

Centrica plc AGM - 10 May 2004

Address by Sir Roy Gardner, Chief Executive

Thank you Sir Michael

And good morning ladies and gentlemen.

2003 was an excellent year for Centrica. We overcame significant challenges to deliver another strong set of results.

That's a credit to my executive team and to all their people, who year after year have demonstrated amazing determination to succeed.

I'm very proud that our strategy continues to deliver results, and I look forward to the next stage of our journey – a journey of continued transformation and growth.

The coming years look set to bring many changes to the UK energy market. In particular, the gas market is undergoing a significant period of transition as we move from being a net exporter to a net importer of gas.

We're confident that we can respond to the inevitable challenges that this will bring. As the Chairman has said, we're totally committed to ensuring supplies of gas and electricity for our customers.

I now want to take you through some of our achievements so far this year, as well as our plans for the rest of 2004 and beyond.

Centrica's overall performance is in line with market expectations but further commodity price rises would put group margins at risk.

As you'll remember, British Gas had to raise its prices in January as the result of increased wholesale prices in 2003. Since our results announcement in February, customer losses have been slightly higher than expected. But as anticipated, the rate of withdrawal has now started to slow.

In the first four months of this year, we've seen a net reduction of about 220,000 energy accounts. But British Gas still has just over 40% of the total domestic energy market.

Since we announced our price increase to customers, wholesale gas and electricity costs have continued to rise and, for the fourth quarter of 2004, are now 20% and 14% higher, respectively. As a result, the whole industry is faced with higher costs of procurement and British Gas margins are currently expected to be lower than previously anticipated.

We're concerned about these cost increases and have asked the Government and regulator to look into the underlying causes.

At the same time, energy companies are facing the continually higher costs of meeting obligations to generate electricity from renewable sources, and to ensure that customers use energy efficiently.

The increased wholesale costs, together with these other costs, are putting pressure on margins across the industry.

As we stated at our preliminary results, we've brought forward elements of the transformation programme aimed at reducing our cost base and simplifying our processes. This will underpin our operating margin targets for 2005.

We've already completed the first phase of the Transformation Programme. And we're on track to implement the remaining elements on the revised schedule that we announced in February.

As you know, a key competitive differentiator for British Gas is our home services offering. To meet the customer demand for these services, we're hiring 5000 new engineers, of which half will be Modern Apprentices.

As I speak, the Chancellor is re-launching the Modern Apprenticeship programme and I'm very proud to act as Chairman of the National Task Force working to get more companies involved with apprentices.

Turning now to Centrica Energy....

As a result of higher gas prices and production levels in line with last year, performance is above expectations in 2004.

In order to manage our wholesale costs and to enhance the security of supply for our customers, we continue to invest in upstream assets.

We recently acquired an interest in the Statfjord field, giving us around 120 million therms of gas and 9 million barrels of oil, with an option for further development. This is in line with our strategy of acquiring further gas reserves to replace declining production from the Morecambe field.

We've signed a five-year gas purchase agreement with Shell and we are also developing a new terminal at Easington which will allow gas to be imported to the UK via a new pipeline being constructed from Norway.

In electricity, we recently acquired the right to build a fully permitted gas-fired power station in Devon. We're also investing significantly in generation from renewable sources. Earlier in the year, we formed a joint venture to build a wind farm in the East Irish Sea. We now expect to commit about £750 million over the next 5 years to the development of renewable generation.

At our Rough storage facility, we were very pleased with the results of our capacity sales for the new storage year that commenced on the 1st May. The higher market price for gas storage means that we achieved an average price that was over 23% higher than last year, again exceeding expectations.

Turning now to the AA. I'm delighted to be able to tell you that this business continues to go from strength to strength, particularly in roadside and financial services. By the end of May, roadside membership should stand at some 15 million.

We expect to see record profits from the AA again this year, above market expectations. I'm sure you'll agree that the AA represents a clear success story for the Group. Thanks to our focus on customer service and innovation, we continue to drive significant value from this business.

In telecoms, we were pleased to see OFCOM launch an investigation into the recent pricing changes announced by BT. We now want to see appropriate action taken. Because if these changes are allowed to stand, they could have serious implications not only for our business, but for the competitive market as a whole.

In the meantime I'm pleased to report that One.tel is making good progress, with profits ahead of expectations.

Turning now to activities outside the UK...

With our acquisition of one million ATCO customers in Alberta, we continue to expand our footprint in North America. We now have almost 5.1 million customer relationships, and are actively exploring further opportunities – in both new geographic areas and business markets.

Upstream, we announced the acquisition of our first power station in North America – the £79 million Bastrop plant in Austin, Texas. We've also bought a gas field in Alberta to increase our physical reserves. And, as part of our risk management strategy, we're committed to investing close to £350 million in electricity and gas assets over the next few years.

Although in local currency terms, the profitability of our North American businesses will increase in 2004, the strengthening of the pound against the Canadian and US dollars means that, when translated into sterling, we're expecting profits to be flat year on year.

In Europe, we're starting to see big changes in the energy markets. In France, for example, the government has announced its plans to privatise the state-owned electricity and gas companies. In Holland, the government has announced its intention to force unbundling of its vertically integrated energy companies by 2007.

And, of course, the European Energy Directives require that small business markets be opened to competition this July, followed by the residential markets in 2007.

All of this will likely lead to further consolidation as the various players jockey for position in the market.

Centrica already has a foothold in Europe, through our businesses in both Belgium and Spain. I'm committed to seeing us become an increasingly larger player in this important market for us.

In conclusion, our competitive marketplace, both here and abroad, remains challenging. However, we're well set to meet these challenges and so secure our position as a leading provider of essential services.

As I've said, we're placing further emphasis on efficiency and service delivery here in the UK.

And abroad, we continue to explore numerous opportunities to export the Centrica model -- thus further expanding our customer base.

Our strategy is both clear and robust.

We have a strong balance sheet and the financial strength to fund growth opportunities from our own cash generation. And this still gives us the ability to increase returns to you, our shareholders.

And I'm confident that as we execute our plans, you'll continue to enjoy benefit from our success in the years ahead.

In closing, let me pay tribute to Sir Michael, whose leadership and wise counsel have served us well over the last seven years since demerger. As a Board, we've benefited enormously from his considerable experience, sharp insight and acute sense of what our customers want.

Becoming Chairman of Centrica after a distinguished career in Unilever was not without risk. I'm sure we'd all agree – employees and shareholders alike - that Sir Michael's decision to join the board all those years ago was an auspicious one. In those early days, it helped give us added confidence that the company was going to achieve great things.

We're all very grateful to you, Sir Michael, for helping the company achieve its success. Personally I'll miss your advice and support. I'm sure that everyone would like to join me in wishing you well.

For the next stage of the Centrica's evolution, we're fortunate to have Roger Carr as our new Chairman. Roger's been on our board for three years now, and I look forward to working with him even more closely in the years ahead.

Thank you very much.