

AGM Presentation transcript

27 April 2015

Rick Haythornthwaite – Chairman

Good afternoon Ladies and Gentlemen.

It is now 2 o'clock 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 nineteenth AGM in the company's history and my second as your Chairman. I'm delighted to see so many of you – our shareholders - here today. I know that I speak for all my colleagues on the Board when I say that we appreciate your interest in the Company and the support that you continue to give us. Our meeting at the ExCeL Centre is a new venue in which to hold our AGM in this year.

The change of venue is symbolic because, for Centrica, 2014 was a year of transition, not least in our senior leadership team. I spent much of my time and effort ensuring that we recruited a high quality Chief Executive and I'm delighted to say that in Iain Conn, who took up his post on the first of January this year, we succeeded.

Iain brings with him a wealth of experience in the oil and gas industry, most recently in consumer-facing businesses, which stands the Group in very good stead.

Iain, of course, succeeded Sam Laidlaw, who retired after leading the company for eight and half years. Sam deserves great credit for turning Centrica into a leading energy supplier, with a healthy mix of assets and options, and I'm sure you will join me in thanking him for his significant contribution over the years.

We've had a number of other changes in our senior executive team over the past year. But we are fortunate that Iain can continue to rely on the boardroom experience of Mark Hanafin, Managing Director of our upstream business, Centrica Energy.

We also welcome two new non-executive directors, Carlos Pascual and Steve Pusey, who bring in-depth knowledge of international energy markets and consumer technology respectively. They replace Paul Rayner and Mary Francis, both of whom retired – with our deep appreciation of their service – after 10 years on your board.

Carlos and Steve are joined today on the podium by their fellow non-executive directors, Ian Meakins, who has assumed the role of Senior Independent Director; Margherita Della Valle, the chair of our Audit Committee; Lesley Knox, the chair of our Remuneration Committee; and Mike Linn.

Grant Dawson, our General Counsel and Company Secretary, is sitting to my left.

In the audience, we welcome our executive colleagues: Jeff Bell, Interim Chief Financial Officer, Ian Peters, Interim Managing Director of British Gas, and Jill Shedden, Group HR Director.

We are also delighted to welcome Mark Hodges, who will take on the role of Managing Director of British Gas on 1st of June 2015, at which time Ian Peters will become Director of Customer Facing Strategy.

We have a lot of business on our agenda today but, before we get to that, I would like to offer you a few brief reflections on the past year for Centrica; and some thoughts about the importance of our national energy debate.

As I mentioned, 2014 was a year of transition, and not just within Centrica. International commodity markets experienced some violent adjustments, with wholesale oil and gas prices falling sharply in the final few weeks.

Those falls continued into the New Year, accompanied by a continuing weakness in power prices, and it was this radically altered external environment which persuaded us that we had no choice but to rebase your dividend. Had we not done so, we would have put pressure on our investment grade credit rating, with consequent damage to our longer-term operating flexibility and cost of doing business.

We absolutely do understand the importance of a dividend to you and I assure you that our decision was not taken lightly, especially as we have historically made real growth in the dividend each year a key objective of this company.

We did consider alternatives to reducing the dividend, including the sale of some assets, and will do everything that we can to reduce our capital and operating costs – indeed we have already cut our exploration and production capex by £400 million over the next 2 years. Meanwhile, in so much as we have the opportunity to reduce our customers' costs then we will do so such as with our price reduction in January of this year and the deployment of technologies such as Hive and smart metering.

On rebasing the dividend in the end we had no choice. It is our responsibility as a Board to ensure we can balance sources and uses of cash for the long term; and to ensure that we have a sustainable business for you - our shareholders - and for our customers.

We also need to make sure that Centrica is in the right shape to meet the challenges of this new world. And that is why, under the leadership of Iain Conn, we are conducting a wide-ranging strategic review of the Group's activities, structure and finances. And Iain will give you more detail on that in a few minutes time.

Reshaping the business is a necessity. That is not made any easier by the political and regulatory climate in which we find ourselves in our home market. Here too, we are in a state of flux. I don't need to remind you about the impending General Election, whose outcome is still in the balance, even at this late stage of the campaign, and difficult to predict with any confidence.

We are also awaiting the findings of the investigation into the UK energy market by the Competition and Markets Authority. Again, I don't intend to predict the outcome. But I can say one thing with certainty. Energy suppliers in the UK today face a greater degree of political and regulatory risk than at any time since privatisation.

We all understand that we have been living through a period in which trust in business as a whole, and the energy sector in particular, has suffered. But now surely is the time to move forward. Resolution of the complex energy challenges that we face as a nation demands collaboration and cooperation.

