

AGM Presentation

13 May 2013

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 so many of you to the seventeenth Annual General Meeting of Centrica plc. As always I am accompanied by my colleagues on the Board and we are delighted to welcome so many shareholders here today. 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.

2012 has been an important year in the development of Centrica, it's culminated in refreshing the strategy which we announced alongside our Preliminary Results in February this year. I will touch on this a little later and Sam will provide a more detailed update. I will also talk about the Group's performance in 2012 and the year ahead but before I do, I just wanted to share with you some of the changes to the Board.

In order to ensure the organisation of the management team is appropriate for the task ahead, from 1 July the Group will migrate from a regional structure to an international structure. Sam will continue to lead the executive team and Nick will remain responsible for Group finance. Chris Weston will assume responsibility for downstream operations across the Group and Mark Hanafin will assume responsibility for our worldwide upstream operations. They are both highly accomplished and hugely committed – I am particularly appreciative of their hard work and the skills they bring to the business.

As you'll no doubt be aware, Phil Bentley will be stepping down from his role as Managing Director of British Gas, and as a Board member of Centrica, on the 30th June and will leave the Company by the 31st December 2013. Phil's contribution to the development and success of the business cannot be overstated, both initially as Finance Director and then as Managing Director of British Gas. I would like to thank Phil again for his instrumental role in leading and supporting the business and I wish him every success in the future and I'm sure you will join me in wishing him every success.

We are also sad to lose Andrew Mackenzie, who stepped down on the 10th May after serving as a Non-Executive Director for over seven years. Our loss was BHP Billiton's gain, as Andrew has been appointed Chief Executive of BHP Billiton, one of the world's biggest mining companies.

With these changes, it is more important than ever to ensure we maintain an appropriate balance between refreshing the Board's composition and retaining the experience needed to avoid undue disruption and to preserve corporate memory. With this in mind, I am delighted that Mike Linn has agreed to join the Board as a Non-Executive Director with effect from the 1st of June 2013. Mike has excellent upstream credentials in North America and is a well established figure in the exploration and production industry. He also has strong entrepreneurial skills and a deep knowledge of both the industry and the North American political community we are very pleased he has agreed to join us. He will undoubtedly be a valuable addition to the Board in the light of our growing presence in the US and Canada.

This will be Paul Rayner's last Centrica AGM, as he will complete his nine year term of office later this year and steps down as a Non-Executive Director on the 31st December. In that period Paul has ably chaired the Audit Committee since 2004, it is a very demanding responsibility which will shortly be passed on to Margherita Della Valle who will take it on from mid-year. Paul has been a terrific contributor and I am sure you'll want to wish him all the best in the future.

Mary Francis also completes her nine year term later this year but we have agreed that she should continue in her capacity as Senior Independent Director during 2014. I was very grateful that Mary was willing to do this as it does help to bridge from the old world to the new world.

We'll be launching a search for replacements for Paul later this year, and for Mary in 2014, using the opportunity to ensure that the new additions help the Board to meet the needs of the Company as we develop our refreshed strategy.

As you can see, Centrica continues to show leadership in ensuring we have a diverse range of skills and attributes to lead the Company. This includes a healthy gender mix, with over 30% of our current non executives being women, a level we encourage others to follow.

Next, a word or two on procedure:

As mentioned earlier, in a moment I shall say a few words on your Company's performance, the environment in which we operate and the outlook for the future. Sam Laidlaw, our Chief Executive, will then talk about our refreshed strategic priorities and just what those mean for the business. 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 and, as in the past, I will call a poll on all resolutions. If you remember, last year we voted using electronic handsets. I asked the shareholders who were here last year whether they wanted to continue using the handsets and the majority view was that they did not wish to do that. So, we've listened to those views and this year we are using a more traditional way of voting, with paper voting cards. The voting cards will have

been handed to you when you registered earlier. So, your votes will be added to the votes already submitted by those shareholders who were unable to attend the meeting and that will give us a total voting result.

