

Centrica AGM – 14 May 2007

Roger Carr – Chairman

I'd now like to turn to Centrica's performance since we met last year. Overall, the company has performed well with British Gas returning to profit by the year end, good delivery in gas products throughout the year, strong growth in North America and a lower tax charge all contributing to the achievement of sound earnings growth.

But we have had some real challenges – market conditions were turbulent with unprecedented rises in wholesale energy costs propelling retail prices to record levels resulting in customer losses in British Gas.

These challenges were compounded by a reduction in service levels resulting from persistent teething troubles as we migrated all our residential energy customer accounts on to a new billing system.

I know some of you here have been affected by these changes and I want to assure you that the whole management team is focused on the early resolution of these issues. Service is an absolute priority and the executive team are determined to rectify the situation in the coming weeks and months.

And we have also had some tragedies –

Upstream, the fire at the Rough platform last year was followed at Christmas by the tragic loss of life in the Morecambe Bay helicopter accident. Our thoughts are still with the families and friends of our colleagues who died in that accident and Sam, Jake and I will be attending a memorial service in June.

Securing energy for the UK is a tough business and we are indebted to those who work offshore in such arduous conditions. Safety in these operations remains of paramount importance.

But we have also had some good news –

We were the first to cut our prices. Centrica's significant gas contracts with the Norwegians and the Dutch ensured new sub-sea pipelines were constructed to the UK, and that gas is now flowing. As a consequence, wholesale gas costs have now fallen significantly and British Gas has once again taken the lead in the industry in passing on the benefit back to customers. Our two price cuts since March have totalled 20 percent in gas and 17 percent in electricity and we are starting to win customers back.

Looking forward, we are determined to re-establish British Gas as the energy brand of choice through competitive pricing, green energy sourcing and the provision of first class service. Loyal and happy customers are the bedrock of long term shareholder value.

Finally, during the course of this year we have completed a seamless management transition at the highest level in the company with the successful introduction of the new CEO, new CFO and a new head of British Gas Residential. This has provided an important generational change and injected renewed enthusiasm and commitment to drive the business forward. We have been fortunate to secure from the outside such talented people as Sam and Nick who, in combination with established board members – Jake and Phil – will build on the strong foundations of their inheritance to create a leading energy company of the future. It is a privilege to work with such able, enthusiastic and dedicated people.

I would now like to read you the following Trading Update which was released to the Stock Exchange at 7am this morning in order to bring you right up to date on the performance so far this year and the outlook for the remainder of 2007.

Centrica 2007 AGM Statement

Centrica has performed well through the early part of 2007 and delivered strong financial results in the period, with higher profits from downstream businesses more than offsetting lower upstream contribution.

Our downstream activities have all benefited significantly from unusually low wholesale prices for gas and power. The industrial and commercial contracts have been profitable and we have continued to increase the number of British Gas Business customers. The low wholesale energy prices have enabled us to reduce prices twice for residential customers. Since the announcement on 8 February of our initial price cut, around 900,000 customers have chosen to join British Gas, an average of over 65,000 per week. Recently we have begun to grow our customer base and currently have nearly 15.8 million energy accounts on supply. We continue to invest in improving service for residential customers, including recruiting 800 additional front line customer service staff, whilst reducing costs elsewhere in the business. Given the timing of the price reductions, we expect the results from the residential business to be weighted heavily towards the first half of the year.

Profits from upstream gas production in the UK have fallen significantly as a result of the lower wholesale prices. Gas production in the first four months of the year was 642 million therms, 48% lower than the same period in 2006. We've seen a stronger contribution from our power stations. Electricity generated was up 133% at 5.9 Terawatt hours, as our gas-fired stations benefited from the lower gas price, allowing their output to displace that of some of the more carbon-intensive stations run by other operators.

Our UK services business is on track to deliver a year of strong operating profit growth, driven by higher customer numbers and improved service levels. The UK storage business is also performing well, with all capacity for the 2007/8 storage year now sold, at an average price of 53.4p per Standard Bundled Unit.

Internationally, in North America, our business is trading ahead of last year with a significant improvement in results in commercial supply and wholesale energy and a consistent performance from the rest of the energy supply business, despite increased competition for residential customers in some areas. The reported result for North America will be impacted by the weakness of the Canadian and US dollars against sterling. In Europe we have also made an encouraging start to the year, with continued growth in the customer base in both Belgium and Holland.

Outlook

Overall the outlook for Centrica in all markets is encouraging, although significant uncertainty remains over wholesale gas and power prices for the balance of the year and over demand levels due to unusual weather patterns. However, if wholesale prices turn out in line with current forward market prices and temperatures are seasonally normal, we would expect to deliver a Group operating profit above current consensus estimates, due to the significant out-performance already seen in the first half. In addition, the Group's earnings will benefit from a lower interest charge due to lower debt and a lower effective tax rate, currently forecast to be below 40%, due to the significant shift in profits from upstream to downstream.

In a moment, I'll hand over to Sam. He'll take you through the key performance measures for our last financial year, and he'll update you on the key strategic priorities we have identified to take the business forward.

Before doing so, however, I just wanted to mention that Patricia Mann, who stepped down from the Board at last year's AGM, sadly died in September last year. Many of you knew her and she will be much missed. Mary Francis has taken up the role of senior independent director and along with the rest of the non-executive team, continues to make an outstanding contribution to Board debate and thinking.

I also wanted to record my thanks to the management team and the rest of Centrica's employees for their commitment and indeed success in moving the business forward through a difficult period towards a brighter future. Over the past year I have personally visited a number of offices throughout the business and continue to be heartened by the loyalty, commitment and dedication that is evident throughout the organisation.

Lastly, as I said last year, I want you to know that under my Chairmanship, shareholder interests – your interests – will be our overriding priority as we steer the business under new executive leadership through the energy market in 2007 and beyond.

Now with that, I'll now hand over to Sam.