INTERIM RESULTS FOR THE PERIOD ENDED 30 JUNE 2015 AND OUTCOME OF STRATEGIC REVIEW

FIRST HALF RESULTS

Financial summary

Period ended 30 June	2015	2014	Change
Revenue	£15,451m	£15,748m	(2%)
Adjusted operating profit	£1,000m	£1,032m	(3%)
Adjusted effective tax rate	29%	37%	(8ppt)
Adjusted operating cash flow	£1,149m	£1,286m	(11%)
Adjusted earnings	£611m	£530m	15%
Adjusted basic earnings per share (EPS)	12.3p	10.5p	17%
Interim dividend per share	3.57p	5.10p	(30%)
Group net investment	£383m	£409m	(6%)
Period ended	30 Jun 2015	31 Dec 2014	Change
Group net debt	£4,905m	£5,196m	(6%)

Period ended 30 June	2015	2014	Change
Statutory operating profit	£1,343m	£1,021m	32%
Statutory profit for the period attributable to shareholders	£1,050m	£533m	97%
Net exceptional items after tax included in statutory profit	£116m	£140m	(17%)
Basic earnings per share	21.1p	10.5p	101%

Unless otherwise stated, all references to operating profit or loss, taxation, cash flow, earnings and earnings per share throughout the announcement are adjusted figures, reconciled to their statutory equivalents in the Group Financial Review on pages 12 to 15.

Performance summary

- Group adjusted operating profit down 3%, with higher profit from customer-facing businesses more than offset by lower profit from upstream gas and power businesses; Group adjusted EPS up 17%, reflecting a lower tax rate due to the change in operating profit mix.
  - British Gas operating profit up:
    - Higher residential energy consumption due to colder weather compared to a warm first half of 2014, falling wholesale gas costs, net lower other costs including ECO; residential energy market share broadly stable.
    - Two reductions in household gas bills totalling 10% this year, saving customers £72 per year on average.
    - Residential services impacted by challenging sales environment; new propositions to be launched in second half of 2015.
    - Business energy supply impacted by issues following the implementation of a new billing and CRM system; actions in place to resolve issues by the end of 2015.
  - Direct Energy operating profit significantly up:
    - Managed extreme cold weather well in residential and business energy supply, with no repeat of additional costs incurred in 2014.
    - Increased bundling of offerings in residential energy supply and restoration of higher margin contracts sold in prior periods now benefitting business energy supply.
    - Accelerated investment for future growth in solar business, resulting in an operating loss in services.
  - Centrica Energy operating profit and earnings down reflecting lower wholesale gas, oil and power prices:
    - Flat year-on-year E&P production and good nuclear operational performance.
    - On track to deliver E&P capital expenditure and cash production cost reductions.
  - Good first contribution from Bord Gáis Energy; Centrica Storage operating profit broadly in line with 2014.
- Interim dividend per share down 30%, following the decision earlier in the year to rebase the dividend.
- Good progress made in strengthening the balance sheet and financial metrics; successful hybrid bond issuance and strong first-time scrip dividend take-up; Group free cash flow positive with net debt reducing by around £300 million since the start of the year.
- Full year outlook broadly unchanged, but uncertainties include continued low wholesale commodity prices and a competitive environment for our customer-facing businesses, as well as the ongoing resolution of British Gas business energy supply billing issues; Group adjusted basic EPS expected to be weighted towards the first half of the year.

STRATEGIC REVIEW

STRATEGIC REVIEW

In light of significantly changed circumstances a fundamental strategic review was launched in February, focused on: i) outlook and sources of growth; ii) portfolio mix and capital intensity; iii) operating capability and efficiency; and iv) Group financial framework. The review has been a thorough and rigorous analysis of the Group's prospects, led by Centrica's senior management. The headline conclusions are:

