

Centrica AGM – 14 May 2007

Sam Laidlaw – Chief Executive

Thank you Roger and good afternoon ladies and gentlemen. I am very pleased to join you today for my first Centrica AGM, having joined the company last July. It has been an interesting first 10 months, with many challenging issues to deal with both externally and internally. We have made some progress already and I am relishing the opportunity to take this company rapidly further forward.

First, I thought it might be helpful if I outlined my view of what this company is all about. In short, Centrica aims to be a leading integrated energy company, focussed on a few chosen markets in the UK, North America and continental Europe.

In these markets we will deliver growth through strong brands and distinctive assets and capabilities. We will continue to be customer focused, offering improved customer service and value to our customers, with the over-arching aim of delivering top quartile returns to the benefit of you, our shareholders.

Since July, I have visited almost all the operations across the group and I am impressed with the quality and dedication of the people that we have within the Group. However, there are many ways in which I think we can improve the way we operate in the markets where we compete. This work is already well underway, but before I go into detail let's briefly look at last year.

Overall, I would characterise 2006 as a year of solid performance, despite the extremely volatile wholesale prices which affected the entire industry.

Average wholesale gas prices went from 17 pence per therm in 2002 to 50 pence per therm in 2006. That was an almost threefold increase in four years. Since then we have seen a significant decline, although forward prices for next winter are still running at significantly higher levels.

The difficulties of operating in last year's volatile pricing environment are reflected in the overall group operating profit for 2006, which fell by 5% to £1.44 billion. Upstream, Centrica Energy's profits were down 24% to £686m, due to lower gas production and softer wholesale prices. And at British Gas Residential, although there was a recovery from first half losses, the business still only made a £95 million profit for the year at a profit margin of 1.3 per cent.

However, thanks to a sharp reduction in our tax charge stemming from lower gas production, post-tax earnings were a record £715 million and earnings per share were 19.4 pence – some 7% ahead of the prior year.

Last year's volatile prices saw customer churn rise across the industry, and the British Gas customer losses were clearly disappointing. But as Roger has

explained, with our more competitive pricing, we're confident we are now turning the corner.

Elsewhere we saw some positive steps forward last year. British Gas Business, our commercial energy supply arm, lifted operating profits by 13% to £87m and increased customer numbers. North America profits forged ahead by 21% to £223m – and don't forget that's from scratch in just six years. And despite the fire at Rough and the extended shutdown, Centrica Storage lifted profits by 48% to £228 million, an outstanding performance. [pause]

As Roger mentioned, the tragedy that overshadowed last year's progress was the Morecambe Bay helicopter accident. I and the whole of the Centrica management team have the safety of our employees, customers and facilities as our top priority and we will continue to push for continuous improvement in our safety performance across the Group.

Now let me talk about our strategy going forward.

As I mentioned earlier, our aim remains to be a leading integrated energy company in the UK, North America and Europe.

But we are, however, significantly sharpening our focus through the pursuit of four basic priorities. These are: to transform British Gas, to sharpen up the organisation, to reduce costs, to reduce risk through increased integration and to build on our multiple growth platforms.

I will take each of these in turn.

First, we need to transform British Gas Residential, continuing our work to make our products, prices and service levels more attractive to customers. There is tremendous potential, but much to do, given that we need more stable margins above 5%, rather than the 1.3% we saw in 2006.

Already we have established a much more competitive pricing proposition, aimed at winning back customers who have left British Gas, and attracting new ones.

Very significantly for the first time in a while we are winning back customers. But price alone is not sufficient – our customer service is key.

As Roger said, improving our customer service now that we have the new computerised billing system installed is our critical priority. Phil Bentley, in his new role as managing director of British Gas, is leading the drive to implement the necessary changes to processes and culture, to improve our service levels. We have made process and systems improvements, increased training and recruited an additional 800 call service agents. Although it is early days, call centre response times are now improving and billing errors are coming down. Our clear goal is to achieve a sharp improvement in service levels as soon as possible.

Our second priority is to sharpen up Centrica's organisation and reduce the cost base across the board, not just in British Gas, where we are making good progress to deliver efficiencies, but right across the group.

For example, we have reduced the size of our corporate centre and have outsourced a significant part of the finance and human resources functions as well as the operation of our data centres and other IS functions.

