

Centrica AGM 14th May 2001 - Speech by Sir Michael Perry CBE - Chairman

I would now like to take you through my report on your Company's progress over the last year. When I spoke to the annual general meeting last May, I described 1999 as a momentous year for Centrica. 2000 was no less significant.

During the year we put in place several key elements of our strategy for Centrica's future growth. At the same time, we made sure that our core businesses continued to perform well. Taking these factors together, I believe we have met many – and exceeded some – of the expectations of our shareholders and customers. We maintained our position as the leading supplier of energy in Great Britain and further expanded the range of services we offer to meet customers' needs in the home and on the road. In addition, we have begun to develop our business internationally.

Our leading position in energy supply to the home enables us to develop a range of other services to meet essential needs, offering reassurance and better value for millions of customers. We have shown this approach works in Britain, and we believe it is capable of succeeding just as well in other parts of the world. This, combined with the constant efforts to look after and retain our existing customers, is at the heart of our strategy for growth. Roy Gardner will be talking to you in more detail about our plans for the future, but first let me focus on our performance during 2000.

The events of the year confirmed that the fulfillment of our strategy continues to be on course.

In the field of energy supply, we retained 70 per cent of the residential gas market here in Britain, which has continued to be highly competitive. In less than three years since the electricity markets opened to competition, we have become one of the largest suppliers to residential customers. At the year-end, we had 14 million residential customers for gas in Britain and 4 million for electricity.

For our home services division, 2000 has been a year of continued investment, and growth in new product areas. Over 70,000 customers have taken out new home heating cover contracts from British Gas, bringing our total to more than 3.2 million contracts.

Our share of the installation and replacement market has remained stable. The first installations of electric boilers by British Gas engineers took place during the year. Quite a historic step, when you think about it.

We've seen a strong rise in the number of contracts for British Gas plumbing cover – up to 500,000 of them were in place by the year-end. We are now trialling a new plumbing and drains cover product, combining the expertise of drains specialists with the skills of British Gas engineers in handling indoor plumbing repairs. Good progress was made in selling breakdown cover for kitchen appliances, with over 200,000 contracts confirmed. The British Gas home security business received its NACOSS accreditation during the year, and with 25,000 contracts in place we are now Britain's largest supplier of monitored alarms for the home. With all this going on, and in order to maintain our long-term service levels, we have recruited over 300 new apprentices – more than double the number in 1999. During the year, Home Services received the Queen's Award for Enterprise, awarded for their development and use of laptop computers and integrated mobile communications technology in the field.

At the end of September, we launched our telecommunications offer under the British Gas and Scottish Gas brands, covering fixed, mobile and internet services. Our research with customers had told us that they were keen to take phone services from British Gas. The immediate response was very encouraging, and by the year-end over 150,000 customers had signed up, keen to take advantage of the value for money services that we are offering.

The acquisition of the Automobile Association has proved positive for both members and shareholders alike, with membership reaching a record level of almost 11 million, and profits up. We attended some 4.1 million vehicle breakdowns during the year 2000, of which 80 per cent were resolved on the spot, enabling our members to continue with their journeys with minimum inconvenience.

For the second year running, the AA was ranked the top roadside assistance provider, according to the survey of almost 25,000 drivers conducted by market research organisation J D Power. The AA scored highest in each of their three categories, covering response time, the patrol attending and the initial phone contact.

Off the road, the AA made an important addition to our expertise in financial services, enjoying a strong position in insurance, and the potential to develop still further value for our customers as an intermediary.

In the financial services field, the continued development of our Goldfish brand has also strengthened Centrica's offer. Goldfish Card customers now benefit from a considerably enhanced internet capability, and the Goldfish Guide website has become a well-regarded source of consumer information on a wide range of products. The joint venture with Lloyds TSB, announced in December, will enable us to extend our range of products under the Goldfish brand even further. This exciting development will bring together Centrica's customer and marketing skills with our partner's state-of-the-art banking systems and expertise, allowing us to bring banking products and services to market for the benefit of our customers, and the further enhancement of the Goldfish brand. But now I'm trespassing on Roy's ground of looking to the future. Back to the story of last year.

During the year we completed the acquisition of two businesses in North America and announced a third, giving us a base of more than one and a quarter million customers, in Canada and on the East coast of the United States. I am confident that this gives us the ideal foundation for extending the proven Centrica approach of building a successful business in a fast-changing, liberalising marketplace.

The key to this approach is our strategy of putting our customers first and providing them with the best service in the market. Here at home, while we cannot afford to be complacent, I am happy to say our service to customers, based on all the evidence, internal and external, improved strongly yet again last year. We see the fruits of this, week in week out, in the large numbers of residential gas customers returning to British Gas.

This encouraging business performance was accomplished against a background not only of highly competitive markets, but also of growing pressure on our cost of acquiring gas, particularly in the latter part of the year, due primarily to the much publicised

dramatic increase in the price of oil. Roy Gardner will tell you later how we plan to mitigate this impact in the current year.