The results of the vote will be announced to the London Stock Exchange once they have been counted. They will also be available on our website. If this is after 4.30 today when the markets close, we will make sure this is available very first thing tomorrow morning.

I will explain the process of voting in more a little detail before we consider the resolutions. If you do not have your voting card don't worry, we'll make sure we hand out more voting cards before we get to the resolutions.

The Members of the Board, as we normally like to do, will be joining you for tea and coffee for one hour after the meeting and we look forward to talking to you on a more informal basis about the business and how you feel about it.

Now I'd like to turn to Centrica's performance during 2012. I'm pleased to say that we delivered another year of good earnings growth, despite the weak economic backdrop. We continued to expand the scope and scale of the business, whilst maintaining all of our capital discipline. And we took account of the changing energy landscape to redefine our strategic goals.

Downstream in the UK, the year brought many challenges, with periods of colder weather - compared to the very mild conditions that we all had in 2011 and that contributed to higher energy bills.

We faced increased costs in supplying energy, many of them external to the Group, including those imposed as a result of Government policy. But a relentless focus on our own cost management helped British Gas to implement the lowest tariff increase of all the major energy suppliers.

In the tough economic climate, we are committed to doing everything we can to help our customers. We are leading the industry in standards of service, innovation, help for the vulnerable and energy efficiency itself. In a competitive market we continue to add customers.

During the year, the regulator Ofgem published its proposals to make the household energy market simpler, clearer and fairer for consumers. These developments are a welcome step forward, though it is important that they do not have the unintended consequence of restricting choice and indeed innovation. We have already implemented a number of changes consistent with Ofgem's proposals, including simplifying our tariff structure and making it easier for our customers to check that they are on the best British Gas deal for them.

Upstream, we have invested around £2 billion during 2012 in helping to secure gas supplies for the UK. We achieved first power from our Lincs offshore wind farm and, with our partners, we also gave the go ahead for the Cygnus development, which is the largest gas discovery in the Southern North Sea for

over 25 years. We expanded our presence in Norway and extended our contract with Statoil to supply enough gas for three and half million UK homes a year until 2025.

We decided not to participate in the new nuclear construction with EDF, frankly, because of higher anticipated costs and a lengthened construction schedule. This enabled us to return cash to shareholders through a £500 million share repurchase programme which is now under way.

In North America, Direct Energy delivered another strong performance in a low gas price environment, benefitting from organic customer growth and the successful integration of recent acquisitions. We did move the headquarters of our North American operations from Toronto to Houston, and that reflected the shift in the centre of gravity of the business towards the US and away from Canada.

Overall in 2012, the business achieved further operating profit growth, up 14% to £2.7 billion. Net earnings increased by 5%, to £1.4 billion, which was equivalent to 27.1 pence per share, despite our total tax charge rising to £1.1 billion. As a result of our strong performance, we were able to increase the final dividend paid to you, our shareholders, by 6% to 16.4 pence per share.

We are very committed to continue growing our dividend in real terms every year and it's important to stress the vital role which our dividend payments play. We have around 700,000 individual shareholders and - through our larger shareholders, many of them pension funds – our dividends feed into the retirement savings of millions of people.

Winning recognition for our wider contribution to the UK economy is a priority item on our agenda and earlier this year, you may have read about it, we commissioned Oxford Economics, the global consultancy, to compile a report on Centrica's UK economic impact.

This found that, through our supply chain and other multiplier effects, we support 174,000 jobs in the UK, and generated £4.2 billion in total tax payments, including, of course, corporation tax, National Insurance contributions and PAYE during 2012, that is equivalent to £158 for every household in the UK. So this is a pretty important business for the UK and one we need to work hard to keep.

In 2013, Centrica faces new challenges, including the loss of free carbon allowances, which will make the market environment for our gas-fired power stations even more difficult, and the introduction of the Government's Energy Company Obligation, which will increase the cost to our customers of providing energy efficiency measures.