And we, as Britain's biggest energy company, have a duty to play an active role in the hard-edged debate that will be needed if we are to shape a more coherent and a more robust future for our nation and our customers.

Our first imperative is both to consolidate and enhance our relationships with our customers.

Every year we report improvements in our service levels. And I take nothing away from the commitment of our people and the great efforts they make every day in doing that. In fact, I would like to take this opportunity to thank each one of them for their dedication, their commitment and their hard work.

But for a leading organisation such as Centrica, it is no longer enough just to make incremental improvements every year. Rather, we need a fundamental shift in our corporate mind set to keep pace with the expectations of our customers. We need to declare that our aim is flawless service to all our customers.

Now, I realise that we will fall short, as humans always will, in our quest for perfection. But unless we aspire to this, we will never restore the credit balance of trust with our customers; and they will never give us the benefit of the doubt when we fail to meet their expectations.

How do we achieve this? Well, I believe the answer lies within our business, in its proud and long public service heritage and in the very idea of what makes a good company.

The Victorian legislators who created the framework of limited liability companies imagined public-private partnerships in which entrepreneurs could take risks capped by statute. We need to reconnect with these founding principles of pioneering free enterprise and responsible capitalism.

And we must ask ourselves what is it that constitutes a good company today?

Surely it is a company which subjects itself to free competition and is as transparent as possible. It is a company that pays its taxes promptly and in full. It is a company that is rooted in the communities in which it does its work. It is a company that is a good employer, which treats its employees well and pays them fairly for their work. It is a company that thinks about its customers first and with genuine humanity, responding to their needs with ingenuity and innovation.

Above all, it is a company that has a deep sense of responsibility for the societies within which it operates, without which sustainable economic growth and shareholder return will be all but impossible.

I believe that Centrica has a good track record in all these areas. But we can always do better. And your Board believes that, in Iain Conn, we have recruited the right leader for such a challenge.

Energy companies should be exemplars of the limited liability company as originally intended. By focusing on that, we will earn our place at the table alongside customers, politicians and regulators as we collaborate to tackle the big energy challenges which the country faces. Only then can we have a rational discussion and expect our views to be heard.

Beyond the General Election and the outcome of the CMA inquiry, I hope that politicians, regulators, the industry and society at large will be ready to put our differences behind us and work constructively together to meet the energy needs of our customers and country over the long-term.

Let's ensure once and for all that we create a market that is incontestably competitive and which offers choice: where energy suppliers are trusted and truly valued; where there is political engagement, roundtable collaboration and partnership.

Do we really have any other choice? We don't think so and, as the leading player in this market, we are determined to make this happen. And in doing so I hope that, with time and through our actions, society will come to believe, once again, that we really are all on the same side.

And on that aspirational note, let me hand you over to Iain who will update you on our performance and the outlook for the business.

Iain Conn – Chief Executive

Thank you Rick.

Good afternoon everyone and thank you for coming.

I am delighted to have this opportunity to speak to you, our shareholders, directly at the AGM for the first time since I became Chief Executive of Centrica on 1st of January.

I am honoured to join a company with a long and proud heritage and one which plays such a vital role in supplying energy and services to customers in the UK, the Republic of Ireland, the United States and Canada.

In total we now supply energy and services to some 28 million customer accounts. We play an important role in the broader development of the energy resources of the UK, Norway, the Netherlands and Canada. Through power generation and the optimisation of the gas and electricity supply chains, we manage risk and contribute to the security of energy supplies. Today we have over £47bn of energy supply commitments across the Group.

Longer-term, our determination to be a responsible corporate citizen and have an impact on the evolving energy requirements of the World is proven by our commitment to deliver secure and more efficient energy supplies to millions of customers, to develop more innovative services for those customers and to participate in the evolution of lower carbon energy pathways.

I would now like to cover two subjects before I hand back to the Chairman for the business of the meeting: our recent trading performance and the actions we have taken in response; and secondly what we are doing to position the Group well for the future.

Before I turn to our financial performance, in our most important priority areas - those of safety and compliance – we continued to make progress.

In safety, our total recordable injury rate fell by 34% to 0.50 per 100k hours and represents 4 years of continuing improvement. However, in relative terms we are not where we would like to be and as always there is much more to do.

In compliance, we completed a review with the Financial Conduct Authority of our performance in British Gas Services, and continue to engage constructively with all our regulators.

Turning to financial performance, 2014 turned out to be an extremely difficult year for the Group and in the first few months of my tenure we have had to take some difficult decisions.