- Centrica's strength lies in being a customer-facing business. We are an energy and services company. Our purpose is to "provide energy and services to satisfy the changing needs of our customers".
- Our activities and priorities will therefore be focused on meeting the needs of our customers and the shape of the Group will reflect this. Sources of competitive advantage include strong market shares, good brands, deep energy services capability and the ability to process a high volume of transactions at scale.
- We will aim to deliver long-term shareholder value through both returns and growth:
  - Operating cash flow growth of 3-5% per annum, underpinned near term through efficiencies.
  - Progressive dividend policy, in line with sustainable operating cash flow growth.
  - Return on average capital employed of 10-12%.
- Our long-term growth focus will be on energy supply, services, distributed energy and power, the connected home and energy marketing and trading. Relative to 2015, we will commit about £1.5 billion of additional operating and capital resources to drive growth in these areas over the next five years.
  - Energy supply a key contributor to Group cash flow. Growth driven through cost efficiency, improved customer service and retention across all markets, and growth in share in the Republic of Ireland and North America, to offset competitive intensity and energy efficiency.
  - Services growth through efficiency and an expansion of our product offering, including propositions for landlords in the UK and protection plans and solar in North America; expect to invest an additional £250 million of operating cost into services growth over the next five years.
  - Distributed energy and power a material opportunity with B2B customers, including energy efficiency, flexible generation and new technologies alongside energy management systems and optimisation; £700 million of additional operating and capital resources expected to be invested in this area over the next five years.
  - Connected homes growth through capitalising internationally on our existing UK market-leading position and end-to-end capabilities; expect to invest £500 million of operating costs and capital expenditure in this area over the next five years, in capacity and capability.
  - Energy marketing and trading growth through leveraging our proven optimisation and risk management capabilities to LNG and route to market services; expect to invest an additional £150 million in operating costs and capital expenditure over the next five years.
- We will reduce and limit scale in E&P and central power generation, lowering the Group's capital intensity. Relative to 2015, resource allocation to these areas will fall by about £1.5 billion over the next five years.
  - Transition to a smaller E&P business of between 40-50mmboe per annum, focused on the North Sea and East Irish Sea, consuming £400-600 million of annual capital expenditure.
  - Limit our emphasis on central thermal power, with skills migrated to distibuted energy and power.
  - Exit our remaining wind joint ventures.
  - Our interest in the UK's nuclear fleet considered as a financial investment.
  - Aim to release £0.5-1.0 billion of divestment proceeds by 2017 from E&P and wind.
- In addition to the shift in future resource allocation, we will target cost efficiencies of £750 million per annum by 2020 relative to a 2015 baseline, with about two-thirds of the savings expected to be delivered by the end of 2018. This excludes the costs of smart meter installation. Net of inflation, and before additional investment in growth areas, we expect our like-for-like 2020 operating costs to be £300 million below 2015.
  - Activity driven in four areas: customer-facing businesses; Centrica Energy; Group functions including corporate centre, and; procurement and supply chain optimisation of third party costs.
  - Focus on simplification, consolidation, automation and support function transformation.
  - A common operating model will be established across all customer-facing geographies to leverage international scale and pursue synergies.

STRATEGIC REVIEW CONTINUED AND DIVISIONAL OPERATING PROFIT

  - With additional allocation to growth areas, we would expect our reported operating cost base in 2020 to be at or below 2015 having offset inflation and growth.
  - We expect this programme to reduce like-for-like headcount by about 6,000 roles, with about half through turnover and attrition and about half through redundancies. With investment in growth areas, we expect the net impact on headcount to be about 4,000 roles.
- We will manage the Group within a clear financial framework:
  - Compound annual growth rate (CAGR) in operating cash flow of 3-5% per annum until 2020, based on flat real oil and gas prices and normal weather.
  - Operating cost growth below inflation, with the cost efficiency programme more than offsetting inflation in the near term.
  - Capital expenditure limited to £1 billion per annum in the near term and no more than 70% of operating cash flow longer term, to underpin dividend and credit rating.
  - Return on average capital employed of 10-12%.
  - Strong investment grade credit ratings of Baa1/BBB+ or better.
  - Progressive dividend policy, in line with sustainable operating cash flow growth.

