

AGM Presentation

9 May 2011

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 fifteenth 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, a mixture of familiar and new faces. Our biographies can be found on pages 38 and 39 of the annual report and on pages 24 and 25 of the annual review.

We continue to ensure that the Board's composition fully meets the needs of a forward-looking, international energy group and there are a few changes to the senior team on which I'd like to bring you up to date. Ian Meakins, the Chief Executive of Wolseley, joined in October 2010, and he brings considerable experience in managing businesses with strong brands. Margherita Della Valle, Group Financial Controller of Vodafone, joined in January 2011. She contributes valuable financial and consumer market experience. I know you will join me in welcoming them both to Centrica. Incidentally – as you can see – Centrica continues to show leadership in ensuring a healthy gender mix, with over 30% of our non executives being women, a level we encourage others to follow.

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 2011. Sam Laidlaw, our Chief Executive 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 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.

The 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 2010.

I am pleased to report that your company delivered very strong financial results in 2010, reflecting both the enhanced performance of our enlarged upstream business, and healthy growth in demand in our downstream activities.

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Following the Venture and British Energy investments in 2009 we now have a more balanced business model, and one which is more robust against volatile energy prices.

2010 was a year of rising commodity and non-commodity costs, a trend which has continued to the present day.

We led the market with a cut in household bills early in the year. But sadly, higher forward energy prices and rising non-commodity costs necessitated an increase in retail gas and electricity prices in December. Over the year as a whole, however, we maintained a strongly competitive position and continued to improve our standards of service – I am pleased to say – a winning combination.

As a result, we achieved very marked growth in our customer numbers – the ultimate reflection of good management in action.

Now clearly we recognise the impact that higher energy prices have on our customers, especially during periods of very cold weather – and, unusually, we had two such periods in 2010. So, to combat these problems, we work closely with all our customers to help manage their energy needs, while at the same time targeting assistance to the most vulnerable, especially the elderly. And we will continue to ensure that good financial performance is blended with sound corporate values.

Upstream, the operational and financial performance of our business was strong, despite lower gas prices at the beginning of the year.

In North America, we have taken important steps in delivering our strategy of building a larger, more vertically integrated energy business, through a combination of organic growth and acquisitions – under the leadership of a reinvigorated and skilled management team.

Of course, our people are central to the success of the Company and I thank all of our employees for their hard work and dedication, particularly during the adverse weather conditions experienced during the year, which were among the worst in living memory.

I particularly want to mention the important contribution of our British Gas engineers who have embraced new working arrangements which will enable us to provide a more flexible service to all our customers. These are necessary changes which will set the business in good stead as we strive to provide our customers at their convenience with warm, well lit and energy efficient homes and businesses.

Pleasingly, we have yet again been recognised as one of the best big companies in the UK to work for, featuring in the Sunday Times top 25. Creating the climate in which talent can blossom is something of which I think Centrica can be justifiably proud. As always, the safety of our employees and customers remains our top priority. There were no major incidents in 2010. But we remain vigilant and are constantly seeking improvement.

The first few months of 2011 have illustrated how quickly the world can change and challenge our assumptions.

We have all watched the dramatic events unfolding in North Africa and the Middle East this spring – changes that were unthinkable a year ago.

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Changes that have served to accelerate the rise in hydrocarbon prices internationally, a trend exacerbated in the gas and power markets by the tragic earthquake and tsunami in Japan, and the subsequent problems at the Fukushima nuclear power station.

In the light of this, it is only natural that people should reflect on the current UK nuclear fleet and future new build. The Government has asked the Nuclear Installations Inspectorate, the UK safety authority, for a full report on the implications of the Japanese incident. We welcome this. What is important is to learn the lessons from the events in Japan and to incorporate them into the existing fleet and the new build plans.

The recent Budget has also had a significant effect on our business. As you know Centrica is already a major contributor to the Exchequer, paying some £700 million in UK taxes last year.

