

Centrica AGM 12th May 2003, RAG speech

Thank you Sir Michael.

Good afternoon ladies and gentlemen.

As the Chairman has just said, despite a challenging business environment, 2002 was an outstandingly good year for Centrica.

We made encouraging progress in a number of areas. And we've got a clear view of what we need to do as we go forward.

So I'd like to spend a few minutes on our strategy and our plans for the future.

I'll also bring you up to date on some of the things we've achieved so far in 2003.

In the first six years of Centrica's life we've gone through a significant transformation.

We were essentially a UK gas supplier in a monopoly market. Today we sell a wide range of products and services in the UK and overseas, competing strongly in highly competitive markets.

It's a transformation that I'm extremely proud of.

From the start we've had a clear vision of where we were heading.

Our aim is to be a leading supplier of essential services in our chosen markets. And this is reflected in our strapline, taking care of the essentials.

Our strategy is focussed on creating value for shareholders through deepening our relationships with our customers. This is at the heart of everything we do.

And the strategy is backed up by three key elements.

Firstly, we have a number of strong, leading brands. We've worked hard to understand, develop and manage those brands so that they realise their full potential.

Secondly, our operational scale makes it possible for us to invest in people, processes and systems ... that help us create more value.

Through shared learning and best practice ... and by developing common processes across our business, we can improve our overall efficiency.

And thirdly, the skills, experience and quality of our people.

At all levels ... from the front line and the back office ... to my senior management team ... I'm extremely proud of the people we've got. They work exceptionally hard, with great dedication, and the value of that can't be overstated.

We're continuing to enhance the talent within the group by investing in training and development at all levels to secure a skilled workforce going forward.

Energy is still the core of our business. And to ensure that we're able to supply our millions of customers we've developed significant upstream expertise.

We aim to source around 25% of our energy requirements from our own supplies. And that's why we've taken opportunities to invest in upstream gas assets and power generation plant.

Our asset holding, together with our long-term contracts, gives us a balanced portfolio. And through that we ensure that our downstream businesses have sufficient competitively priced energy to meet their customers' needs.

Across the Group, our skills, experience and customer focus ... plus our operational scale and brand strength ... has underpinned our investment in new value creation opportunities in the UK and internationally.

But why can we be confident that the strategy will continue to deliver shareholder value? Well, it's important to say that although we're very confident, we're in no way complacent.

We recognise that the world has changed since we first set out our vision of what we were trying to do. Economic conditions are very different. Businesses are facing issues and pressures unimagined six years ago.

But the basis of our strategy is still sound. Creating value from customer relationships.

We've gone through a tremendous period of growth.

We've acquired a number of companies to help us expand our range of products and services and move into different markets.

We're now entering the next phase of our development.

Whilst we'll continue to make selective investments where the opportunities are right for us, our emphasis is on growing value from the business we've got and the investments we've already made.

This strong focus on managing for value gives me the confidence to stand here today and say that your company is in good shape and we're making good progress.

This is an appropriate point at which to move on and talk about how we're doing so far this year.

Well, overall we've made a strong start. Performance has been in line with our expectations and we're making good progress towards our 2003 targets.

Our core UK energy business has continued to display its underlying strength.

Upstream we've increased our power generation assets with the acquisition of Roosecote power station.

We've also continued to develop our upstream gas assets. We've started production from the Seymour field in the North Sea. And the DTI have approved our development plan for the Rose gas field that we acquired last year.

You're probably aware that our acquisition of the Rough field and storage facility was referred to the Competition Commission.

It's now going through their formal processes and we won't know the outcome until sometime after June.

We firmly believe that we can address any concerns about our ownership and operation of Rough through undertakings that don't detract from its value.

Now, it may not have seemed like it at the time, but the first four months of the year were unusually warm. Through our balanced portfolio we've been able to optimise our energy procurement. And that's gone some way to offsetting the effect of the warmer weather on gas consumption.

So, turning now to our downstream businesses.

In British Gas we've continued to grow our energy customer base.

Against a background of increasing costs in the industry ... for example to meet the increasing commitment to energy efficiency ... we took the decision to raise our gas and electricity prices last month.

