

DELIVERY OF OUR STRATEGIC PRIORITIES

You may remember that the four priorities we set out in early 2007 were:

- to transform British Gas;
- to reduce costs;
- to become more integrated by acquiring gas and power production;
- and to build our growth businesses.

Although we originally set these out as a five year objective, we have accomplished them in three years, giving us a sustainable, lower cost, more robust, and higher performance business model.

Thanks, notably, to Phil Bentley's leadership and a strong management team, British Gas is now a very different business from 2006.

On price we're now the cheapest in the market for dual fuel and for electricity, while our customer service has been transformed to the extent that in a recent survey by Morgan Stanley we were placed first for customer satisfaction, having been in last place just two years ago. Taken together this resulted in the biggest gain in residential energy customers since 2003, with the addition of 140,000 accounts last year. And I'm pleased to say that growth has accelerated this year. In fact we've already added over 200,000 residential gas and electricity customers in the year to date and 100,000 services customers and we continue to grow.

At the same time, costs within British Gas were reduced by £200 million between 2006 and 2008, and we are targeting a further £100 million additional savings this year through the integration of the different British Gas businesses into one unit.

British Gas is now a competitive, profitable, growing business, well placed to lead the transition to a low carbon world.

Upstream, under Mark Hanafin's leadership, we have transformed the shape of our business. The Venture Production and British Energy acquisitions together mean that in three years we have tripled the proportion of our residential gas and power demand coming from our own resources, to over 60%. This makes our earnings much less volatile and puts us on a more competitive footing.

Our growth businesses have also performed well. We have seen profits more than double in both our UK services and business energy units in three years, and a strong underlying performance in Direct Energy, where we also have a new management team in place under Chris Weston to take the business onto the next stage.

NEW STRATEGIC PRIORITIES

So moving now to our new set of strategic priorities, which are designed to put us on a fresh growth path. The new priorities are:

- first, to grow British Gas - leading the transition of low carbon homes and businesses;
- second, to deliver value from our growing upstream business – securing sustainable energy for our customers;
- third, to build a more integrated North American business with leading positions in deregulated markets;
- and finally, to ensure we deliver superior financial returns for you, our investors – through both our operating performance and careful investment choices.

The first of these, to grow British Gas, means developing our UK-wide energy services and energy efficiency businesses to offer more advice, more products, more services, and enable customers to take greater control of their energy use.

This plays to our strengths, given our unique workforce of over 9,000 engineers nationwide. Last year we made nearly 12 million home visits. We intend to develop this business further. For example, last year we established a smart meters business, and we're recruiting 2,600 technicians to help us lead the installation of smart meters across the UK. This will help customers monitor and reduce their energy usage, take advantage of time of use tariffs, and open the door to implementation of various microgeneration technologies which now receive the benefit of feed-in-tariffs.

And we have also started building an insulation business, for which we are recruiting a further 1,100 people.

With some 9 million homes in the UK still requiring insulation, this will help meet a forecast doubling in demand for insulation between now and 2015.

Another new market opportunity is the provision of energy and related services to the local authority and social housing sector – a £4 billion market, driven by new obligations placed on local authorities to improve the energy efficiency of their housing stock.

Upstream we want to ensure we maximise value from our investments. Centrica expects to invest more than £15 billion over the next decade and we have access to a wide range of opportunities, including offshore wind, new nuclear, gas development and gas storage projects. This 'optionality' allows us to target projects with the strongest returns, with each one competing for capital across the group.

The acquisition of Venture has materially increased the scale and technical capability of our upstream gas business, allowing us to develop and operate gas production in UK, Norwegian and Dutch waters, as well as further afield. Our integrated Upstream Gas organisation is already beginning to make an impact, and four out of six exploration and appraisal wells we have drilled this year have been discoveries.

We also see opportunities to further develop our liquefied natural gas business. We recently acquired our first LNG production in Trinidad, and we continue to discuss options for securing more LNG for the UK from national oil companies.

We also continue to study the potential of Gas storage opportunities. As the UK's dependence on imported gas increases, storage will play a greater role in maintaining the country's security of supply.

We expect to make final investment decisions in the coming months on our three new potential storage projects, Caythorpe, Baird and Bains, which together would nearly double the existing storage capacity we own with Rough, as well as offering faster gas withdrawal capability.

The third new objective, in North America, is to strengthen our presence in the key deregulated markets, further develop our service capability and build a more integrated business, as we have done in the UK.

The aim is to grow our market positions to become the number one or two energy supplier in competitive deregulated markets, and to back that up with a services capability to help customers manage their energy bills as we are doing in the UK. We are also aiming to improve the returns from our existing business through operating more efficiently, building scale and improving customer service.

In terms of integration, we intend to take the proportion of our customer gas and power demand coming from our own resources up from approximately 10-20% currently to around 35 to 40%. This is likely to involve acquisitions in both gas production and power generation, but any such investments will have to create value for shareholders and compete for capital with other opportunities across the Group.

Our final strategic objective centres around operational performance and financial stewardship. Recent tragic events in the Gulf of Mexico remind us all of the crucial importance of sound Health, Safety and the environmental management practices in all that we do, whether on our offshore platforms, or in our power stations or in customers' homes. This is the vital underpinning of our reputation, sustainability and financial success.

In terms of our financial objectives, maintaining a strong balance sheet remains a clear priority.

We will also be targeting investments which not only fit our strategy and capabilities, but which allow us to make double digit levels of return after tax, or higher, depending on the risks involved.

We will also phase these investments to feed through into consistent and superior earnings growth. Taken together, this gives us confidence that we will continue to increase our dividends in real terms into the future.

CONCLUSION

Centrica is now in a much stronger position than three years ago, and I am confident that the strategy we are following will enable us to continue to make good progress in the next few years. We are moving into a new low carbon world, both upstream and downstream, and we are well placed to thrive in this new environment, both in the UK and in North America.

I should reiterate that the excellent progress we continue to make has been down to the tremendous efforts of my colleagues at all levels across the whole group – ranging from the British Gas engineers who get out in all weathers to ensure customers' homes stay warm through to the people working in often very tough conditions on our gas production platforms far out to sea or in sub zero temperatures in Northern Canada. I would like to offer my personal thanks to all of them, and especially to the management team here who have been leading them so capably.

Finally let me say that whilst our customers and employees are key to our success, none of this is possible without the support of you our shareholders. Let me assure you therefore that in our new strategic priorities we remain very focussed on maximising value for all of you.

Thank you

End of presentation