Following the changes announced by the Chancellor, UK tax levels for gas and oil production are now among the highest in the world. This is at odds with the approach taken in other countries of ensuring a stable investment climate and lower tax regime to maximise extraction from mature fields.

Sadly, it is probable that these changes will affect our plans to invest in the UK North Sea with the consequent impact on jobs and an increasing reliance on imports. I can assure you that we have been making representations to the Government about this national problem and will continue to do so.

Understandably, this highlights an important point. It's the private sector which provides the investment capital. But it's the Government which shapes the investment climate. And this needs to be borne clearly in mind by those in office as the UK energy sector considers the challenge of attracting some £200 billion of private investment by 2020 to create a low carbon energy industry. In meeting this challenge we are seeking fairness, not privilege, and understanding, not sympathy. It is in all of our interests.

Earlier today we released our first interim management statement for 2011 to the London Stock Exchange.

We are facing a more challenging set of business circumstances than last year.

Overall, the performance of our upstream business is strong and will continue to benefit from the higher commodity price environment, although the increase in upstream gas and oil taxes will offset the benefit of higher prices.

However, higher wholesale costs and lower consumption levels are impacting residential energy profit margins in the year to date.

For the Group as a whole, we continue to expect growth in our 2011 earnings, but at a more modest rate than anticipated at the time of our last results announcement as upstream profits have become more highly taxed. The full year outturn remains subject to the usual variables, particularly retail margin recovery and weather.

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 during the year.

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So, overall we are in good shape financially, operationally and – most important of all – managerially to take on the increasing challenges that lie ahead. I will now hand over to Sam, who will outline developments over the past year and update you 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.

As the chairman has mentioned, 2010 was a very strong year for Centrica.

Operating profit grew in all our businesses. British Gas added over half a million customer accounts, the fastest growth in a decade. Upstream, the enlarged business recorded a significant rise in production and profits. And in North America, Direct Energy expanded rapidly with new acquisitions.

This represents real and measurable progress across each of our businesses towards achieving the four strategic priorities we set out at the beginning of last year.

2010 saw Centrica establish itself as an energy group with a distinctive, integrated structure, giving it the flexibility to adapt to a changing commodity price environment and the financial strength to choose from a wide range of investment opportunities.

We are well placed to continue on the path we have set and deliver increased value for you, our shareholders. 2011 promises to be a more challenging year, both operationally and in terms of the external forces which are shaping our markets, from Government policy to wider global events. I'll return to those issues in more detail in a moment. But first, I'd like to give a brief overview of our 2010 financial results.

Centrica delivered a strong performance at group level in 2010, a year of rising gas and power prices.

Operating profits increased to £2.4 billion. Our upstream gas and oil production rose by 43% following the Venture acquisition. In residential energy, British Gas led the market with a reduction in retail prices in February 2010 and held off raising prices until December. Downstream profits increased by a fifth overall, to £1.2 billion.

Our effective tax rate rose to 37% because of the increase in highly taxed upstream profits.

The net result was earnings after tax of £1.3bn, up by a healthy 16%, equivalent to 25.2 pence per share.

The dividend was raised by 12%, to 14.3 pence per share, maintaining our record of delivering real growth each year.

As Sir Roger rightly observed, 2011 has already been an eventful year, from unrest in the Middle East and North Africa to the devastating events in Japan, not least the emergency at the Fukushima nuclear power station.

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In this country, the need for a diverse energy mix remains unchanged and nuclear has a vital role to play. Our nuclear safety regulation is stringent and we have a good safety record. Nevertheless, we need to be sure we have learnt all the lessons from Fukushima and the timetable on new nuclear investment will be determined by the independent investigation being carried out by the Chief Nuclear Inspector.

The market response to these world events should come as no surprise. Oil prices have been propelled to levels even higher – in sterling terms – than those experienced in the summer of 2008 and the Japanese situation has impacted gas prices. Next winter's wholesale prices are up by around 25% on last winter. Yet these shocks are part and parcel of the interconnected world in which we now live. The real challenge for us here in the UK is to ensure that we are well placed to compete for constrained energy supplies.