We have reduced costs by removing a level of management in British Gas Services and have restructured our North American organisation.

Just to reiterate, I am determined that we will continue to reduce our cost base until we are truly best in class.

Our third priority, in Centrica Energy, is to secure more gas and power assets and contracts to further integrate our upstream and downstream businesses and reduce our exposure to volatile wholesale markets.

In power we've made a lot of progress already, and the vast majority of our generation capacity is gas fired, emitting less than half the carbon dioxide of a similarly sized coal station.

We intend to expand this generation fleet further. We have already started construction of a new gas fired plant at Langage in Devon, which will add 885 megawatts to our portfolio when it comes online in two years time.

And we are also looking at new low carbon technologies and are studying a pilot clean coal project on Teesside which will have full carbon capture and storage and could be the lowest emitting fossil fuel plant in the UK.

Renewables also feature heavily in our plans.

We already have access to 190 MW of wind power in the UK and we're building more, most of this offshore, which will strengthen our position as the supplier with the lowest carbon footprint.

Off the east coast we have another 180 megawatts of wind power under construction at the Lynn and Inner Dowsing sites, and we have applied for planning permission for the construction of a further 250 megawatts – the offshore Lincolnshire wind farm.

In gas, we're looking at a variety of options to increase the proportion of our requirements we can satisfy from our own resources, and we'll do this through acquisitions and exploration activity.

In the near term this will be additional piped gas from the UK continental shelf and the Norwegian North Sea, where, for example, we have acquired shares in six new exploration blocks.

Over the medium term, working in partnership with others, we will also seek to exploit opportunities for liquefied Natural Gas in areas where we already have exploration rights, such as Egypt, Nigeria and Trinidad. We will also look at other countries that can be an important part of the UK supply picture such as Qatar and Algeria.

In the Atlantic Basin alone, on top of the 28 projects which are either in the production or development stage, a further 12 projects are in the planning stage. Industry estimates are that in total these projects could deliver as much as 412 billion cubic metres of gas production capacity by 2015.

These projects will need markets. We can provide these markets and security of demand for National Oil Companies through our deep and wide customer base, and in exchange take upstream positions and equity stakes in their key LNG projects.

Our fourth strategic priority is to focus on developing our current growth businesses – that's British Gas Services, BGB, and North America.

In British Gas Services, there is much growth potential. In the short term, we are broadening our offering to make major inroads into the on-demand market.

And we will continue to innovate, bringing on attractive products which will widen our appeal and help us to offer more than just the commodity to our energy customers.

British Gas Business, which supplies our commercial customers, had a strong year last year and we believe has very strong growth potential for the future.

In North America, where we now have 5.3 million customer accounts, there is significant scope to grow our energy and services businesses in our existing territories. And where we see value, we will also build our upstream gas and power positions. As in the past, this growth is likely to involve both organic and targeted acquisition activity.

Continental Europe remains an important area for us. But we'll have to be both patient and realistic. The EU authorities are making all the right noises, but the ongoing tendency towards the creation of 'national champions' indicates that any progress in Europe may take some time.

Another promising growth area lies in rising demand for products and services to help household and business customers to improve their energy efficiency and tackle climate change. As you may have seen, we have just launched a new business – British Gas New Energy – to capitalise on this.

We're already the largest installer of measures under the Government's Energy Efficiency Commitment, and British Gas' obligation under this commitment will double to around £200 million a year from 2008.

But we want to turn this obligation into a much larger business opportunity using our unique services capability to offer advice to customers on solutions and new technologies, ranging from insulation to highly energy efficient boilers and at the top end, micro-generation and solar panels.

We will also be seeking to take advantage of opportunities such as the requirement from this June on all home sellers to provide an Energy Performance Certificate to buyers of new homes.

To sum up, ladies and gentlemen, the profile of the group will continue to change as our markets become more international and challenging.

In the UK, a lot of new gas import infrastructure is coming on stream, but the rate of decline of production from the UK Continental Shelf should not be underestimated. By 2020, an estimated 90% of our UK gas requirements will have to be imported.

So there is much work still to do. However, I have a very strong team in place, a clear plan and I am fully confident that this company is well placed to thrive in the new environment. I'm looking forward to getting on with the task of delivering all of this on your behalf.

Thank you very much.