

Centrica AGM 14th May 2001 - Speech by Roy Gardner – Chief Executive

Thank you Chairman.

Good morning, ladies and gentlemen.

Sir Michael has already told you a little bit about our strategy to develop the company.

I'd now like to develop this theme and talk to you about our plans for the future.

I'll also update you on our progress so far this year, against the demanding targets that we've set.

Centrica's vision is to be a leading supplier of essential services in our chosen markets.

But what does this mean to the customer?

It's simply this: making life easier for our customers by taking care of a range of important services, particularly in and around the home.

We'll do this by offering simple solutions for everyday needs, including energy, home services, telecommunications, roadside assistance and financial services.

These are services that people just don't want to worry about.

Services where trust and reliability are everything.

Services that we're determined to provide based on first class customer care and value for money.

There's no doubt we've broken new ground. We've developed from being a simple gas utility, to a broader supplier of consumer services.

Our competitors want to know how we've developed this exciting vision, and the capability to fulfil it. And now they're busy trying to emulate us.

We have three critical competitive advantages. Advantages that lie at the heart of our strategy, and give us the confidence to maintain our core business, as well as to grow at home and in international markets.

These are our ability to develop brands, to understand what customers want, and to market and deliver new services efficiently.

Our leading brands;
the AA

British Gas
and Goldfish
are recognised throughout the country.

Brands which have strong associations of trust and reliability.

And brands whose values are tested day in, day out by the interactions between our employees and our customers.

It's the strength of these brands that enables us to introduce new products and services.

Customers who choose to buy electricity, telecommunications or home security from British Gas will do so with reassurance.

They are safe in the knowledge that they'll get the same levels of service and value as they do in the gas market.

Our second competitive advantage is that as we provide more services, so we learn more and more about what makes customers tick.

We can then provide them with the services they want which represent value for money.

As a result, our marketing can be much more successful.

It means we please the customers who want to know more about our services.

But equally, we run less risk of annoying those who may not be interested.

The third point to keep us ahead of the competition is our efficiency in selling products to our customers.

So for example, British Gas has a large direct sales force.

Every member is carefully selected, trained and managed to ensure that they live the values of the brand.

On average, each member of the sales force is making 8 sales per day, substantially above the industry average.

Or take another example.

We've been making it easier for our customers who are moving home. And as part of that process we're telling customers about other services we offer.

The results are very encouraging - we're expecting to double the number of sales made in this way during the year.

And the cost of acquiring customers in this manner is very low.

So there's no doubt in my mind that we have key competitive advantages.

We have a well thought through strategy to make the most of our core assets and skills. And we have the means to deliver it.

It's our experience and success in Britain that gives us the confidence that we can grow Centrica internationally.

But in many ways the hard work starts here. The hard work necessary to turn the vision into reality.

Sir Michael described how we had performed last year and I hope you'll agree that it was most encouraging.

Our progress has continued this year and I'd now like to highlight the main developments.

The domestic energy market is our heartland and here our performance remains encouraging. In gas, competition continues to be fierce.

We have strong competitors with deep pockets, and we're having to work hard to hold on to our position.

Nevertheless, we still held nearly 70% of the domestic gas market at the end of the first quarter.

The key issue for the first part of the year was pricing.

Everyone in the industry has faced very significant increases in gas costs, and as a result, we had to raise our prices by an average of 4.7%. This was broadly in line with competing companies.

Let me reassure you that we're absolutely committed to pricing competitively, and providing excellent value for money.

Customers can take comfort from the knowledge that for more than a decade, the price of their gas has been going down in real terms each year.

In fact, our price increases are modest compared with the increased wholesale cost of gas.

Shareholders, on the other hand, can be reassured that the necessary steps have been taken to safeguard our financial position.

Our Morecambe Bay gas production was at record levels last year, and we've continued to produce gas at a high rate this year. This important asset represents a natural counter to high prices.

One of the most pleasing aspects of the gas market is that nearly two million customers have returned to us since competition began.

In April, you'll have seen the launch of a major new marketing campaign, highlighting the numbers coming home to British Gas.

In electricity, we've continued to grow the business.

We now supply electricity to 4.3 million customers - an increase of 320,000 since the beginning of the year.

We've been able to cut our electricity prices still further in England and Wales - by an average of 3.7%, underlining our determination to remain competitive.

British Gas is now the most recognised brand in the electricity market.

I'm confident that we'll become the largest domestic electricity supplier in Britain during the course of this summer. An astonishing achievement in just three years!

To back our position in the electricity market, we're looking at ways of acquiring equity in generating assets at a reasonable cost.

There's no doubt that the price of buying assets has fallen to a level that is more in line with our view of value.

I'm pleased to report that the new electricity trading arrangements, and the proper separation of supply and distribution, are both beginning to bring benefits to customers, allowing us to compete more effectively.

