

Corporate Responsibility

Managing our impact

Analyst roadshow
24 October 2005

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Introductions

- Kieran McKinney, Investor Relations Manager, Centrica
- Steve Mancey, Director of Procurement Strategy, Centrica Energy
- Jill Harrison, Head of Consumer Affairs, British Gas
- Diana Montgomery, Head of Environment Strategy, British Gas
- Barry Neville, Director of Public Affairs, Centrica
- Andrew McCallum, Corporate Responsibility Manager, Centrica

Defining our approach

We seek to proactively manage the social, ethical and environmental impact of our business activities, engaging a wide range of stakeholders to minimise risk, create sustainable value for our shareholders and contribute positively to wider economic development in the regions in which we operate

Centrica Corporate Responsibility Strategy

- Maximise shareholder value
- Underpin our values and business principles
- Identify key impact areas
- Consult with stakeholders
- Monitor and benchmark our activities
- Report and communicate our performance

Corporate governance & risk management

- Processes to identify, manage & mitigate business risk
- Centrica Board set risk tolerance levels in line with strategy
- Risk management is embedded within all business units
- Integration of political, social, ethical and environmental risk
- Corporate Responsibility Committee leads strategy

Key impacts

- Managing our impact on climate change
- Addressing fuel poverty and energy efficiency
- Questions and discussion

Steve Mancey

Director of Procurement Strategy

Centrica Energy

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Issues and opportunities

Climate change = global issue + business as usual

- It has created investment opportunities
- It has created new markets to trade in
- It influences the way we run our power stations

Climate Change and upstream operations

- Renewables Obligation - on our supply business
- EU Emissions Trading Scheme - on generation, gas production and trading

Renewables Obligation

- Market based mechanism
- Supply obligation - **5.5 %** (2005/6) rising to **15.4%** (2015)
- Recycled “buyout” money increases value if shortfall grows
- Current ROC price is around £41
- Centrica is meeting its supply obligation through
 - long term offtake contracts
 - equity investment - £750 million earmarked
 - biofuel project

EU ETS

- Phase 1: 2005 - 2007
- 6 sectors including power and oil and gas across EU25
- Impacts Centrica gas and power assets
- Cap and trade CO2 allowance market mechanism
- Free allowances issued to all installations for almost BAU
- Market to deliver cost effective abatement
- New scheme, supply/demand balance unclear
- Current price about 23 Euro/tonne

EU ETS

- Created new trading market - over 1M tonnes CO2/day
- Centrica one of largest traders - **20%** of volume
- Operational despatch decisions take account of CO2
- Emissions purchase contract signed with Fiji hydro project
- Cost impact low for Centrica in Phase 1
- Rules for Phase 2 now under consultation

Summary

- Managing climate change is integral to our strategy
- Market mechanisms will change and evolve
- Skills to manage risks and protect our customers **AND**
- Identify opportunities to create value for investors

Jill Harrison

**Head of Consumer Affairs
British Gas**

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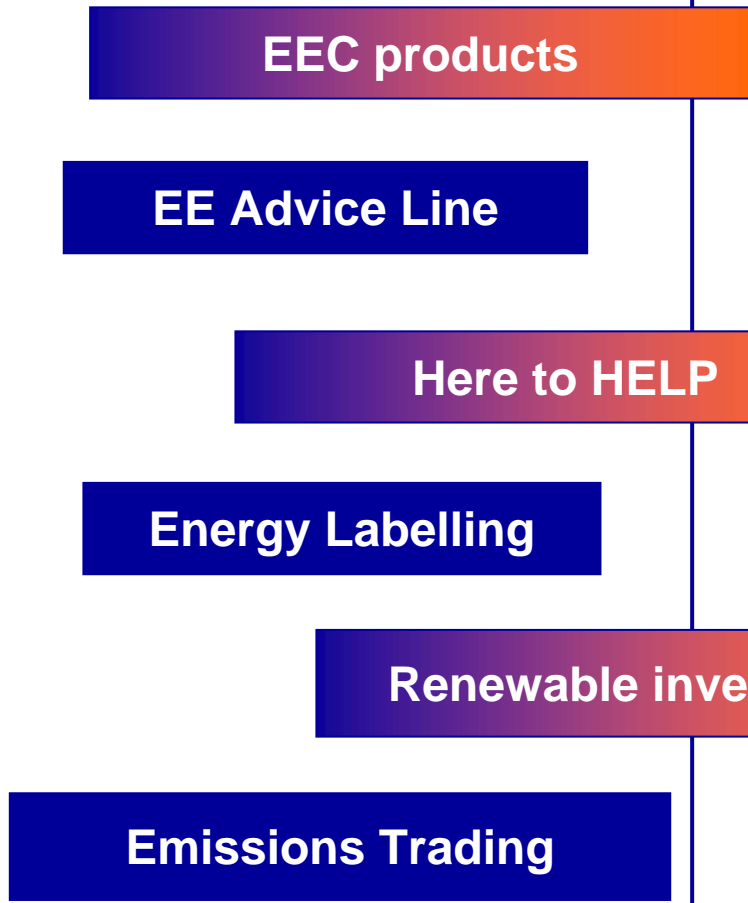
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Our Environment Programmes