The Energy Bill continues its passage through Parliament. However, the capacity market to support new gas-fired plants - and the contracts for difference to underpin new renewables generation – must be enacted in a

timely fashion so that the much needed investment in UK power generation can go ahead.

We also welcome the Government's Gas Strategy. The recent prolonged period of cold weather has intensified the focus on the security of the UK's gas supplies. With the country becoming increasingly dependent on imported gas we believe that more seasonal storage is actually required.

Capital discipline remains a core value for Centrica. In all our investment decisions, we will only deploy capital when the returns to you, our shareholders, are appropriate to the level of risk undertaken.

It's important to recognise that our people at all levels are of course absolutely central to the success of the Company and I want to thank each of our employees for their hard work and dedication during what has been a difficult but successful year.

Their co-operation and understanding have been vital as we remain on track to deliver our Group-wide cost reduction programme, sharpening the business and maintaining our competitive edge for the benefit of customers and shareholders alike.

At the same time, we continue to invest in the talent of the future. Last year, we spent around £14 million on our British Gas Energy Academies and - through our apprenticeship schemes and training programmes - we are leaders in supporting jobs and skills in the UK.

As always, the safety of our employees and customers remains a top priority. Our overall safety performance continues to improve but, as always, I can assure you we will always seek to do even better.

Customer trust is at the heart of what we do and is the key to our ability to do business. Price increases – however necessary - test that trust – particularly during a time of economic pressure on hard pressed consumers. It is therefore more important than ever that the Government, the regulator, the industry and external commentators foster an honest and open debate about the true costs of securing the energy supplies that Britain needs.

So in summary, we have delivered a strong performance in 2012 with continued earnings growth. We have enhanced the scale of our business upstream, with increasing geographic diversity and the capabilities to achieve further growth.

We really do have a great management team, a robust balance sheet and generate strong cash flows. And we are setting out refreshed strategic priorities to adapt to a new energy landscape, reshaping our management structure to build upon our core competencies and ensure our future success.

Today we have also issued a statement summarising our performance in the first three months of this year. I'm pleased to say that we continue to make

good progress and a copy of the statement is available from the shareholder enquiry desk outside and on our website.

I will now hand over to Sam, who will update you on our new strategy and the outlook for the business.

Sam Laidlaw, Chief Executive

Thank you Sir Roger. Good afternoon ladies and gentlemen. Thank you for joining us at our Annual General Meeting.

As you've heard, the business performed well in 2012 in a challenging environment, demonstrating the resilience of the business model.

But just as important as our financial performance is our health and safety record and here too we made good progress during the year. The health and safety of our staff, our customers and our contractors remains a core priority.

In our gas production and power generation operations (our upstream business), we put particular emphasis on process safety, while downstream, in our retail operations, we focus on the safety of our customers and our engineers. All this is done through training, rigorous monitoring and comprehensive assurance programmes.

I am therefore pleased to report that last year we reduced our lost time injury rate by 20% to 0.2 per hundred thousand hours worked, or one incident per half a million hours.

Our emissions fell from 8.4 million tonnes of CO₂ to 7.4 million tonnes. We now have the lowest carbon footprint of all the major generators in Britain, but we will continue to target further improvements in the years ahead.

Our strong operating performance in 2012 was underpinned by the four strategic priorities which we set out three years ago to guide our business decisions. They served us well. So, before I go on to map the future direction of the Group, I'd like to set out how we have delivered against each one of those goals.

First, to grow British Gas.

Customers are at the heart of our business; providing both good customer service and value is critical to our further success. In British Gas Residential we have delivered strong performance through the business cycle. We have taken the lead in ensuring that our tariffs and bills are simple and clear. Many of you will have seen our new bill format where we spell out clearly the components of the cost and also advise you of the best tariff for you. Our customer retention is strong, reflecting our high service standards and competitive pricing, all underpinned by a constant focus on efficiency and costs.

In British Gas Services, we have increased profitability by more than a third over the past three years, despite the weak economy. Here too, customer retention remains strong, demonstrating the value placed on our products and the high level of service our engineers deliver.

