

Centrica AGM 13th May 2002, RAG speech

Thank you Sir Michael.

Good morning ladies and gentlemen.

The Chairman has talked about many of our achievements in 2001. I'm going to talk about our strategy and plans for the future. And I'll also update you on the progress we've made so far in 2002.

We remain very clear on our vision ... to be a leading supplier of essential services in our chosen markets. And in many markets we already hold or are close to holding that position.

But we're not standing still and we won't. Our aim is to complete Centrica's transformation from a single product UK utility into an international consumer marketing company.

Put simply Centrica's business model is that of an integrated business which harnesses the power of its people, brands and corporate capabilities to deliver world class customer service and superior returns. We believe it's a unique model and it's one we're starting to export internationally.

So how do we make it work? Well, there are some key imperatives for us.

Acquiring and retaining customers is something we've been very successful at. In the UK we've got over 13 million gas customers. We've acquired over 5½ million electricity customers. And since competition started nearly 3 million gas customers who did leave us at some point have chosen to come back.

Central to acquiring and retaining customers is the provision of outstanding levels of customer service.

Expectations keep rising. People demand ever higher levels of service and are rightly vocal when those demands aren't met.

We're continuing to invest in the infrastructure to help us understand the service that's required and then deliver it. That means making sure our systems and processes are second to none. Giving our staff the tools they need to do their jobs. And empowering them to sort out problems.

Supporting all of this is our skill at managing customer relationships. And we're investing in the technology and the infrastructure which will help us do that even better than we do today.

We're enhancing our customer insights. Understanding what customers want from us is key. Understanding what makes them buy some products but not others. Or buy from us rather than from someone else. That means we can provide

products they want ... when they want them ... backed up with the service they expect.

It also means we can focus our sales and marketing activities and make them more effective. So that for example, we don't send people information about products and services they don't want.

And by doing that we work more efficiently and cut out waste. And that's a three-way win ... for us, for our customers, and for our shareholders – you.

Of course our brands are central to everything we do.

We have four strong brands in the UK and we have invested a lot of effort in understanding, managing and developing them.

The British Gas and AA brands are long-established. They have strong associations of trust

and reliability and a customer who wants to buy from them is buying reassurance.

Goldfish and One.Tel are younger brands but they're already well established in their respective markets.

And of course in North America we're marketing under the Direct Energy and Energy America names.

But this is another area where things don't stand still. We have plans to develop our brands further. And, as we supplement this with understanding of how our customers see us today, we can undertake specific initiatives to move us forward towards our goals.

In March British Gas launched a new advertising campaign under the slogan "there's no place like a British Gas home" ... and you'll be seeing more of

this later in the year. It's just one example of our brand development activity.

One of the things that makes Centrica unique is our strong corporate capability and the extent to which everything is pulled together at the centre.

This means we share best practice and learning. We look for and exploit synergies right across our business. We aim to do things once, not duplicate or reinvent them in different parts of the business. And we allocate our resources to best effect across the group.

Our people are a key part of all this.

They're also the living embodiment of our brands. Every interaction they have with a customer is an opportunity to reinforce the brand values. So we pay particular attention to training and developing them, particularly those at the front line. Making very sure they understand our business direction

and where they fit in. And understand what we mean by outstanding customer service and why it's so important to deliver it.

We're also making productivity improvements across our business. For example, in AA Roadside we've been able to increase the number of service calls per staff day whilst reducing average customer waiting time.

The potential for future profitable growth exists across all our business. So it's essential we have the resources and skills to meet that potential. We're taking a number of actions to ensure that's the case.

For example, the whole market is facing a shortage of skilled engineers and plumbers. So we intend to recruit around 3,000 new engineers by 2005. And we've a particular emphasis on recruiting people from groups who wouldn't normally apply for this

type of job. For example, single parents, women and the long term unemployed.

In addition, last year we acquired two home servicing businesses – National Homecare and Trolhurst. Those acquisitions brought us an additional 500 well-trained and motivated engineering staff.

At senior management levels we've brought in a number of new faces. They've got different skills and experiences and are a strong complement to our existing management team. Making sure we have a strong team for the future is something I take a very keen personal interest in.

The strength of Centrica is a firm foundation from which we can grow by taking our skills into new businesses and new territories.

We're experienced at entering markets that are new to us and making a success of it. Electricity from

British Gas. A credit card from Goldfish. Just two examples. They were new ventures for us – but now they're established businesses.