That's why we were especially proud to announce in February a unique strategic deal with Qatar for the supply of Liquefied Natural Gas, enough to meet 10% of UK residential demand over the next three years. The deal was formally signed just before Easter and imports of LNG will play an increasingly important role in helping to fill the nation's energy gap.

But this is only one part of the solution to our energy needs.

Our first port of call must be our own back yard. There is still significant gas on our doorstep, in the North Sea. Exploiting economic reserves here at home must be a central plank of any UK energy policy.

Yet, following the measures announced in the Budget, we face a tax rate on our gas and oil production of up to 81%. Although our integrated business model has become more robust against volatile energy prices, the effectiveness of our economic hedge has been partially reduced by this tax hike.

Given reduced cash flow, lower incentives and policy uncertainty, we no longer expect to maintain the previously high projected levels of investment in the UK.

In other areas the Government has been constructive, and I acknowledge in particular the role played by the Prime Minister, who attended the signing of our LNG deal in Doha during his tour to the Middle East in February.

We also support the Government's decision to underpin the UK carbon price from 2013, and its proposals for Electricity Market Reform. Taken together, they will enhance the investment climate for low carbon and flexible generation, providing greater financial certainty. This should help our own planned developments in nuclear, gas-fired generation and renewables.

The energy industry has also been under scrutiny from the regulator Ofgem. Its Retail Market Review, published in March, found no grounds for investigation by the Competition Commission. We welcome this and will continue to engage with the regulator to make sure that the market remains competitive and transparent.

But market reform alone will not deliver the level of decarbonisation required and ensure that energy remains affordable and secure.

We urgently need to revolutionise the energy efficiency of Britain's homes and businesses.

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The potential for improvement is enormous. We have some of the most poorly insulated housing stock in Western Europe. As I set out in my speech to the Royal Society last autumn, the old utility model is dead, and we at Centrica are taking the lead in the transition to the low carbon future. We are already making great strides.

British Gas has committed £30 million to Go Early on the Government's Green Deal, the scheme which will enable consumers to enjoy energy efficiency improvements to their homes without having to pay up front, and this year we offered free insulation to all our residential energy customers.

Measures like these – along with micro generation and smart meters – will help our customers to use energy more efficiently. It may sound unusual, but helping people to consume less energy is a growing and increasingly important source of revenue for the Group.

Helping to create the low carbon, efficient homes of the future will also reduce import dependence, keep bills and emissions down, and maintain our industrial competitiveness.

This then is the wider context within which we have focused our day-to-day attentions on the four strategic priorities we set out early in 2010. In the relatively short space of time since then we have made a lot of progress.

First, the priority to grow British Gas, leading the transition to low carbon homes and businesses.

Profits at British Gas showed a significant gain on 2009. Here, the main driver was Residential energy where we added 267,000 accounts last year and have continued to grow our customer base in 2011.

In Services we also added more than a quarter of a million customer accounts last year.

And we reached new flexible working arrangements with our engineers which enabled them to perform prodigious feats during the very cold weather in December, fixing up to 35,000 boilers a day, twice the normal level of callouts.

The transformation of British Gas under the leadership of Phil Bentley and his first rate management team is bearing fruit in the consistent delivery of best-in-class service to our customers at competitive prices.

We have now installed more than 300,000 Smart Meters in homes and businesses since roll-out began in 2009.

In the last 12 months, British Gas has insulated over a quarter of a million homes.

In 2010 we contributed a total of £80 million to provide help for our vulnerable, elderly customers. Our social spend in the energy market exceeds any other organisation in Britain, bar the Government. In leading the transition to low carbon homes, it's important that our most vulnerable customers don't get left behind.

