

Centrica AGM - 9 May 2005

Sir Roy Gardner - Chief Executive

Thank you Roger. And good morning ladies and gentlemen.

2004 was a challenging year for Centrica, with high wholesale prices having a significant impact on our core energy business. However, despite these tough conditions, I'm glad to say that as a Group, we delivered another year of double digit growth. Operating profit rose to over £1.2 billion and earnings reached a record level.

And, as Roger mentioned, we made a real step change in terms of returns to shareholders through an increased dividend and distributing the proceeds of the AA sale.

Indeed, not only did the great price secured for the AA allow us to reward you, our shareholders, but it also signalled a new stage in our strategic evolution. By refocusing on energy and related services, we aim to continue growing the business for the benefit of customers, employees and shareholders.

Putting the sale of the AA aside, 2004 also saw an improvement in operating profit in all our customer facing businesses.

Let me start with British Gas. Whilst we saw an improvement in overall profit levels, we did suffer as a result of the high wholesale prices.

Without a doubt, volatility in the wholesale markets dominated the energy landscape in 2004. It also led to investigations by Ofgem, the industry regulator, and the Trade and Industry Select Committee.

As a business, we have had to respond to this high wholesale price environment. So, along with all our competitors, we were forced to increase our prices. This inevitably led to customers leaving us. And, unfortunately, as market leader, we suffered disproportionately, losing over a million accounts.

However, we've put a number of measures in place to address this churn. To strengthen the loyalty of our customers and attract new and former customers, we've introduced a whole range of new products and services. We've also increased our sales capacity by recruiting additional sales people. And we're also looking to cut costs across the business.

For example, we introduced a new long term energy contract where, for a small premium, customers have the advantage of a capped price until April 2007.

This has proved very popular and around 800,000 have already been signed.

We're also offering a telecoms and energy package, where customers receive free evening and weekend calls. Having run a successful pilot in Scotland, we've now rolled out this product nationally, and it's proving a great success.

And, because we know how people value our engineers, we're giving our energy customers exclusive on-call access to them, even if they don't have a central heating care contract. Sales of this new offering are significantly ahead of target.

All of these new packages are also being supported by a much higher profile marketing campaign, which I'm sure you've noticed.

This is a tough competitive market. But I assure you that we will do everything we can to grow our customer numbers once again.

We also recognise the impact of price rises on vulnerable customers and put a number of measures in place to help those in greatest need. The creation, for example, of the British Gas Energy Trust Fund is just one way in which we aim to help customers who struggle to pay their bills.

Turning to our Home Services business, 2004 was another impressive year. Although our central heating care product remains core, newer products have proved very popular. For example, we saw significant growth in the sale of kitchen appliance, plumbing & drains, and home electrical care products.

We'll continue to invest in this business and also plan to add another 1,200 recruits this year to boost our existing 8,000 engineering workforce.

The investment that we're making in people and systems means we can expand this business and continue to improve customer service.

To support our new products, we've also strengthened the link between our upstream and downstream businesses. Going forward, this will ensure we gain the maximum possible benefit from our upstream assets. It also means that we can utilise our skills and knowledge in the upstream gas and power markets to offer the best deal to our customers.

During 2004, I'm pleased to say that we continued to strengthen our portfolio of assets.

On the electricity side, we bought the Killingholme power station in North Lincolnshire and now have an interest in seven gas-fired plants in the UK. We also bought an onshore windfarm in Scotland, as part of our £750 million commitment to renewable energy. And we have the option to build a power

station in Devon, which we're currently evaluating.

On the gas side, we signed the UK's first long term liquefied natural gas contract, with the Malaysian company, Petronas. The 15 year supply deal will deliver over 45 billion cubic metres of gas over the contract term. This is equivalent to more than enough gas to supply all the UK's homes for one year.

LNG has a key role to play in meeting the UK's future energy needs. And this contract underpins some of the investment required in building LNG infrastructure.

During the year we also added further gas reserves, with the acquisition of an interest in three North sea gas fields. We also saw delivery of the first gas from our Rose field.

Jake and his team are actively considering a number of further options to acquire gas and electricity assets. However, as Roger has reinforced already, we'll take our time in finding the right assets and we won't over pay.

Turning to our other businesses, Onetel made its first material profit contribution to the Group. The acquisition of Telco Global also gives us increased scale and new technology.

After considerable lobbying and years of frustration, we've successfully introduced our first wholesale line rental proposition. This means we're able to offer a full service, whilst ensuring that BT has no contact with our customers.

However, there's still work to be done in terms of delivering a level playing field. We'll therefore continue to work with Ofcom and put pressure on BT to deliver a truly competitive market.