Iain Conn, Centrica Chief Executive

"The conclusion of our strategic review provides a clear direction for the business. Centrica is an energy and services company. Our purpose is to provide energy and services to satisfy the changing needs of our customers, and as such we will focus our growth ambitions on our customer-facing activities. Serving our customers is what we are known for, what we are good at and where we already have distinctive positions and capabilities. Alongside a major Group-wide efficiency programme, this will underpin long-term shareholder value, as we target operating cash flow growth of 3-5% per year and deliver a progressive dividend policy. With Centrica delivering solid financial and operational performance in the first half of the year, and making good progress in strengthening its balance sheet and reducing net debt, the Group is well placed to compete materially against the emerging long-term trends in global energy markets."

Adjusted operating profit/(loss)

Period ended 30 June	**2015**	2014	Change
British Gas			
Residential energy supply	**£528m**	£265m	99%
Business energy supply and services	**£3m**	£61m	(95%)
Residential services	**£125m**	£129m	(3%)
Total British Gas	**£656m**	£455m	44%
Direct Energy			
Residential energy supply	**£67m**	£48m	40%
Business energy supply	**£143m**	(£21m)	nm
Residential and business services	**(£18m)**	£14m	nm
Total Direct Energy	**£192m**	£41m	368%
Bord Gáis Energy	**£23m**	–	nm
Centrica Energy			
Gas	**£48m**	£465m	(90%)
Power	**£68m**	£61m	11%
Total Centrica Energy	**£116m**	£526m	(78%)
Gas – adjusted operating (loss)/profit after tax	***(£23m)***	*£235m*	*nm*
Centrica Storage	**£13m**	£10m	30%
Total adjusted operating profit	**£1,000m**	£1,032m	(3%)

KEY PERFORMANCE INDICATORS

Key operational performance indicators

Group

Period ended 30 June	2015	2014	Change
Lost time injury frequency rate (per 100,000 hours worked) (i)	0.14	0.14	0%

British Gas

Period ended	30 Jun 2015	31 Dec 2014	Change
Residential energy customer accounts (period end, '000)	14,733	14,778	(0%)
Residential services product holding (period end, '000)	7,837	7,970	(2%)
Business energy supply points (period end, '000)	802	854	(6%)
Period ended 30 June	**2015**	**2014**	**Change**
Total gas volumes (mmth)	2,557	2,375	8%
Total electricity volumes (TWh)	19.3	20.2	(4%)

Direct Energy

Period ended	30 Jun 2015	31 Dec 2014	Change
Residential energy customer accounts (period end, '000)	3,188	3,256	(2%)
Residential services product holding (period end, '000)	904	897	1%
Period ended 30 June	**2015**	**2014**	**Change**
Business energy supply gas volumes (mmth)	3,364	3,193	5%
Business energy supply electricity volumes (TWh)	46.3	48.9	(5%)
Total gas volumes (mmth)	4,574	4,526	1%
Total electricity volumes (TWh)	55.0	58.9	(7%)

Bord Gáis Energy

Period ended	30 Jun 2015	31 Dec 2014	Change
Residential energy customer accounts (period end, '000)	600	608	(1%)
Period ended 30 June	**2015**	**2014**	**Change**
Total gas volumes (mmth)	162	–	nm
Total electricity volumes (TWh)	1.3	–	nm
Total power generated (TWh)	1.1	–	nm

Centrica Energy

Period ended 30 June	2015	2014	Change
Gas production (mmth) (ii)	1,928	1,945	(1%)
Liquids production (mmboe) (ii)	9.0	8.7	3%
Total gas and liquids production (mmth) (ii)	2,471	2,472	(0%)
Total gas and liquids production (mmboe) (ii)	40.7	40.9	(0%)
Total UK power generated (TWh)	9.8	10.7	(9%)

(i) 2014 lost time injury frequency rate (per 100,000 hours worked) has been restated to reflect additional data assurance activity.
(ii) Includes 100% share of Canadian assets owned in partnership with Qatar Petroleum.