Our second strategic priority is to deliver value from our growing upstream business, securing sustainable energy for our customers. 2010 is the year when Centrica Energy truly came of age, under the leadership of Mark Hanafin.

With Venture Production now firmly settled into the Centrica family, gas and oil volumes jumped by more than 40%.

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Power generation included a first full year contribution from our 20% share of British Energy and profits there were up by more than a half.

We boosted our reserves with the acquisition of an additional stake in the Staffjord field and new gas assets in Trinidad and Tobago. Our F3-FA reusable platform in the Dutch sector of the North Sea was successfully installed in October, with first gas coming on stream in January.

We now supply 60% of our residential gas and power demand from our own resources.

Our third key objective is to build a more integrated North American business with leading positions in deregulated markets. Chris Weston and his team at Direct Energy also had a very good year.

Our businesses expanded rapidly with new acquisitions, including Clockwork Home Services, which makes us the largest home services company in North America, and gas assets at Wildcat Hills in Alberta, Canada.

Continued low gas prices across North America have had a significant impact on the returns from our upstream business, but they also provide us with opportunities to grow the scale of our activities there at an attractive price.

Downstream we have continued to expand our residential and business customer base, especially in the North Eastern United States where we recently announced the acquisition of Gateway Energy Services, adding more than a quarter of a million new customer accounts.

We now have around 6 million customer relationships across North America. At the same time, we have completed our withdrawal from European retail markets with the sale of Oxxio in The Netherlands.

This all leads to our fourth strategic priority, to ensure that we deliver superior financial returns to you, our shareholders, both through our operating performance and through careful investment choices.

I hope you'll agree that 2010 was a good year in terms of meeting those expectations. Our total shareholder return was 23%, outperforming both the sector and the FTSE100. We have managed to deliver a healthy improvement in our earnings per share, underpinning a 12% increase in our final dividend payment.

Under the careful stewardship of our finance director Nick Luff, we have further strengthened Centrica's balance sheet, paying back nearly half a billion pounds worth of bonds early and ensuring a robust ratio of debt to earnings. This gives us the strong financial base to maximise our investment opportunities.

But we are not complacent. We continually strive to work more efficiently.

We have taken £300 million in costs out of the business in the past three years and cost control remains a major focus.

And our investment choices have to meet rigorous conditions, with realistic expectations of double digit returns. We will not spend your money unless it is in your interests for us to do so.

As I said at the outset, 2011 promises to be a more challenging year.

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Indeed, we can already see the evidence of that in our downstream energy supply business.

Consumption in the first four months of this year has been significantly lower than for the same period in 2010, due to both the milder weather and underlying efficiency improvements. At the same time - as a result of events in the Middle East and Japan - wholesale gas and electricity prices have been higher, and so too have transportation and decarbonisation costs. This means that residential profit margins remain under pressure, while end-user prices have yet to reflect the higher wholesale market environment.

However, there are many grounds for optimism.

Our strongly competitive pricing position has seen the number of residential supply accounts grow in recent weeks to nearly 16 million. British Gas is once again the cheapest supplier of electricity in every region of the UK and the cheapest on average for dual fuel.

Upstream, although gas and oil profitability has been impacted by the tax changes, production performance was strong during the first quarter, while in power generation both nuclear and renewables are performing well.

In North America, Direct Energy is on track for further growth.

But our overarching strategic priority remains you - the shareholders - the owners of Centrica.

Much of our success also depends on the people who keep this business on the road, whether it's our engineers struggling through the snow to fix a boiler on Christmas Day, or our call centre colleagues handling a customer bill enquiry, or our offshore workers making sure that Britain's homes are warm and well lit. I would like to offer my personal thanks to each and every one of them and to the management team that continues to lead them so well.

I am certain that the distinctive nature of Centrica, with its combination of financial strength, operational flexibility and dedicated staff, leaves us uniquely positioned to meet the challenges of 2011 and to continue delivering on our commitment of superior financial returns to you, our shareholders.

Thank you.

End of presentation

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