Elsewhere, we saw another year of significant operating profit growth at our Rough storage facility. Indeed, since we bought Rough in November 2002, its performance continues to significantly exceed our financial expectations at the time of acquisition. This is testimony not only to the investment we've made in improving the reliability and performance of this facility, but also to the hard work of the employees.

In North America, where we now have over 5 million customer relationships, we strengthened our position in our key Alberta, Ontario and Texas markets. And, through targeted acquisitions, we've improved our product offering and are now able to offer customers a combined home services and energy package.

And in business markets we're now offering customers a full end-to-end product with energy, energy management, and maintenance and repair services. This gives us a strong proposition for business customers and we

believe we can make significant growth in this market.

To underpin it all, we continued to replicate our UK model, by adding to our gas reserves in Alberta, and acquiring two power stations in Texas.

Turning finally to Europe. Luminus in Belgium and Luseo in Spain are small but growing businesses. But, I'm glad to say that both showed an improved performance last year. Luminus is now turning over half a billion pounds a year and has been profitable for the past two. And in Spain, Luseo is now running at breakeven.

In terms of further expansion, we remain frustrated by the actions of individual Member States as they continue to hinder the delivery of competition. However, we're committed to expanding our footprint in Europe and we remain pragmatic in our approach.

We're encouraged that the European Commission has now set up a full market investigation into the way the Continental energy market operates. This market has been closed to competition for far too long.

With the UK becoming reliant on imported gas, ensuring access to Continental networks is now vital for future security of supply. It's therefore essential that the Commission addresses head on the issues that are hampering the development of a competitive market in Europe.

I continue to look forward to the day when we can compete with German and French companies in their own backyards, as they're doing in ours.

TRADING STATEMENT

Turning now to our performance in 2005 to date. Earlier today, we issued a statement to the City, which I'd like to take you through.

Our financial performance in the first quarter of 2005 has been good and benefited from wholesale gas prices which were significantly below the level previously predicted by the forward curve.

Looking ahead, there's still considerable volatility in the forward gas market. Prices for the fourth quarter of 2005 and the first quarter of 2006 are currently 25 per cent higher than at the time of our results announcement in February 2005 and more than 40 per cent higher than at the time of our trading update in December last year.

If wholesale prices stay at these levels, trading conditions will be more difficult in late 2005 and 2006 and an appropriate retail price increase will be necessary to maintain gross margin. Given the continued volatility, no retail pricing

decision has yet been taken.

In the four months to the end of April we lost net 382,000 energy accounts and, looking forward, we no longer expect to hold our energy base flat in 2005 as a whole.

However, following competitors' price increases, the introduction of new propositions, and increased sales resources, it's encouraging that our weekly energy sales levels are now running ahead of the period before prices were increased in September 2004.

The testing of our new billing system remains on track and will enter its most demanding implementation phase when the pilot begins in the middle of this year.

And the rollout of our new work management system in the Home Services business is now proceeding rapidly, with over 350 engineers now using it.

Progress is also being made on reducing the cost base, with a further significant number of job reductions announced at the end of February.

Turning to other highlights for the Group in 2005:

Upstream... we signed a power purchase contract with International Power in February, bringing the first direct coal linkage to our generation portfolio.

In March we successfully bid for capacity at the Isle of Grain LNG terminal, which will enhance our competitive position in upstream negotiations.

We've also erected our first wind turbines at Glens of Foudland, which is now generating the Company's first green power, and began construction of the offshore wind farm at Barrow.

Turning to Morecambe, gas production in 2005 is expected to be in line with the guidance given in February.

At Centrica Storage, the average selling price of storage units for the 2005/6 storage year was 33 per cent higher than the previous one. This increase will be reflected in the financial performance of Centrica Storage in both 2005 and 2006. And, further reflecting the increasing value of storage, we've already sold over 50 per cent of the capacity available to third parties for the 2006/7 storage year.

In Texas we continue to grow our customer base and have filed an increase of around 10 per cent in our Price to Beat tariff, in order to offset higher commodity costs. Good progress is also being made in the business market

sector.

Elsewhere across the Group, performance remains in line with expectations.

As Roger explained, the Board continues to review upstream investment opportunities, but we remain resolute that funds will only be employed to create shareholder value.

Turning to our share buyback programme, to the end of April, we'd bought back £365 million of our own shares for cancellation. We expect to complete the current £500 million buyback programme by August.

In summary, financially we've had an encouraging start to the year. But, the winter period remains uncertain for all energy suppliers in the light of continued increases in forward wholesale commodity prices. We'll continue to take all the steps we can to mitigate the impact on our customers, but retail price rises across the whole industry cannot be ruled out.

In conclusion, 2004 was another successful year when we delivered under difficult circumstances. We've continued to build on our 2004 achievements during 2005 but there are significant challenges ahead. However, with the ongoing commitment of our employees we'll keep our focus on serving our customers in order to create value for our shareholders.

Thank you very much.