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Interviews with Iain Conn (Chief Executive), Jeff Bell (Chief Financial Officer), Mark Hanafin (Managing Director, Centrica Energy), Mark Hodges (Managing Director, British Gas) and Badar Khan (President and Chief Executive Officer, Direct Energy) are available on www.centrica.com

CHIEF EXECUTIVE'S STATEMENT

Overview

During the first six months of the year our focus has been on three things. Firstly, continuing to deliver on our plans in the areas of safety and compliance. Secondly, tackling the immediate challenges we face given the changed operating environment. Thirdly, conducting a fundamental and wide-ranging strategic review to provide clear future direction and priorities for the Group.

In safety, our performance was stable, with injury rates broadly flat compared to 2014. Focus areas are in driving both safety and process safety, and reducing risks to customers. In regulatory compliance, the Group has had constructive interactions with our principal regulators, and has continued to contribute to the Competition and Markets Authority review into the functioning of the UK Energy Market.

The external environment heavily influenced our performance in the first half of the year, with lower wholesale gas and oil prices and lower spark spreads impacting the E&P and power businesses and resulting in much reduced profit in these activities. We also experienced colder than normal weather on both sides of the Atlantic, which positively impacted our customer-facing businesses. Given the steep fall in wholesale prices at the end of 2014, predicting the future cost of gas was a major focus. Lower prices did enable us to pass on the benefit to households in the UK and Republic of Ireland, with price reductions in household bills announced in January, and as wholesale prices stabilised, we announced a further price reduction in the UK in July which will take effect at the end of August.

Reflecting all of this, and solid operational performance across much of the Group, adjusted earnings per share increased by 17% compared to the first half of 2014.

We also made good progress in our actions to improve cash flows and strengthen the balance sheet. Adjusted operating cash flow was £1.1 billion in the first half and Group net investment was £383 million in the period. When combined with the re-based dividend and other actions this has resulted in a reduction in net debt of around £300 million since the start of the year and we remain on track to deliver reduced capital expenditure and cash production costs in our E&P business.

We have now completed our strategic review, which we launched in February in the light of significantly changed circumstances. This has been a thorough and rigorous analysis which looked at Centrica's i) outlook and sources of growth; ii) portfolio mix and capital intensity; iii) operating capability and efficiency; and iv) Group financial framework.

We have concluded that Centrica is well positioned to succeed against the emerging trends in energy, and our strength lies in being a customer-facing energy and services business, with a purpose to provide energy and services to satisfy the changing needs of our customers. We see our customer-facing businesses as a real source of competitive advantage given our distinctive positions and capabilities, and these businesses will be our focus areas for growth. These areas will receive additional operating and capital resources of about £1.5 billion over the next five years.

Alongside this, we will look to reduce the size of the more capital intensive E&P and power businesses. These areas will see reduced operating and capital resources of about £1.5 billion over the next five years.

In addition to this shift in resource-allocation, resulting in a less capital-intense activity-set, across the Group we will target material improvements in efficiency, delivering a reduction of £750 million per annum by 2020 in our like-for-like 2015 base of operating costs and controllable cost of goods. Even taking into account our investments for growth and the effects of inflation, we would expect our reported operating cost base in 2020 to be at or below the same level as 2015, allowing growth in gross margin to fall to the bottom-line.

Bringing this all together, we expect to deliver operating cash flow growth of 3-5% per annum, driven predominantly by efficiencies in the near term. Over time we would expect to see operating cash flow growth from both efficiency and gross margin expansion. We will limit capital expenditure to £1 billion per year in the near term with the intent to underpin the dividend and credit rating. With the further release of £0.5-1.0 billion of capital through disposals by 2017, we expect to strengthen the balance sheet and maintain credit metrics consistent with strong investment grade credit ratings. We will target post-tax returns on average capital employed of 10-12%. We expect to deliver a progressive dividend, linked to the sustainable growth in operating cash flow.