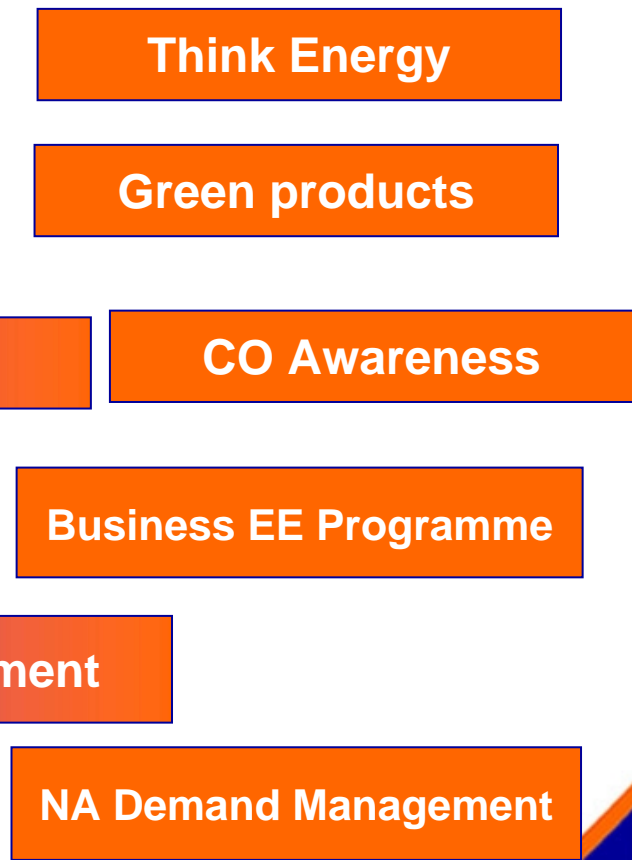
Obligations



Delivering our obligations



Going beyond our obligations



The Energy Efficiency Commitment ... a brief history

- Energy efficiency obligations were first introduced in 1994 for electricity suppliers (EESoP)
- Key driver for programme is Government policy to reduce carbon emissions, assisting low income consumers is a secondary driver
- Obligation was extended to gas suppliers in 2000 – first year that British Gas participated

INDUSTRY POSITION	Energy Efficiency Obligation		
	EESoP 2000-2002	EEC1 2002-2005	EEC2 2005-2008
Annual contribution per customer per fuel	£1.20	£3.60	£8.97
Annual cost to suppliers*	£54m	£162m	£400m
Energy Saving (TWh's)	13	62	130

* Indicative cost based on DEFRA estimates

Significant growth in both the size of our obligation and the scale of our programme

	EESOP 2000 - 2002	EEC1 20032 - 2005	EEC2 2005 - 2008	EEC3 2008 - 2011
Target	5 TWh's	27 TWh's	49TWh's	Developing our positioning/ lobbying strategy for EEC3: Traded market? Inclusion of broader product range? Separation of social and carbon objectives?
Cost	£40m	£205m	£465m*	
Contribution p/cust p/fuel*	£1.20	£3.60	£8.97	
Direct EEC Team Resource	25 FTE	34 FTE	45 FTE	
Delivered per FTE	£1.5m	£4.8m	£10.3m	
	Understand & Build Foundation	Cost Efficiency & Building Capability	Leadership & Risk Management	New thinking?

