

Centrica AGM 12th May 2003
Address by Sir Michael Perry GBE - Chairman

I now want to move on to my review of 2002. In line with best practice, both my own review and Sir Roy Gardner's update on 2003 will be made available on our website and we will release a summary to the stock exchange.

The context of an increasingly troubled international situation created an ever more challenging business environment. However, I am pleased to report that, taken as a whole, 2002 was an outstanding year for your company, as we continued to make progress towards realising our vision and our potential. Roy Gardner will tell you more about our start to the current year in a moment.

I hope that you have had an opportunity to read our summary financial report, but let me just remind you of the headlines and make a few observations about what we achieved during the last year.

Consistent with our well-publicised strategy, our main focus has been to concentrate on what our customers tell us they want. This has once again helped us achieve growth across our various business units, which in turn helped us to increase our operating profit and our earnings per share.

Let's start with British Gas. We took significant steps to ensure that we remained the market leader in the supply of energy to homes, and continued to strengthen our performance in other home services. During the year, we integrated our energy and home services operations, which had previously operated separately, and that will give us even greater understanding of our customers, and enable us to operate even more efficiently. Meanwhile, we maintained our 40% share of residential energy accounts.

In parallel, the British Gas home services business grew strongly, and we achieved higher revenues from installing and maintaining central heating systems. To meet this increasing demand, the number of home service engineers we employ grew by 13% in 2002, and in order to provide for even more we have set up the British Gas Engineering Academy to co-ordinate the recruitment, training and development of future engineers. Our plan is to recruit and train around 5,000 new engineers over the next five years.

British Gas continues to play its part in helping improve the efficiency of energy use and at the same time reduce the number of households classified as fuel poor. We are doing this by investing more than £70 million in a scheme known as 'Here to Help'. This is a programme designed to tackle household poverty in deprived communities with a range of support services including energy efficiency measures.

The AA had a year of solid performance, and our roadside operations won the JD Power award for customer satisfaction for the third time in five years. The AA was also named as the UK's best motoring organisation by Which? magazine. I imagine that most of you will have seen our latest advertising campaign, which is designed to reposition the AA brand by increasing awareness of the wide range of products and services available to motorists.

Last year I spoke about the new charity, the AA Motoring trust, which we planned to set up. The launch duly took place earlier this year, and the new trust will continue the work of the former AA motoring policy unit, and the AA foundation for Road Safety Research. The AA Motoring Trust is wholly independent and as such it will be able to attract wide support not just from the AA itself, but also from other responsible bodies in Britain and around the world.

The Trust has succeeded in attracting a very experienced body of trustees, fittingly chaired by Sir Brian Shaw. Their first major piece of work was a study into the safety of children in cars, which was supported by the Prime Minister. I look forward to being able to tell you about further progress in this important work on future occasions.

At Goldfish, we are developing a well-focused product range. During 2002, we concentrated on building awareness of Goldfish as a broadly based financial services brand, and not just a popular credit card. As a result spontaneous awareness of the brand doubled by the end of the year.

Despite slow regulatory progress, our UK telecommunications business saw a 12% increase in customers. We launched a number of products, in particular mobile telephones and broadband Internet access. The playing field for telecoms is still not as level as it should be, and we continue to press for more rapid change.

All of us who live in this country are well aware of Centrica's products and services here. What we do abroad is perhaps less familiar. We thought it might be helpful to show you a glimpse of our activities in our most important overseas market, the United States and Canada, where we trade as Energy America and Direct Energy. There we are building a very similar energy and services business to the one we have created here in Britain, and last year we passed a number of significant milestones. Here is a short film which sets the scene.

[Film will be about five minutes]

So, as you can see we already have a substantial business in North America, and there is a significant opportunity to create further value in future. As you heard there are some challenges, not least in the pace of energy market deregulation, but we are continuing to make the case and this is beginning to pay off.