In summary, Centrica is well placed to build on its existing strengths and this strategy will establish Centrica as a leading energy and services company, able to serve our customers' needs and deliver long-term shareholder value through returns and growth.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

2015 first half business performance summary

Safety, compliance and market conduct remain the top priorities for the Group. The lost time injury frequency rate (LTIFR) per 100,000 hours worked in the first half of the year was 0.14, unchanged compared to the 2014 level. In the first half of the year we experienced one Tier 1 process safety event, the first event of this severity since 2011. As reported in our 2014 Annual Report, process safety remains a focus for continuous improvement. We have completed work on updating our framework for managing process safety and are now implementing this to further reduce risk in this area. Other areas of focus are driving safety and reducing risks of injury to customers.

British Gas

In our UK customer-facing business, British Gas, operating profit increased. British Gas Residential experienced higher consumption, reflecting colder than normal weather compared to an unusually warm first half of 2014. With falling wholesale commodity prices and lower ECO environmental costs, predominantly reflecting the phasing of our expenditure on the programme, profitability nearly doubled compared to a weak 2014 figure. Predicting the future cost of gas was particularly challenging in the first half of 2015. While market conditions remain intensely competitive, our market share remained broadly flat reflecting the 5% reduction in our residential gas tariffs from 27 February 2015 and our competitive fixed price and collective switch offerings. In July 2015, with wholesale gas costs having stabilised, we announced a further 5% reduction in our residential gas tariffs, meaning that the average standard British Gas bill will have reduced by £72 per household since the start of the year. This will be a material benefit to our customers as we enter the coming winter. Customer service levels improved in the first half of the year, reflected in an energy supply contact net promoter score (NPS) of +29, an increase of 10ppts since the start of the year. The NPS for our engineers in our UK services business remained high at +70. Improving our efficiency and service levels is a key focus, and we announced in April that we were dedicating further resource in this area, setting aside an additional investment of £50 million over three years.

The sales environment remains challenging for British Gas Services and the number of accounts fell by 2% in the first half of the year, with operating profit down by 3%. We have now installed more than 1.5 million residential smart meters in the UK and have sold over 200,000 smart thermostats, mostly under our Hive brand. In March, we completed the acquisition of the connected homes company AlertMe, giving us control over the technical platform that underpins our activity in this space, and the capability to launch products across the Group. In July 2015, we launched the next generation of Hive, alongside a suite of new home technology products.

British Gas Business was impacted by issues following the implementation of a new billing and CRM system in 2014, which has resulted in significant delays to issuing customer bills. As a result, we incurred an increased bad debt charge and additional costs associated with extra resource required to help resolve the issues. Customer service levels also suffered and in a competitive environment the number of supply points fell by 6% in the first half. Reflecting all of this, the business only made a small profit in the first half of 2015, significantly lower than in the first half of 2014. We are currently undertaking an extensive transition recovery programme, including continued investment in additional resource. Most of the customers affected are now being served normally, and we currently expect to have resolved the issues by the end of 2015.

Direct Energy

In North America, Direct Energy delivered significantly higher operating profit. The business experienced much colder than normal weather in the first half of 2015. However a combination of more stable physical infrastructure, market redesign and management action meant we did not see a repeat of the additional network system charges resulting from the Polar Vortex in 2014. In addition, Direct Energy Business is now benefitting from a focus on the quality of our portfolio mix and higher unit margins on contracts we sold in prior periods, while the Hess Energy Marketing acquisition is continuing to perform ahead of its investment case. Market conditions remained competitive for Direct Energy Residential, although underlying margins were broadly maintained. Direct Energy Services reported an operating loss as we accelerated our investment in Solar to drive future growth.

We continue to make good progress in building our brand in North America. In March we announced that Direct Energy was joining a range of well-known brands to launch Plenti, the first United States-based coalition loyalty programme, where consumers can earn and use reward points for purchasing a wide range of products. To date more than 20 million members have signed up to the programme. We also continue to build our range of innovative offers and propositions for both homes and businesses, targeted at the most valuable customer segments. An increased number of customers are now taking both energy and services from us with over a third of residential energy customers acquired in the first half of the year also taking a services protection plan or smart thermostat.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

Bord Gáis Energy

In the Republic of Ireland, Bord Gáis Energy performed well, having also experienced colder than normal weather which resulted in higher than normal gas consumption. Energy accounts were broadly flat over the period, with our price reduction in March positioning us with the cheapest standard dual fuel offering amongst major competitors, while we also commenced the roll-out of our Hive smart thermostat. In power generation, the 445MW Whitegate gas-fired station performed well in the first six months, with strong availability and reliability.