* DEFRA cost assumptions

Delivering commercial and brand opportunities from EEC



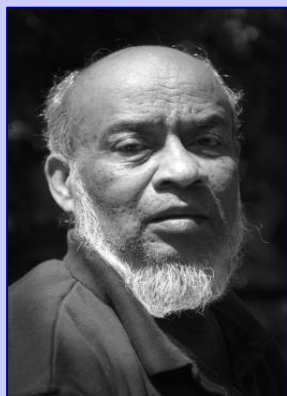
* Examples

By the end of 2004, 3m homes had benefited from EEC

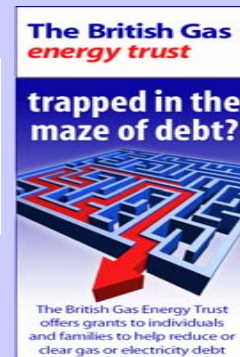


Supporting vulnerable customers means addressing a complex mix of issues – getting this right strengthens our brand reputation, and will enable us to address some of our wider commercial issues

- Hard to reach people
- Housing and quality of life
- Low incomes and debt
- Energy prices
- Policies and practices



- Socio-demographic profiling
- here to HELP
- British Gas Energy Trust
- Winter Rebate
- Debt, disconnection, prepayment



With our recent price increase we announced a programme to protect our most vulnerable customers through this coming winter

- 250k of our existing 'most in need' vulnerable customers offered a rebate of up to £60 (£40 gas, £20 elec)
- Customers identified through socio-economic profiling - must also be in receipt of qualifying benefits which were identified in conjunction with our charity partners
- Payment of the discount will be spread over two winter bills
- Already over 80k customers benefiting

One of the key components of EEC is the requirement to support vulnerable ('priority') customers

- 50% of the EEC target has to be delivered to the priority customer group – this is driven by the desire to achieve social equity
- Meeting this part of the target will cost c.64% of the total EEC spend
- The added value comes from how we leverage this component of EEC in meeting the needs of our most vulnerable customers

So our challenge was to turn the priority customer element of the EEC obligation into an opportunity

Opportunity

Regulatory obligation to improve energy efficiency in fuel poor households

Challenge

Build Brand

Innovate and differentiate

Develop and build relationships

Solution

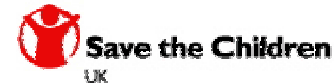


here to HELP award-winning, flagship, fuel poverty programme



- Unique collaboration of the private, public and voluntary sectors tackling fuel poverty
- £283m nationwide programme:
 - commenced late 2002
 - ambition to help 1m homes
- Delivering:
 - Energy Efficiency
-insulation, lighting, advice etc
 - Benefits Health Check
 - Charity Partner products and services
- Award-winning:
 - BITC Healthy Communities Award 2005
 - Marketing Society Award 2005

Social Housing Providers



National Debtline

'here to HELP' continues to make real progress towards our ambition of 1m homes



Results Into Year 3

- **860** here to HELP communities
- **433,000** homes covered
- **139,000** home assessments completed, giving:
 - **33,500** charity partner referrals
 - **over 90%** receiving help for the first time
- **18,200** benefits assessments completed
 - **£6.8m** unclaimed benefits identified
 - **Average £1,300** p.a. increase



Diana Montgomery

Corporate Responsibility Manager

British Gas

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Energy Labelling

fuel mix

where does our electricity come from?

As part of our commitment to doing the right thing for our customers, we are now giving our electricity customers details of the energy sources British Gas uses to generate electricity. This table and pie chart below show the percentage of renewable, gas, coal and nuclear energy British Gas uses to generate electricity.

Also shown are the levels of carbon dioxide and radioactive waste that are generated by the mix of energy sources we supply.

Fuel Type	Percentage (%)
Coal	14
Natural Gas	62
Nuclear	16
Renewables	5
Other	3
Total	100

Extending our green product portfolio

In September 2005 British Gas launched 3 new green products:

Climate Aware

Customers can make their home more energy efficient and offset their homes CO2 emissions for as little as £20

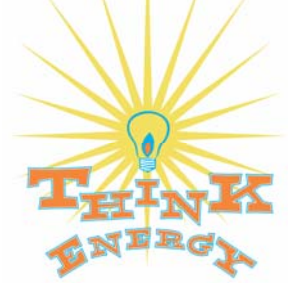
Renewable Electricity

Offering up to 200k customers renewable electricity from now until Oct 2007 at no additional cost