As you'll appreciate, we have to strike a balance between maintaining sustainable margins and offering competitive prices and quality customer service.

Customers recognise that British Gas offers good value for money.

We've added net 200,000 customers to our energy base since the start of the year.

We've maintained our residential gas market share at around 64%. Four million gas customers have chosen to come back to us from our competitors.

And we've just achieved a milestone of 6 million residential electricity accounts ... around 23% of that market.

We've also made good progress with the systems developments which support the business transformation of British Gas ... and which underpin our strategy of deepening customer relationships.

Customer service agents in nine of our offices are now using the first release of the system. It will be in all British Gas sites next month. And we'll be starting the next phase of delivery in the summer.

In Centrica Business Services, organic growth has continued. We've integrated the Enron Direct business that we acquired at the end of 2001. And we're also making good progress at integrating Electricity Direct which we acquired last summer.

In the AA, we've made additional improvements in efficiency and inroads into our cost base. Customer satisfaction continues to increase.

And both efficiency and customer service will be further improved through the AA's business transformation programme which is now under way.

Despite an increasingly competitive marketplace, AA membership has continued to grow and now stands at around 13 million.

We're focussing on improving the financial performance of the AA Service Centres. And that's one of the challenges for this business in 2003.

In telecoms we now have around 1.4 million tolling services across fixed, mobile and internet.

In the fixed line market we're already positioned as a leading challenger to BT.

And the regulatory changes that the Chairman referred to earlier should make it easier for us to compete in this market.

For example, our continued lobbying has resulted in further improvements this year to the carrier pre-selection process.

One.Tel has further developed its product range. It's launched a new set of mobile packages which offer different combinations of fixed charge and bundled minutes.

And earlier this year One.Tel was judged the best consumer internet service provider in the UK. It beat stiff competition from some of the more established players. And it did it on the grounds of value for money, speed, and customer support.

Overall One.Tel is on track to achieve its profit targets this year.

Now. You may have seen some recent press speculation about Goldfish. Well, let me tell you where we stand.

We launched the Goldfish card in 1996. It was primarily a loyalty offering for our gas customers. It worked very well and we've developed Goldfish into a very strong brand.

We've launched a number of new products which are making encouraging progress.

For example, the Goldfish savings account has been particularly successful at attracting new investors. And after a slow start and in a highly competitive market, take-up of Goldfish loans has been very pleasing.

We've also continued to grow the credit card base this year.

But ... the financial services market and, in particular, the credit card market, has changed significantly over the last few years. Against this background we're continuing to review our plans for this business.

Our immediate target for Goldfish is to achieve cash breakeven by the end of the year. If we don't hit the target then we'll have to look at our options. But we can afford to take some time to be sure we make the right decision that is, the one that creates the most value for shareholders.

Moving on, and turning now to activities outside the UK.

In Continental Europe our preparations are continuing for the opening of competition to residential customers in Flanders in July.

And in Spain we're starting to supply a number of commercial customers. That's part of a planned test of systems and processes ahead of full entry to that market later this year.

Our major international presence today is in North America. You saw more about this in the video earlier. And as the Chairman said, there are plenty of opportunities there for us to create value.

The regulatory environment has changed. We recognise that. We've developed a good understanding of the issues and how they impact our business. And we're working with regulators, legislators, and the industry to resolve them.

But we're focussing our main efforts on the investments we've already made.

We're making good progress at integrating the business we bought last year in Texas – that's around 800,000 customers. And this business is performing strongly.

We've introduced a new brand in Ontario ... Direct Energy Essential Home Services ... bringing together the strength and heritage of the Direct Energy and Enbridge Services brands.

And in Alberta we're well on track to complete our acquisition of ATCO Retail later this year ... bringing almost a million customer relationships into the business.

The focus we're putting on the North American business is paying off. And we're on track to double profit in North America this year.

In conclusion, my message to you is simple.

We have a clear and robust strategy and we're making good progress.

We've moved into a phase in which we're focussing primarily on delivering value from our existing businesses and from the investments we've made.

We've made a good start to the year.

Looking ahead, we're confident we'll continue to deliver higher profits ..., generate more cash ... increase the dividend payout ratio ... and deliver greater value for you, our shareholders.

Thank you.