Centrica Energy

In Centrica Energy, first half operating profit and earnings were significantly affected by lower wholesale gas and oil prices. In addition, our gas midstream business was impacted by losses on flexible gas contracts which were optimised for value during falling prices in 2014, with a consequential impact on 2015. As a result, the gas midstream business reported an operating loss in the first half, but is expected to be profitable in the second half of the year. Centrica Energy delivered good operational performance with sustained levels of E&P production and good nuclear operational performance. However, gas-fired generation operating performance was impacted by an unplanned outage at Langage. We are progressing plans to close the Killingholme gas-fired power station in 2016, however our Brigg gas-fired power station will now remain open at a reduced capacity and be run as a distributed generation asset.

E&P capital expenditure was down 24% in the first half and we remain on track to reduce expenditure for the full year to around £800 million. We also remain on track to reduce our full year cash production costs by £100 million in 2016, compared to 2014, with savings expected to have more impact in the second half of this year.

In LNG, Cheniere made a positive final investment decision on the fifth project at Sabine Pass in Louisiana at the end of June, following receipt of Federal Energy Regulatory Commission (FERC) approval and a Non-Free Trade Agreement licence from the Department of Energy (DOE). Centrica expects to take delivery of its first cargo under its US export contract with Cheniere in late 2018 or in 2019.

Centrica Storage

In Centrica Storage, with seasonal gas price spreads remaining at low levels, the business delivered operating profit broadly in line with the first half of 2014. However, a potential technical issue was discovered at the Rough asset during a routine inspection in the first quarter of the year, which will limit the capacity at Rough at least until the testing and verification works are completed between September and December 2016. The impact of the limitation on second half profitability is expected to be broadly offset by additional profit from the sale of cushion gas. This follows consent from the Oil and Gas Authority to increase the capacity of Rough, going some way to restoring Rough to its previous capacity level before the limitation was imposed.

Strategic review

We concluded our Group-wide strategic review in July, focused on Centrica's i) outlook and sources of growth; ii) portfolio mix and capital intensity; iii) operating capability and efficiency; and iv) Group financial framework. A significant amount of management time has been dedicated to the review and it has provided a thorough and rigorous analysis of the Group's prospects.

Centrica is an energy and services company. Centrica's purpose is to provide energy and services to satisfy the changing needs of our customers. Serving customers is what we are known for, what we are good at, and where we already have distinctive positions. Our priority will be to deliver for the changing needs of our customers, including the sourcing and optimisation of the energy required to meet these needs.

We intend to deliver long-term shareholder value through returns and growth, creating what we believe will be an attractive investor proposition. We have concluded that we can grow the Group's cash flows, with our customer-facing businesses a real source of competitive advantage including strong market shares, good brands, deep capability in energy services and the ability to process a high volume of transactions at scale. Reflecting this competitive advantage, our long-term focus will be on these customer-facing businesses.

Focus on providing energy and services to satisfy the changing needs of our customers

Our focus for long-term growth will be in five areas: energy supply; services; distributed energy and power; the connected home; and energy marketing and trading. These areas will receive about £1.5 billion of additional operating and capital resources over the next five years.

Our energy supply businesses will continue to be a key contributor to Group cash flow. In the UK, given a highly competitive market, our focus for growth will be through significantly improved cost efficiency and improved customer service to underpin better retention levels. We expect these to offset the impacts of competitive intensity and reducing

CHIEF EXECUTIVE'S STATEMENT CONTINUED

consumption. We believe that with less constraint on our current ability to offer different propositions to customers, we can leverage our capability to innovate and compete. In UK services, we believe we can reverse recent declines in market share in the UK through the development of propositions which appeal to additional customer segments, leveraging our scale of service delivery in such areas as on-demand service and property landlords. In the Republic of Ireland, a market more recently deregulated than the UK, we will look to increase our electricity supply and energy services share.