Energy Savers Club

2 year energy saving programme – rewards customers with £40 discount on energy bills over the 2 year period

Think Energy Education Programme



- Launched in 2000/2001 to provide national curricula resources for key stages 2 and 3.
- Extended in 2002/3 to include GCSE students, and to A Level students in 2004
- Think Energy website includes all resources and case studies online. www.think-energy.com and has attracted **120,000** visits on average a year.
- Think Energy resources have been requested by **52%** of Primary and Secondary Schools since its conception
- The programme has won numerous awards including:
 - **Business in the Community Award 2003**
 - **Hollis Award for Education in 2003**

Carbon Monoxide Awareness - 'NAG YOUR LANDLORD'

Carbon Monoxide (CO) kills up to 50 people each year. As the UK's largest energy supplier British Gas is committed to raising awareness and ensuring gas safety within the home

The Campaign

Targeted at students our ongoing 'Nag Your Landlord' campaign will this year produce over 325,000 beer mats with key messages surrounding CO awareness which we would like to distribute to all student union bars across the UK.



British Gas Business

- Supplies green energy to major customer such as Vodafone and BT
- Runs innovative Business Energy Efficiency Programme to improve energy use by industrial commercial and local authority customers
- Provides information and energy advice to customers via PR and energy magazines

Business Energy Efficiency Programme

Plan on saving money

Being energy efficient is not only good for your business in terms of reduced energy bills, it's good for the environment too. And government legislation about climate change is further driving the push for increased efficiency.

That's why at British Gas we're committed to planning, developing and delivering responsible energy programmes for our customers.

Our Business Energy Efficiency Programme is one of the cornerstones of that commitment. A scheme we tested on ourselves with positive results.

Centrica – a case in point

Our first step in implementing energy efficiency was to take a good look at Centrica, our parent company. We identified:

- where we were using energy inefficiently
- what improvements we needed to put it right
- what would be the cost of those improvements
- what return we would get in terms of reduction of energy usage by implementing our programme

Overall we set ourselves a target of reducing energy expenditure by 15% (£600,000) by 2005. During the first half of 2004 the programme delivered

£155,000 and 2,150 tonnes of CO₂ savings. To date, we've made energy usage savings of £610,000 at current energy prices. We're very proud of that achievement.

Here's the plan

After identifying which sites are to be included in the programme we follow 6 key steps to develop your Business Energy Efficiency Programme.

1. Preliminary Assessment

The programme starts with a desk analysis that compares your chosen site's energy consumption against an appropriate benchmark such as the government's 'best practice' figures in order to make an initial assessment of the site's energy efficiency.