In British Gas Business, we are investing in our back office systems to improve service, at reduced cost, and we have a new management team in place to drive the business forward.

Across British Gas we are on track to deliver our cost savings targets – taking out £300 million of costs, enabling us to deliver more competitive energy and services in the marketplace.

And we have established clear leadership in systems, online, where we now have three and a half million customers, and in smart metering – providing us with the platform for growth through technology and innovation.

Our second priority has been to deliver value from our growing upstream business.

Here, we have built a significantly larger, more geographically diverse business – with our record of growth in Norway a particularly strong example. Across our gas and oil portfolio, we have increased reserves and production by 50% over the last three years, doubling our cash generation – reflecting acquisitions and our success in bringing new projects on stream. We have achieved first gas from 10 projects and recorded above average exploration success.

In power, we are established as a leader in offshore wind, working with key partners and enhancing our returns through efficient financing structures.

In gas-fired generation, we have taken prompt action, closing loss-making stations where required and investing to optimise the performance of the remaining assets, where appropriate.

In nuclear, the strong performance of the existing fleet underlines the quality of our original investment in British Energy, with life time extensions adding value as well as helping to maintain energy supplies for the UK. Our decision not to proceed with new nuclear, as a result of the increasing cost and lengthening timescales, underlines our commitment to strong capital discipline.

Turning to our third priority, to build an integrated North American business.

Here we have increased our scale, both upstream and downstream. Operating profit is up by 55% - and with that US profits are up by 72% - putting us well on the way to our target of doubling the profitability of the business.

Customer numbers in our core US markets are up by 75%. Profits in Direct Energy Business have more than trebled. In residential services we now have true multi-state capability and a platform for growth.

Our downstream business in North America is delivering a much improved return on capital, up from 9% to 13%.

Upstream in North America, we have taken advantage of the low gas price to treble our resource base and increase our production by over 50%.

Our fourth priority has been to drive superior financial returns.

Our earnings before interest, tax, depreciation and amortisation are approaching £4 billion, up from £2.6 billion three years ago.

Our earnings per share are up by a quarter, and dividend per share up by 28% - both well ahead of the FTSE 100 Index - contributing to total shareholder returns of more than 36% during the period.

So, as you can see, we have been successful and we have made good progress against the strategic priorities that we set out three years ago. But much has changed in the world since then and the external energy environment is evolving rapidly.

Gas continues to play a major but changing role in UK and US energy supplies. The UK is increasingly reliant on imports and Liquefied Natural Gas will intensify the exposure of this country to global gas markets. In North America, growing shale production has resulted in lower prices and is opening the opportunity for exports.

In UK power generation, there were high hopes that new nuclear, clean coal and biomass projects would be moving forward to reduce the country's carbon footprint. But it's now clear that this will take much longer and be more costly than was estimated three years ago. With coal stations retiring, gas will become a more important part of the fuel mix and new power investments will increasingly depend on regulatory and political support.

Downstream there are two distinct trends in our core markets. In the UK, costs are rising and affordability is high on the political and public agenda, so energy efficiency and technology are key to managing bills. In North America, by contrast, bills have been falling and markets are increasingly opening up to competition.

We are responding to this evolving external environment by refreshing our strategic priorities. In line with our overall vision – the vision remains the same; to be the leading integrated energy company with customers at our core.

Downstream, we will innovate to drive growth and service excellence.

Upstream, we will integrate our natural gas business, linked to our core markets with the focus on the Atlantic Basin.

And across the Group, we will increase our returns through efficiency and continued capital discipline.

So, what do these priorities mean in practical, business terms?

Well, downstream we will lead with technology to help customers take control of their energy bills. We will continue to roll-out online offerings, mobile apps and smart meters to be a leader in the industry, sharing systems and new propositions across the Atlantic.

We will further improve our service levels and leverage our strong brands to deliver growth in the business market, in services and in the deregulated markets of the US. In North America we will double the profitability of the downstream business over the next 3 to 5 years.