Our North America customer-facing businesses are an important part of the Group. Given our market leading position, but in highly fragmented markets, we see opportunities to increase market share in both energy and services in the region. In residential energy supply, we are focused on developing a more sustainable business model through the development of improved bundled propositions, greater focus on customer mix and achieving lower churn. In business energy supply, the acquisition of Hess Energy Marketing in 2013 has provided us with a market leading position and a strong base from which to deliver sustainable returns over the long term. In services, we are the US market leader, albeit with a small market share in a very fragmented market, and believe there is strong potential for growth from the wide range of products we are able to offer. We expect to invest an additional £250 million of operating costs into growing services over the next five years.

We believe that connected homes' offerings will become increasingly important, with propositions linked to our core energy and services products in the UK, the Republic of Ireland and North America. These propositions will help to underpin better retention levels as well as provide growth opportunities in their own right. We already have products in the market and have built high quality end-to-end capability in this area, with operating platform design and operation, hardware and software development, data analytics, installation and maintenance. Given these capabilities, the scale of our existing customer relationships, and our ability to connect physical with digital through our 12,000 direct engineers and technicians worldwide, we will be able to compete meaningfully in this space. To drive growth, we are investing £500 million in operating costs and capital expenditure in connected homes' activity over the next five years.

Distributed energy, including energy efficiency, flexible generation and new technologies, alongside energy management and optimisation, is an activity which we believe could provide significant growth potential for Centrica in the long-term. This activity will be targeted at commercial and industrial (C&I) customers in all the geographies in which we operate, with customers seeking ways to drive energy efficiency. Although building up our capability in this area will require some additional investment, many of the skills associated with distributed energy already reside in the Group, both in British Gas and Direct Energy, and in the Centrica Energy power business. We have a good starting position and this is an attractive opportunity for Centrica. We would expect to invest up to £700 million of additional operating and capital resources to this area over the next five years.

Energy marketing and trading also provides a good opportunity for growth and is an area where we already have strong capabilities. In LNG, the first commercial delivery under our US gas export contract with Cheniere is expected in late 2018 or in 2019, and we have been actively building both our capability and market presence in LNG. We will also continue to expand our route to market services and continue to utilise our knowledge of European energy markets to benefit from trading and optimisation activity. We expect to invest an additional £150 million of operating costs and capital expenditure in this area until 2020.

Reduced scale and capital intensity in E&P and power

The emphasis on growth will be in our customer-facing businesses and we have clarified the roles of E&P and our central power generation businesses. We will be reducing resources allocated to these areas by about £1.5 billion over the next five years. The shift of resources towards the customer-facing businesses will result in a less capital-intense portfolio mix.

To supply energy to our customers requires balance sheet strength, to take on long-term commitments and to manage the margin calls and other working capital requirements associated with risk-managing this exposure. One way to manage these risks is to own assets producing diversified cash flows, and the E&P business provides such diversification. We have therefore concluded that in the next phase of Centrica, the role of E&P in the portfolio is to provide diversity of cash flows and the balance sheet strength that goes with this.

We have determined that a stable E&P business which produces around 40-50mmboe per annum, and requires between £400-£600 million of capital expenditure each year, is sized to fulfil this role. This compares to a business which produced 75-80mmboe and incurred capital expenditure of around £1.1 billion in 2013 and 2014 as we sought to grow E&P. We may look to supplement our reserves with inorganic non-operated additions to the portfolio, although not before 2017, and only if the additions were of high quality and represented good shareholder value. This inorganic

investment is included in the average capital expenditure range of £400-£600 million per annum, although could exceed this slightly in specific years depending upon phasing of inorganic investments.

While we have built an E&P business with good capabilities over the past six years, we are participating in five countries which we believe is too stretching for our scale and capabilities. As a result we will focus our E&P activity on the North Sea and East Irish Sea, where we are material enough to play a major part in the UK and Netherlands, and have the capability and presence in Norway to allow us to access additional value opportunities. We will maximise value from our existing operations through a focus on safe and sustainable operations, whilst investing mainly in Norway and increasingly in non-operated opportunities. As previously signalled, we continue to review options to release capital from our Trinidad and Tobago positions, while we now consider our Canadian E&P business to be non-core. As such, we will not look to grow our Canadian business and will seek ways to maximise value from our existing position in close coordination with our partner, Qatar Petroleum.