Offering value and choice to customers in competitive, deregulated markets is at the core of our strategy. In the UK, the measures taken by government to underpin a competitive energy market enable us to continue to deliver benefits to customers. In addition, although progress is still slow, a number of important improvements were made to the competitive conditions in the UK telecoms market. For example customers can now access our telephone service without needing a special dialler box and very soon we hope to be able to offer a single bill. However, we are mindful that there is still further work to be done to ensure that the pace of deregulation is maintained

In the wider European context, progress towards deregulation continues to be much more tentative, and the voices of vested interest are by no means silenced. The good

news is that a framework has now been agreed for phasing in competition to the entire European energy market, and for that at least, two cheers. Here too, we continue to press.

Turning now to the dividend. The board of directors has proposed a final dividend of 2.6 pence per share to be paid in June 2003. When combined with the interim dividend of 1.4 pence per share paid in November 2002, the total dividend for 2002 would be 4.0 pence per share. This represents an increase of 29% on the previous year and reflects our positive medium term outlook for both earnings and cash flow.

As you will be aware, we announced a number of changes to the board during 2002. Sir Sydney Lipworth retired at the last annual general meeting and we are most grateful for the significant contribution he made to the development of Centrica. There are a number of new faces on the platform today. In September, we announced the appointment of Helen Alexander, and in October the appointment of Robert Tobin as non-executive directors with effect from the 1st January. Perhaps they could stand up so you can see who they are. They have already attended a number of board meetings, and the experience they bring is invaluable.

In February of this year, we announced that Paul Walsh would be joining the board in March as a non-executive director, and I am delighted that he, too, is with us on the platform today. Paul is chief executive officer of Diageo, and he brings just the sort of skills we need to round off a truly talented team.

As you may have read, Mike Alexander has left the Centrica board to run British Energy. I would like to take this opportunity to pay tribute to Mike for his share in bringing Centrica from a standing start to where it is today. We also made an announcement about Sir Brian Shaw's impending retirement earlier in the year, and as we said then, he will be stepping down after this annual general meeting. I would like most especially to pay tribute to Sir Brian for the way he brought the AA into the Centrica family and ensured it was successfully integrated. As I have already mentioned, Sir Brian will continue his association with the AA as chairman of the Independent AA Motoring Trust.

It has become common practice at AGMs these days to comment on matters of corporate governance. I believe that Centrica's shareholders can draw comfort from the knowledge that our structures and processes of governance are recognised to be at the forefront of best practice. More change is in the air, however, and in particular there has been considerable recent debate about the proposals on the role and function of non-executive directors contained in the so-called Higgs report, which is currently being considered by the Financial Reporting Council. We have contributed to the consultation on these issues and generally welcome what has been proposed.

However, we also have a number of concerns. The Higgs recommendations may well fit the needs of most companies in most circumstances, but certainly not all. If they become too prescriptive, or are perceived to be so, the obligatory application of every provision could lead to inappropriate or second-best choices being made by companies in particular cases, to the disadvantage of their shareholders. Higgs says, 'Comply or explain'. Fine; but the risk is that the explanation, however persuasive and well founded,

is drowned out by ill-informed, formula-driven condemnation. The Higgs report was commissioned to promote best practice and combat abuse. It should be worn as a well-fitting garment, tailored to shape, not as a straitjacket.

In a wider context, companies are continually being challenged on their impact on society and the environment. If we are to continue to create sustainable value for you, our shareholders, we recognise that we have to have a full understanding of our impact on society and manage our business accordingly. To this end, we established during 2002 a corporate responsibility committee which sets the framework for developing and reporting our efforts in this area.

As ever, I want to express the appreciation of the Board, and I hope of shareholders too, to Roy Gardner and his team for the sterling job that they have done during the past year. All our employees are dedicated to ensuring that we continue to make progress towards our vision, and they deserve our gratitude. Centrica remains well placed to compete in an increasingly international energy market place where we expect further consolidation. Our strong brands, enhanced customer insight and asset management expertise, combined with our financial and operational scale and the quality of our people, will continue to enable us to create value for customers and shareholders alike.

Thank you for your attention. I would now like to invite our Chief Executive, Sir Roy Gardner to give you his update on progress during 2003 and his thoughts for the future.