Last year was the “perfect storm”, both literally and metaphorically. Extreme weather conditions in the early part of the year, on both sides of the Atlantic and including abnormally warm weather in the UK, had a significant impact.

That was compounded, in the second half of 2014, by falling gas and oil prices. We also had some operational problems including lower than planned levels of gas and oil production, the boiler spine issues in the nuclear power stations, and some system implementation issues in British Gas Business.

The weather had serious impacts on our customer-facing businesses. British Gas and Direct Energy operating profits for the year were down 20% and 46% respectively.

The commodity price environment has had a serious effect on our profits and cash flows, with the main impact being felt in our upstream business, Centrica Energy, whose profits for the year were down by 44%. The exploration and production business was particularly affected, but we also saw lower profits in power generation.

As a result, relative to 2013, Group Operating Profit fell by 38% and Group Earnings Per Share fell by 28% to 19.2 pence. The changed environment also meant we had to write down by £1.4bn the after-tax carrying value of a number of assets in Exploration and Production, and in power generation, and were unable to complete the planned sale of the three gas-fired power stations in the UK.

In response, like other companies involved in exploration and production, we have taken immediate steps to cut our levels of capital investment and to challenge all elements of our operating costs with the goal to make the business broadly free cash flow neutral over the two year period to end 2016.

But these actions alone were not enough. Our primary role as a Group is to supply energy and services to our customers. We provide security for that energy both by owning gas and electricity production; and also by procurement and optimisation activities, including the securing of long-term contracts for gas and electricity. To do this efficiently requires the Group to operate with a strong, investment-grade credit rating.

That credit-rating has been at risk, and when combined with the inability to balance sources and uses of cash flow in this environment, as Rick outlined, we took the hard but necessary decision to rebase your dividend. As you would expect, we did this with great reluctance and considered a number of alternatives before taking this step.

But in the current circumstances, we believe this nettle had to be grasped. In rebasing the dividend by 30%, the Group will be able to maintain the necessary credit rating, balancing sources and uses of cash, and still deliver a material level of dividend income for our shareholders.

We have also made good progress in strengthening the balance sheet and financial metrics of the Group.

Taking tough decisions to enable sound medium-term progress against a challenging environment, just as we have seen with the UK economy in recent years, should result in a good longer-term outcome for our stakeholders.

For our company, in my judgement and that of the Board, these recent actions should allow the Group to face the current environment in 2015 with confidence and resilience.

This morning we issued our Interim Management Statement. The Group continues to trade in line with the guidance we provided in February at the time of our Preliminary Results.

Relative to 2014, profitability has improved in the customer-facing businesses.

Weather patterns have been more normal with an associated increase in energy consumption. However, as we said before we expect this to be more than offset by the impact of lower commodity prices on Centrica Energy and as a result we continue to expect earnings for 2015 to have been negatively impacted relative to 2014 and relative to our original plans for 2015 at the time of our Interim Management Statement last November.

Let me now turn to the second part of my remarks, regarding what we are doing to position the Group well for the future.

Given the scale of change and recent events I decided, in February, also to announce a Strategic Review. This is well underway.

The objective is to ensure the Group is positioned well for the longer-term, and to provide clarity on direction for the next phase of our strategy. It is focused on four areas.

- Firstly, the outlook we see and the potential sources of growth for our business;
- Secondly, the portfolio mix and capital intensity we wish to target;
- Thirdly, the operating capabilities and efficiency we need to perform well; and finally,
- The financial framework future for the Group.

These four dimensions are all inter-related, and taken together I am confident we will be able to provide a refreshed view of the future prospects of the Group, both for you our shareholders, but also for our employees and all our other stakeholders.

We are committed to deliver clear perspectives on these four areas, and are on track to report back at the time of our Interim Results at the end of July.

Concurrent with the review of strategy, we remain focused on two important areas: earning trust, and as part of that, improving service levels; and building the right capabilities for the long term.

Customers are at heart of what we do and delivering excellent service and earning their trust is fundamental to our future.

There are recent successes we can point to as we engage with our customers, with service levels improving markedly, which is reflected in improving net promoter scores.

We have deployed considerable resources in 2014 to support 1.8 million vulnerable customers in the UK and to help them with their energy bills.

I am also pleased that today we have announced that we are dedicating still further resource to improving customer service, and in the last month have set aside an additional £50 million to invest in this area over the next three years.

On costs to the customer, in British Gas we reduced household gas bills by 5% earlier this year and we will continue to keep our wholesale costs under review. Energy bills themselves can be confusing and estimation is a source of frustration. There is distrust among customers who believe that rising bills have been caused by our rising profits when, in fact, the increases have largely been caused by increased wholesale prices, transmission and distribution costs and Government environmental levies.