Notwithstanding these challenging developments later in the year, our financial performance for the year 2000 as a whole was very encouraging. Earnings, before exceptional charges and goodwill amortisation, were £403 million, compared with £331 million in 1999. An improvement of 22 per cent.

We paid an interim dividend of 1.1 pence and are proposing today a final dividend of 1.7 pence per share to be paid in June. This gives a total of 2.8 pence for the year, which is an increase of 12 per cent over 1999.

I am pleased to be able to tell you that, taking together dividends and the increased share value, the total return to shareholders since the formation of Centrica has been in the top quarter in our comparator group of FTSE 100 companies.

For Centrica, the fact that we are privileged to play an essential role in the lives of millions brings with it a responsibility to be aware of the needs of those who depend on us, especially the vulnerable members of the communities we serve. This is a responsibility we are bound to take very seriously. Our customers, and society in general, expect it of us. Put another way, we regard our activities in this area as 'enlightened self-interest', and a vital element of serving shareholders' interests.

We have developed a range of programmes and partnerships to help elderly and vulnerable people, including those who suffer fuel poverty. British Gas and Scottish Gas will invest more than £40 million during 2000 and 2001 in a range of products, services and schemes designed to reduce customers' energy consumption and fuel bills. The 'Warm-A-Life' initiative, launched last autumn as part of British Gas' programme to tackle fuel poverty, combines free energy efficiency measures and a one-off fuel discount for customers most at need, with advice on how to boost household income by checking that all the relevant benefits are being claimed. Initial research demonstrated that as a result, over 50,000 people suffering fuel poverty may be eligible to have their annual incomes boosted by an average of £1,000.

Britain's seven million carers are an important link with the elderly and vulnerable, and we continue to attach great importance to our involvement with the 'Carers National Association'. Similarly, our support for 'Help the Aged' remains one of the largest such partnerships ever launched. We have assisted more than 400,000 people since the relationship began in 1999, raising national awareness of winter deaths, and introducing practical measures to help older people at home.

Our continued support through the AA for the National Air Ambulance Association helped a nationwide fleet of helicopters to fly 10,000 rescue missions during the year. Many victims of road and other accidents received treatment more quickly as a result, saving some lives, and helping others to a more speedy recovery.

Through flexible working arrangements we strive to develop equal employment opportunities for disabled people and for carers. Our 'New Deal' scheme, offering employment to disabled people and to carers, has been extended to several offices around the country. Centrica is proud to be a member of the Employers' Forum on Disability and in February, our chief executive became its chairman. At the end of the year, disability minister Margaret Hodge presented Centrica with the 'Two Ticks' award in recognition of our commitment to equal opportunities for people with disabilities.

We are keen to help tomorrow's customers think about energy efficiency. Our 'Think Energy' initiative, a free educational resource for schools aimed at 8 to 12 year olds, is one of the largest ever undertaken. Around half a million school children will receive the Think Energy resource pack, helping them and their families to use energy more efficiently and save money in the process.

Last, but by no means least under this heading of social responsibility, we reviewed our environmental policy during the year, and set new goals for our carbon dioxide emissions and waste recycling. This new policy and goals formed the basis of our first environment report, published on our website in November 2000.

It is my practice to take the opportunity of my annual report to Shareholders to express my gratitude and appreciation, and I hope yours, to all the men and women who make up the increasingly international staff of our company. My non-executive colleagues on

the Board and I look upon it as a great privilege to work among such a gifted and successful team, and you should be as proud of them as we are.

Of course in order to continue to grow the company we not only need the opportunities but also the best possible people to exploit them. Under Roy Gardner's outstanding leadership we undoubtedly already have them, but if we are to fulfil our growth ambitions, at home and abroad, we shall need more. I have already mentioned Mark Clare's new role as deputy chief executive and Phillip Bentley's appointment as finance director. I am pleased to be able to tell you that we have made further appointments to strengthen senior management for the challenges ahead, which include growing our international business, financial services, telecommunications and e-commerce activities.

Later on the agenda I shall ask shareholders to approve a number of resolutions designed to bring the remuneration packages available to our top people up to the standards demanded by today's highly competitive market place for outstanding management talent. If we are to attract, and above all retain the very best, and that we simply must do if we are to achieve our goals, we must be willing, as the Americans put it, to step up to the plate – to confront the challenge. The Remuneration Committee, comprised solely of non-executive directors, has consulted widely before arriving at the recommendations set out in the Notice convening this meeting, which enjoy the full support of major investors. I commend them warmly to you.

Roy Gardner will now bring you up to date on our performance in 2001. He will also describe how we intend to continue to grow Centrica by consolidating our core businesses in Britain, and looking for growth opportunities both here and in deregulating markets internationally. Thank you for your attention.