More recently we've entered the telecoms market and formed the Goldfish bank. And we've expanded internationally into North America and Europe.

We've taken our existing skills and used our experience to enter these new markets. And we've also brought in new people with more local or industry-specific knowledge.

For example, some of our high quality managers have gone out to North America to work with the people out there. And that makes sure that this new business benefits from the lessons we learned during the introduction of competition in the UK energy market.

By paying attention to all of this we'll continue to deliver the financial performance that has characterised our first five years.

Now, let me bring things right up to date by talking about the first few months of this year.

Since the start of the year we've grown the number of customer relationships we have across the group to over 44 million worldwide, despite challenging economic and competitive conditions.

These relationships are at the heart of Centrica. Giving us opportunities to gain greater customer insight, cross-sell additional products and services, and grow our bottom line.

As a result of continuing high gas costs, British Gas increased gas prices from January this year. As we expected, that's resulted in an overall reduction in our gas customer numbers in the year to date. However, against a background of price increases

by most of our competitors, together with the initiatives we've taken and still have planned, I'm optimistic we can recover the position.

During this same period we continued to grow our electricity business and now have over 5½ million customers.

The rise in gas prices and the growth in electricity customer numbers have contributed to an increase in the profitability of our energy business compared with the same period of last year.

We've also made encouraging progress in the commercial energy market. The integration of Enron Direct almost doubled our commercial electricity base by bringing us 160,000 extra customers. We now have a very strong platform for the delivery of our business to business strategy.

Upstream we've continued to effectively use our Morecambe Bay facilities and other gas assets. And also the power station interests we bought last year.

Given the low wholesale price of electricity it makes sense to invest in power stations today. We continue to look for suitable opportunities that will take us further towards our long term aim of sourcing 20% of our peak requirement from our own supplies and so reducing our dependence on volatile markets.

Turning now to the AA.

Roadside membership has demonstrated further growth and we now have over 12.4 million members .. remember it was just 9½ million less than 3 years ago when we acquired the business.

In AA financial services, both insurance and loan activity are performing ahead of our expectations.

And the first quarter of this year was particularly strong for our loan book.

We're making good progress with our product roll-out plans for Goldfish. So far this year we've introduced home and travel insurance, an investment product, and an internet-based savings account.

We've achieved further growth in our telecoms business and now have 1¼ million fixed and mobile telephony customers.

In his speech the Chairman mentioned the barriers to true competition in the telecoms market. Because of the barriers we've decided to focus more on value than going all out for growth until such time as they're removed. For example we've launched products such as Everycall240 which are targeted at higher usage customers.

We've also made a first step into the world of high speed internet access – or ADSL broadband, as it's known. Over 60% of households in the UK already have the ability to take up these services but so far only a small proportion have done.

In February the wholesale price of broadband was reduced. This meant we were able to launch a very competitively priced product. Sales to date are encouraging and we're already starting to realise some of the untapped potential in this market.

Finally, to look overseas.

The Chairman referred in his speech to the slow pace of liberalisation in Europe.

At the same time we're seeing increasing foreign ownership of energy companies in the UK. Nearly 12 million residential energy accounts in this country are now supplied by German or French companies. Those companies are able to compete

in the UK market whilst being protected from competition at home.

We're working hard with the UK government to support their efforts to get European markets opened. But progress is frustratingly slow.

In the short term therefore our international expansion will focus more on North America where we've already established a strong presence, supplying over 1.3 million gas customers.

We entered the Canadian market in the expectation that we'd be able to provide a dual fuel product in Ontario. I'm pleased to say that, after a short delay, and with not a small amount of lobbying on our part, the electricity market did open to competition at the start of this month. At market opening over 600,000 customers had signed up with us.

In Texas the electricity market opened in January of this year and around 1,000 customers a day are signing up with us.

Last week we completed our acquisition of Enbridge Services in Canada. That brought us an additional 1¾ million customer relationships.

And last month we announced our intention to acquire Central Power and Light and West Texas Utilities. These will bring us around 800,000 new electricity customers and make us the leading player in two significant regions of Texas.

With these acquisitions and our continued sales activity we'll have around 4½ million customer relationships with North American households.

To finish. We're operating in highly competitive markets and, as always, we've got some demanding targets to achieve.

Every year I stand here and say that I'm excited about Centrica's prospects and confident we can maintain our record of progress.

This year's no exception. I am excited and I am confident!

Thank you.