

General meeting presentation

21 November 2008

Presentation transcript

Roger Carr – Chairman

Good morning ladies and gentlemen, I would like to welcome you to this general meeting of Centrica. Thank you very much for attending what is a very important occasion in the development of your company, and particularly for making the effort to get out here to Docklands. Our normal practice would be to be in the centre of London, but when meetings are extraordinary, being able to locate the venue that you want, which is convenient for all, is very often quite difficult. You have to take what is available for a potentially very large audience. Clearly the audience is not as large as it might have been, but it still a large group and we are very appreciative of you all making the effort to get here today.

Joining me on the platform today are the key members of the board associated with this rights issue. They will be able to answer any questions you may have. They are to my right Sam Laidlaw, Chief Executive; Nick Luff, Chief Financial Officer; and to my left Paul Rayner, Chairman of the Audit Committee and Grant Dawson, our Company Secretary. In addition, Phil Bentley has joined us today, the Managing Director of British Gas, to answer any questions you may have with regard to his business. He will be sitting in the audience.

First I will outline the reasons 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 resolutions prior to voting on the resolutions themselves.

We are meeting following the announcement that the company made on 31 October of its intention to implement a rights issue of new shares to its existing investors in order to raise additional share capital. The basis of the rights issue offer is three new shares for every eight existing shares held at the record date of 14 November. This rights issue is intended to raise approximately £2.2 billion. These funds are primarily intended to ensure that we are well capitalised to fund the potential acquisition of a 25% interest in Lake Acquisitions Ltd, a wholly owned subsidiary of EDF SA, which in turn has made an offer to acquire 100% of British Energy plc, the UK's leading nuclear power generator. The proposed acquisition will cost approximately £3.1 billion. We announced details of this proposed acquisition on 24 September. The balance of the consideration needed to pay for the interest in British Energy would be funded through additional debt and possibly asset sales.

The French energy group EDF, through its subsidiary Lake Acquisitions has announced a recommended offer for the whole of British Energy's equity. Once that transaction is completed, the intention is for us to then acquire our 25% interest in British Energy from EDF. I should underline that although we have a memorandum of understanding with EDF, we have not yet entered into legally binding documentation, and we continue to negotiate with them. Furthermore, EDF will require regulatory approval for its purchase of British Energy, as would Centrica in order to purchase our 25% interest. However, assuming we can conclude the proposed transaction with EDF, we would see a significant increase in our vertical integration. That is, the proportion of our gas and power requirements which come from our own resources. This will reduce our exposure to erratic commodity costs on the wholesale markets, improve our competitive position and reduce the volatility of our earnings. This will be to the benefit of the company, its shareholders and its customers.

Acquiring a 25% interest in British Energy would give us 25% of the power generated by its power stations, 25% of the profits from the business, and the right to participate in 25% of new nuclear capacity built by the business in the future. EDF have said clearly that they intend to build four new nuclear reactors in the United Kingdom, and are intending to have the first of these operational by the end of 2017. Securing a stake in this new build would extend the hedging effect for a long way in the future. Overall, the proposed acquisition for a 25% interest in British Energy would have the effect of increasing the proportion of Centrica's combined gas and power demand sourced from our own production from the low 30% level to the low 40s. This would represent a significant move towards our target of around 50%.

If we do not ultimately acquire the interest in British Energy, we would examine our options to use the funds raised from the rights issue for other opportunities to increase our vertical integration, or for general corporate purposes. If needs be we could also return some or all of the funds to the shareholders. The rights shares will be issued at a price of 160 pence per share, which represents a discount of 39.9% to the theoretical x rights price of 266 pence. This is based on the closing price of 306.25 pence per ordinary share on 30 October 2008, which was the last business day before we announced the terms of the rights issue. I should also mention that the terms of the rights issue, should it go ahead, has been fully underwritten by a syndicate of banks.

We now need to secure the agreement of you, our shareholders, to the proposed rights issue. Depending upon the financial circumstances prevailing at the time that our negotiations with EDF are being concluded, the acquisition by Centrica of a 25% stake in British Energy may require us to seek further approval from you, our shareholders.

The resolutions proposed today, if approved, will increase the Company's authorised share capital and allow the directors to allot these shares primarily in connection with the proposed rights issue. We have also taken this opportunity to renew our usual authority to allot some equity securities on a non pre-emptive basis.

Before we move to the resolutions on which you are being asked to vote, I shall be pleased, together with the team, to answer any questions that are related to the specific business of this meeting. Any shareholder, proxy or corporate representative has a legal right to ask a question if they so wish.

That, ladies and gentlemen, concludes the business of this morning's General Meeting and I declare the meeting closed. Members of staff from Centrica and our registrar are available outside the meeting room to help you with any additional enquiries which you may have.

The final results of the poll voting on both resolutions will be announced to the London Stock Exchange as soon as possible.

Thank you for attending the meeting here today and I wish you all a safe journey home.