

General Meeting

8 June 2009
Presentation transcript

Roger Carr – Chairman

Good afternoon ladies and gentlemen.

It is now 2 o'clock and I would like to welcome you to this general meeting of Centrica plc. Thank you for attending what is a very important occasion in the development of your Company.

One small reminder – please remember to switch off your mobile phones.

Joining me here on the platform today are the key members of the Board associated with the proposed transactions with the EDF Group who will be able to answer any questions you may have. They are to my right Sam Laidlaw, Chief Executive; Nick Luff, Group Finance Director; and to my left Phil Bentley, Managing Director, British Gas; Mark Hanafin, Managing Director, Centrica Energy and Europe; and Grant Dawson, our General Counsel and Company Secretary.

In terms of the procedure for this afternoon, I will outline first the reasons why this meeting has been called today. After that, we shall move to the formal business and I shall invite you to put any questions you may have on the resolution prior to voting on the resolution itself.

As you know, we are meeting following the announcement that we made on the 11th May of our intention to enter into certain transactions with EDF to acquire a 20 per cent interest in British Energy.

The terms have been revised from those outlined in last year's Memorandum of Understanding between Centrica and EDF, reflecting the changed commodity price environment and the inclusion of SPE.

The transactions will deliver significant benefits to Centrica's shareholders, providing the company with both a short-term and long-term hedge against volatile commodity prices and a platform for our involvement in the construction of new nuclear generation capacity.

British Energy is the leading supplier of nuclear energy in the UK and owns and operates eight nuclear power stations and one coal-fired power plant.

This important agreement will allow us to invest in EDF's nuclear business in the UK including the current British Energy nuclear power station fleet and construction of the next generation of nuclear power stations, which will be central to securing the future electricity requirements of the UK.

By acquiring power generation assets, we are able to secure the cost of more of the electricity we supply to our customers. This greatly reduces our overall exposure to volatile movements in wholesale power prices. These nuclear power generation assets, which are not fuelled by natural gas, also reduce our exposure to wholesale gas prices.

We have agreed to sell our 51% stake in SPE to EDF as part consideration for the 20 per cent interest in British Energy and Sam will provide further information on this as well as the clear strategic rationale for the transactions in a moment.

In the short term I believe the proposed agreement with EDF will help protect your company from the impact of the sort of rollercoaster changes we have seen in commodity prices in recent times.

Longer term, it will also provide a new growth platform, providing an opportunity for your company to participate in the next generation of nuclear construction that our country needs if we are to keep the lights on *and* meet our carbon commitments. Over the months we have worked hard to deliver a recommendation to you, our shareholders – which discharges our commitment to balance the delivery of financial returns with the sustainability of our business model.

The Board considers the Transactions to be in the best interests of the Shareholders as a whole and we unanimously recommend Shareholders to vote in favour of the Resolution, as we intend to do in respect of our own beneficial holdings. This really is a great opportunity, and I commend it to you all.

Sam will now take you through the proposal in a little more detail.

Sam Laidlaw – CEO

Thank you Roger and good afternoon everyone.

I would like to talk primarily this afternoon about the *strategic rationale* behind the proposed acquisition of a 20% stake in British Energy.

You will remember that two years ago we set out a strategic priority of increasing the proportion of our customers' gas and power requirements which we are able to source from our own assets. The aim is to reduce our exposure to short-term volatility in wholesale prices. This will continue to be a major issue in our industry, as gas production from the UK North Sea is dwindling rapidly and by 2015 we will be importing three quarters of the country's needs. Much of this gas will come from exporting countries where the political uncertainty is greater than we are used to with North Sea production.

Reducing our exposure to volatile gas prices and increasing our sources of secure energy will make our earnings more stable, and will benefit you, our shareholders.

Why then does nuclear make sense? Well, currently we're short of the power we require for our own electricity customers. We have been gaining electricity customers and are now the largest supplier of electricity to residential customers in the UK. A share of output from British Energy's current fleet of eight power stations will help us supply a greater proportion of our electricity customers' needs from our own generation. Overall, it will increase the combined proportion of power and gas which comes from our own generation and production from 35% to around 45% over the next year or two.

In addition to reducing our exposure to volatile international gas prices, the nuclear power we will acquire is low carbon and will strengthen our position as the lowest carbon generator of all the suppliers. Looking to the future the opportunity to take a share in construction of new nuclear reactors in the UK will extend our protection from wholesale market volatility for many decades into the future and provide another growth opportunity for Centrica.

We believe the transaction we have now agreed with EDF to acquire 20% of British Energy, as opposed to the 25% we originally envisaged last September, is a good one

for Centrica and reflects the short term fall we have seen in wholesale energy prices over that period.

It will involve a net cash consideration of £1.1 billion, instead of the original deal which would have involved around £3.1 billion of cash. This reduction has been derived primarily in three ways. Firstly, the reduction in the equity stake to 20% saves us some £600 million; secondly, we've received a 6% discount to the headline price that saves us a further £150 million and thirdly, we've agreed to sell our 51% stake in SPE to EDF for €1.325 billion, or approximately £1.2 billion including costs.

That is a strong price for SPE, and amounts to a multiple of 13.8 times SPE's forecast earnings for 2009 before interest, tax, depreciation and goodwill amortisation, or EBITDA as it is known. It compares very favourably to multiples of around 10 times EBITDA for other recent similar transactions in The Netherlands, for example. The sale of SPE, which is our largest European business, means that we will be reviewing the remainder of our activities on the Continent and focusing our attention on North America.

It is also worth highlighting that although our share of power produced from the British Energy fleet will be 20%, we have also formed an agreement to take a further 18 terawatt hours of power between 2011 and 2016, which will amount to approximately another 5% of British Energy's production. Therefore our total share of power produced will be around 25% during that period.

In terms of Centrica's rights as a 20% investor, EDF will maintain day-to-day control of the operations, as you'd expect with their nuclear expertise. However, we have negotiated a range of minority partner rights, which include full information rights and representation on both the board of the joint venture holding company Lake Acquisitions and that of British Energy itself. Our minority protection rights include a veto over certain investment decisions and related party contracts and dilution rights which enable us to cap our share of the capital investment required for new nuclear construction.

Nuclear new build will of course be a key element of our partnership with EDF. Here, Centrica will have the option to take an equity stake of 20% in each new reactor project, with the final investment decision on the first reactor expected some time late in 2011. As you may know, EDF is currently planning to build four reactors in the UK,

at Sizewell and Hinckley Point, with the first reactor possibly on line as early as the end of 2017.

We are now into the regulatory process relating to this British Energy transaction with the Office of Fair Trading, and we will keep you updated on the outcome from that.

To sum up, we are strongly recommending that you support the proposed acquisition of the stake in British Energy. This transaction is an important part of the strategy we set out two years ago to strengthen the business and the options it will bring in new nuclear will add to a range of other attractive investment opportunities we have in gas production and exploration, in gas storage and in wind generation. We will also continue to strengthen our North American business through further upstream and downstream positions, and through all of this we will maintain our strong balance sheet.

Thank you for your support so far and I look forward to working on your behalf in future to ensure that we maximise the benefits from the acquisition of this stake in British Energy.

End of presentation