Our profits on the dual fuel standard tariff bill have actually been flat to falling whether in absolute terms or on a unit of energy consumption basis.

We also help customers by managing their exposure to global commodity prices and the complex risks that go with it.

The relationship between energy suppliers and their retail customers has evolved so that price and volume risk is largely borne by the supplier.

Specifically, against the backdrop of volatile wholesale prices and markets, suppliers commit to provide secure and on-demand supply of an unknown future volume to be consumed by customers at a retail price set in advance and to manage the risk arising from that commitment.

Beyond improving customer service, passing on wholesale cost reductions when we can, and managing price risk for customers, we believe that helping customers reduce and control their energy consumption is the most sustainable way to keep bills down. We are ahead of target in delivering energy efficiency measures under the ECO programme.

At the same time, we have to recognise that customer needs are changing.

In addition to demanding secure, reliable, affordable energy and a sustainable approach to its provision, they are also expecting to have more control over their energy use.

There is no need for us to be intimidated by these expectations.

In fact they represent and present our company with a great opportunity. We need to embrace change and make sure we have the right skills to compete in this new energy marketplace.

As customers demand more accuracy and insight into their energy use, we are rolling out smart meters ahead of the competition and developing new products and services to meet these needs.

These include our Hive Acting Heating products which operate on the AlertMe IT operating platform and our Smart Energy Report. We acquired the remaining interest in AlertMe earlier this year and we believe it can be expanded to support our pipeline of other products in the growing Connected Home space.

We know there is much more to do in rebuilding trust in the energy market and in Centrica.

We are committed to addressing these issues and are engaging firstly with our customers, and then with a wide set of other stakeholders.

I have personally engaged with senior members of the three largest political parties and today continue to express our commitment to a positive and constructive partnership with whoever forms the next Government.

We have also been engaging with our regulator Ofgem, and participating in the Competition and Markets Authority (the CMA) enquiry into the functioning of the UK energy market. We have some views about how this market could be further improved for the benefit of competition and customers. We are closely engaged with the CMA and have been responding to their requests.

We had a hearing with the CMA as part of their process towards the end of March and we are looking forward to the outcome of the investigation.

Let me turn finally to our own capabilities as a company. I have been very impressed with the men and women of Centrica. I am confident we have a strong team and are building the right capabilities to face the changing future of energy and services with confidence.

We are investing in training, and last year invested a total of £52 million. We continued to provide training to our 15,000 engineers and technicians in the UK and the United States. Our apprenticeship scheme is one of the largest in the UK, and last year we trained over 1,200 apprentices.

We are investing more in customer service capabilities as I mentioned earlier.

We have acquired companies which will provide us with a deeper technological base and enhanced offerings. In 2014 we acquired Astrum Solar in the United States, and earlier this year, as I mentioned, we acquired the remaining interest in AlertMe.

Finally, we are paying close attention to securing the right talent for the next phase and as Rick mentioned, I am delighted that Mark Hodges will be taking up the post of Managing Director for British Gas with effect from 1st June. He has the leadership skills and experience we need in the next phase to make the most of the opportunities ahead of us in British Gas.

As a significant energy supplier to important markets, including as Britain's biggest energy supplier, we carry a great responsibility - to secure and deliver affordable energy for our customers, to provide them with excellent service, to support those households that are most in need, and to pursue cost efficient and lower carbon pathways for the transition in the patterns of future energy use which is already well underway.

These pathways will involve delivering greater energy efficiency, giving customers more control over their energy use, and providing innovative service offerings.

It will also involve the migration of the energy supply mix towards lower carbon sources of energy over time. Natural gas will play a critical part in this transition over the next 20-30 years.

Centrica is a company deeply involved in natural gas, and an enabler of lower carbon electricity production. Along with our capabilities to supply energy and services to the evolving needs of our customers, we are extremely well positioned for this next phase.

During my first few months here, I have already been impressed by the quality of our people and their commitment to serving our customers competitively and with integrity, developing new offers and services, and providing secure energy supplies as we aim to deliver long-term shareholder value. I would like to thank our team for their warm welcome and for already making me feel very much at home at Centrica.

We continue to face some significant challenges and uncertainties in 2015 and beyond. But it is also clear to me that Centrica has built a solid set of positions, and an impressive range of capabilities, which means that we are well placed to tackle whatever comes our way.

As we take our company forward, I am confident that it will continue to play an important and positive role in the developing energy markets of the world.

Thank you and now let me hand you back to Rick.