Our downstream business has got off to a good start in 2013, increasing the number of UK residential energy accounts. This reflects our competitive pricing, a simplified energy offering and continued high levels of customer service. As part of delivering the new strategy of innovation, we have now installed more than one million smart meters and over 20,000 of our customers are using our new remote heating control product.

Upstream, we will invest for value in exploration and production, notably in North America, raising our production target from 75 million barrels of oil equivalent a year to an international target of 100 million barrels a year, or 275,000 barrels per day. We will increase our presence in LNG and grow our activities along the gas value chain.

In UK power generation, we will continue to pursue new development options, but in partnership with other investors to manage the risks involved. We will limit the capital employed in this area until we see far greater certainty in the regulatory regime that will govern investments over the next decade.

We are already delivering on the upstream element of our strategy as well. In March, we announced a landmark £10 billion agreement to export LNG from the Sabine Pass terminal in Louisiana USA. And last month we entered into a joint agreement with Qatar Petroleum International to acquire oil and gas producing assets in Canada which will transform the scale of our North American upstream operations. This is the first investment under the Memorandum of Understanding we signed with the Qataris in 2011.

Performance in our upstream gas and oil business has also been good in the year to date. We have achieved first gas from our York and Rhyl developments, and we have conducted successful drilling operations at the Rodriguez well in Norway and at Whitehaven well in the East Irish Sea.

In gas storage, our Rough asset has also performed well, making a vital contribution to the UK's energy security during sustained cold weather in the first quarter of this year which saw reservoir volumes falling to a record low level in April.

Across the Group, we will drive operational and cost efficiency, deploy our balance sheet capacity where we see value, and return surplus capital to shareholders – as we are already doing with our £500 million share repurchase programme.

In order to achieve these strategic priorities, we are introducing a new organisational structure, moving from a regional to an international alignment of our businesses based on their function.

Chris Weston will assume responsibility for all UK and North American downstream operations under one business. This will enable us to share ideas, expertise, and best practice across our markets.

Mark Hanafin will lead our international upstream business with responsibility for exploration and production on both sides of the Atlantic, bringing together the top class teams and technical ability that we have, both in Aberdeen and Calgary.

I would like to join the Chairman in paying special tribute to Phil Bentley, who is leaving Centrica after nearly thirteen years with the Company. But it's been really Phil's personal commitment and energy has led the transformation of British Gas from an industry laggard to the industry leader it is today. Thank you Phil

I would also like to offer my personal thanks to each and every one of our people for their hard work and adaptability in a fast changing world. I'm confident that their dedication, along with that of the management team that leads them, will hold us in very good stead as we start upon a new and exciting chapter in the Centrica growth story.

At the same time, we are always mindful of the tough economic conditions faced by many of our customers. With the UK economy growing more slowly than hoped, there is an ever greater need for certainty in Government energy policy. Balancing affordability with our climate change obligations is becoming increasingly important.

That's why energy efficiency has such a vital role to play. At Centrica, we have delivered more efficiency measures than any other company in the UK, spending over £1 billion on Government mandated programmes. In total, over the past five years, we have insulated more than 3 million homes and installed over half a million new energy efficient boilers, significantly reducing our customers' carbon footprint but also importantly saving them money.

We will continue to play a leading role in securing the UK's energy supplies. We have adapted our strategic priorities to meet the challenges of a new

energy world. But, as I have said, our vision remains the same – to be the leading integrated energy company with customers at our core.

We will use our key strengths – a strong balance sheet and cash flow; expertise both upstream and downstream; and strict capital discipline – to innovate and grow.

Delivering value to you - our shareholders - is something we have done throughout our history. In the years since Centrica was created, we have grown our dividend every year, providing an all-cash yield of close to 5%. This return is now enhanced by our share repurchase programme. We remain committed to real growth in our dividend, and increasing the value we deliver to our customers and shareholders for many years to come. Thank you.