2. Programme Agreement

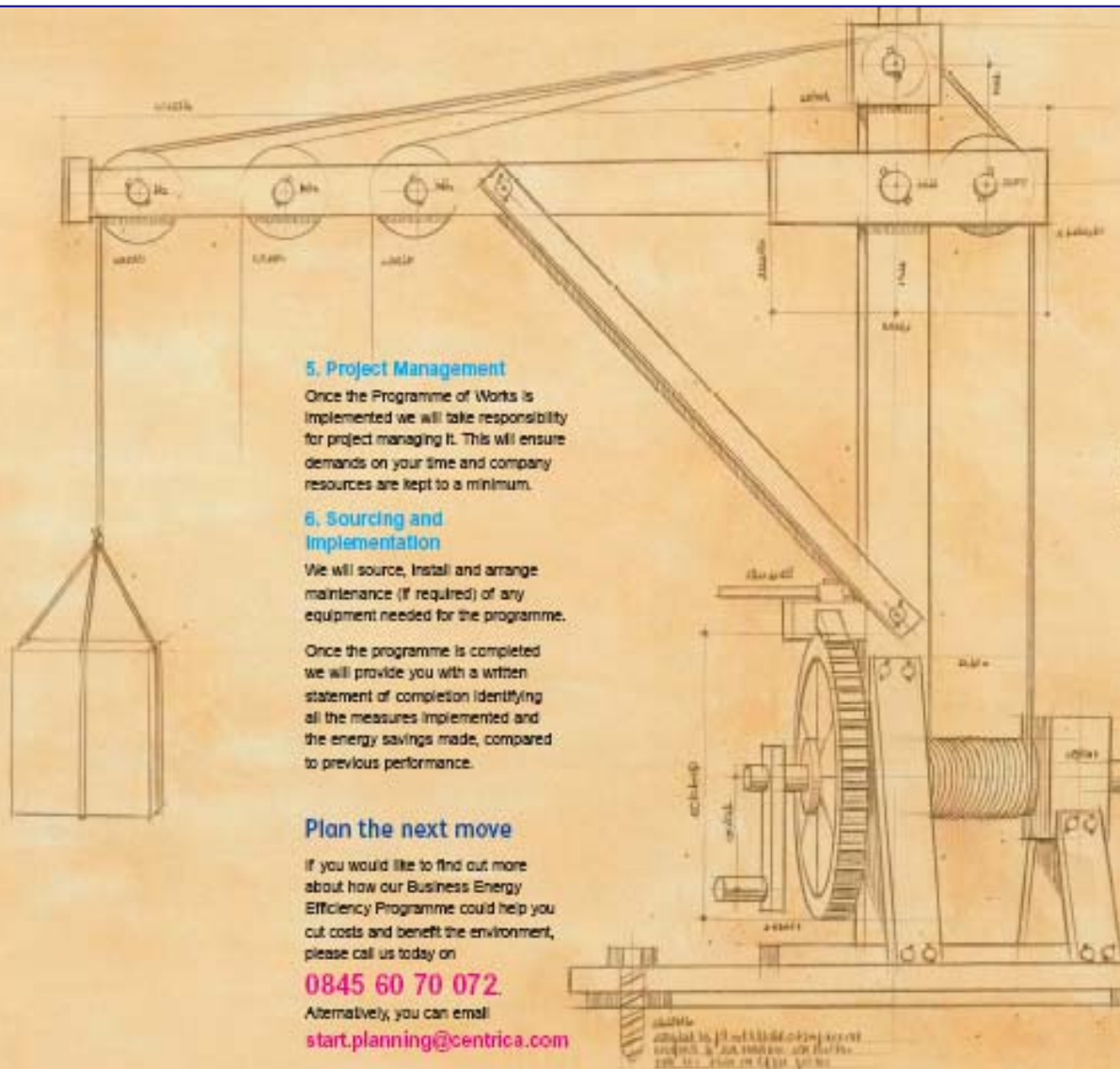
Using the results of the desk analysis we will consult with you to develop and agree a programme plan that will form the basis of a Programme Agreement.

3. Site Survey

An Energy Survey is conducted at the site to identify where energy savings can be made. We then produce an energy action plan that sets out the measures required to realise those savings cost-effectively.

4. Programme of Works

We will review the energy action plan together, then develop and agree with you the Programme of Works required to deliver the savings.



5. Project Management

Once the Programme of Works is implemented we will take responsibility for project managing it. This will ensure demands on your time and company resources are kept to a minimum.

6. Sourcing and Implementation

We will source, install and arrange maintenance (if required) of any equipment needed for the programme.

Once the programme is completed we will provide you with a written statement of completion identifying all the measures implemented and the energy savings made, compared to previous performance.

Plan the next move

If you would like to find out more about how our Business Energy Efficiency Programme could help you cut costs and benefit the environment, please call us today on

0845 60 70 072.

Alternatively, you can email start.planning@centrica.com

Investment in new technology

New technology can fulfil part of our commitment to deliver renewable energy and provide superior service to deepen customer relationships

British Gas is pursuing opportunities across a range of technologies to:

- Improve and deepen our **proposition /service** relationship with customers
- Provide new **growth** opportunities
- Deliver **brand** benefits: demonstrates our “green credentials” to our customers, the public, and government – directly into the home (in contrast to large scale green projects)

Broadening our green product portfolio

- A range of innovative renewable technologies will be launched from 2006 to complement existing energy efficiency products

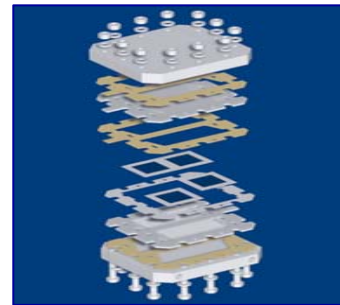
Domestic Wind



Solar Thermal



Fuel Cells



Micro CHP



Conclusions

- Managing key impacts
- Integral to delivery of strategy
- Governance structure in place
- Stakeholder engagement is key
- Turning obligations into opportunities

Questions and discussion