As Sir Michael mentioned, we're now selling telecommunications under the British Gas brand. And we've made good progress this year.

Customer numbers are now up to 400,000 and growing at 17,000 per week.

We're on track to achieve our target of 1 million services to customers by the end of the year, and to be the major competitor to BT in the domestic market.

However, I have to say this is not an easy market to enter.

In gas and electricity, new entrants and incumbents have fair and equal access to the monopoly infrastructure.

This is not the case in telecoms, and we'll work with the Government and the regulator to ensure that a more competitive, regulatory framework is in place.

It's vital for customers and for the economy as a whole - to get the full benefits of a vigorous competitive market.

The British Gas brand continues to work well in other areas.

Our Home Services business is performing to target, and we are continually adding to the range of products designed to make people's lives easier.

Most recently, we've begun to trial cover for home electrics, to add to our range of services which includes cover for kitchen appliances, plumbing and drains.

Of course, cover for central heating systems remains the core product, and here we've seen the number of customers increase by 35,000 this year.

Turning to the AA, Roadside assistance membership continues to grow, and now stands at a record level of 11.4 million.

Total membership has increased by 19% since we made the acquisition in 1999. This includes a 2.5% increase in personal membership.

But the AA is much more than a breakdown service.

The AA is a powerful financial services brand and the UK's largest insurance intermediary.

Its performance has been particularly encouraging following a recent marketing campaign.

Building on this, we've launched a telephone-based independent financial adviser service.

It will endeavour to ensure that customers are able to take advantage of the best possible rates in the market.

The AA is well positioned to offer a source of personal advice that customers can trust.

We'll cut through customer confusion with clear information and straightforward advice. We aim to be the largest independent financial adviser in the UK.

Our joint venture with Lloyds TSB is progressing well, and we're looking forward to the launch of the first new products from the Goldfish bank later in the year.

Goldfish has established a reputation for providing good, no-nonsense service as a credit card.

Customers tell us that they're keen to buy other financial services under the Goldfish brand.

Once we have our banking licence, we will then introduce a savings account and a current account by the end of the year.

Overall, we believe our financial services business will be capable of delivering 15% of Group operating profit by 2005.

So far this morning, I've described to you the direction in which we're developing the business. And I've updated you on our progress in the first four months of the year.

I'd now like to conclude by talking about our plans to expand our business internationally.

As I mentioned earlier, our heartland is energy.

We have extensive experience of the domestic gas and electricity markets.

We can provide customers with quality services at value for money prices.

We can back this with the expertise necessary to source gas and electricity for our customers. And we have unique knowledge of competitive markets.

This has been built up as the UK blazed a trail with the introduction of competition, first to gas, and then to electricity.

This means we're ideally placed to capitalise as other countries introduce competition into their energy markets. We've already taken some significant steps.

In Canada, we own Direct Energy, with around 900,000 gas customers. And we've signed up 400,000 electricity customers in Ontario who are ready to transfer once the market deregulates.

We hope that this could be as early as November of this year.

A number of our managers have moved to Toronto and they're providing the benefit of our UK experience to the business.

The purchase of Direct Energy also brought an interest in Energy America, which operates in six states in the US.

Earlier in the year, we completed the purchase of the remaining interest to achieve full ownership of the company and its base of 400,000 customers.

So far, our progress in North America has been encouraging.

With the introduction of competition in the Ontario electricity market, and continued deregulation in the USA, we're confident that we can grow our customer base organically by several million.

In addition, we're reviewing the acquisition of other customer bases across North America.

Our aim is to have 10 million customers in North America by 2003.

In Continental Europe, energy market liberalisation remains painfully slow.

I very much support the European Commission's plans, backed strongly by the UK Government, to accelerate progress towards a competitive market. This is vital if we're to be able to compete.

While the market remains so difficult to enter, our options will be limited.

But I'm confident we'll make progress this year, in what I believe is a potentially important area of growth for us.

So, ladies and gentlemen, four years after Centrica was born, we've increased the value of the company from 2.9 billion pounds to 9.3 billion pounds today. Our total shareholder return over this period has been over 260%.

Since the last Annual General Meeting, your shares have outperformed the FTSE100 by 6%.

We're now ready for our next stage of growth.

We have in place a clear strategy to capitalise on our core skills and assets. We have the capabilities to make it happen. And in the first four months of this year we've continued to grow the business in line with expectations.

Looking to the future, the outlook is encouraging with continued success in energy supply and growth in new product areas, as we begin to provide a wider range of essential services.

Our unparalleled expertise in competitive energy markets gives us an outstanding foundation for expansion overseas. And with it, the potential to significantly grow the Company.

It's an exciting vision - and one that I have every confidence we can deliver.

Thank you.