In thermal power, we will continue to operate our existing small gas-fired fleet, maximising optimisation activity and seeking opportunities to make small investments in improving the fleet where economics allow. We will maintain a watching brief as the capacity market evolves, and will retain sufficient capability to enable us to continue to manage power assets in the future. However we will not increase our emphasis on central thermal generation, preferring to seek opportunities in peaking units and distributed generation.

Our participation in nuclear power generation is an attractive investment and remains a useful source of baseload power for our UK energy supply businesses. However our interest provides limited strategic optionality for the Group, and moving forward we will therefore consider our interest in the UK nuclear fleet as a financial investment, and will assess its merits in the portfolio on that basis.

In wind power generation, with total operational capacity of only 245MW and no existing potential developments in the pipeline, we plan to dispose of our interests, continuing to participate to a limited degree through power purchase agreements.

In gas storage, we intend to hold the Rough asset, focusing on safety, compliance and efficiency. We do not see it as a growth option in the current environment and will focus on completing the assessment of the operating integrity of the asset, implementing the necessary plans arising from the assessment, and continuing to work with the UK Government on any changes necessary to ensure the asset fulfils its role as the main strategic storage asset for the UK.

Cost efficiency

In addition to the shift of resources towards the customer-facing businesses, transforming our cost base and the efficiency with which we go to market is a major strategic opportunity. Centrica is an international company with scale, with similar customer and market trends in all our markets. However, we have not yet fully leveraged this scale through shared capabilities, common operating models, and cost efficiency. We see a significant cost efficiency opportunity over the next five years, which will allow us to more than offset inflation on our current controllable cost base of slightly above £4.5 billion per annum – which includes both operating cost and controllable cost of goods sold. The controllable cost base excludes energy and distribution costs, and the costs associated with rolling out the mandated smart meter programme in the UK, and will be adjusted for any major acquisitions or disposals.

We will target £750 million per annum of efficiencies from our 2015 like-for-like cost base over the next five years, before inflation and one-off investment to achieve the savings, with about two-thirds of the savings expected to be delivered by the end of 2018. This excludes the costs of installation of smart meters which has an associated cost-recovery mechanism. After the effects of inflation, we expect like-for-like operating costs to reduce by around £300 million per annum by 2020. We expect to be spending around £200 million per annum of additional operating costs to deliver incremental gross margin in the growth areas of services, connected homes, distributed energy and power, and energy marketing and trading by 2020. As a result, we would expect operating costs in 2020 to be at or below their 2015 level. We will deliver this efficiency programme without compromising safety, compliance and customer service. Longer-term, we expect to manage our operating cost growth to be less than inflation.

The efficiency programme will be a major source of near-term cash flow growth. It will be organised in four areas: the customer-facing businesses; Centrica Energy; Group functions including the corporate centre; and procurement and supply chain optimisation of third party costs. In our customer-facing businesses, areas of focus will be back and front office simplification, the establishment of shared marketing, sales and network services across all geographies, call centre optimisation and changing the downstream organisational model. In Centrica Energy, we will focus on the rationalisation of layers, functional simplification, the supply chain and field lifting costs. At a Group level, we will look to transform the relationship between our corporate centre and the business units through changes to the Group's

CHIEF EXECUTIVE'S STATEMENT CONTINUED

functional model, in finance, human resources and information systems. We will also pursue major procurement efficiencies in all aspects of third party costs and cost of goods sold. We expect the savings to be evenly split between first and second party costs, and third party costs.

To help deliver the efficiencies, we will look to establish a common operating model and philosophy across the customer-facing geographies. We estimate that the efficiency programme will cost around £500-£600 million in investment and rationalisation expense to deliver, and is likely to involve a reduction in like-for-like headcount by 2020 of around 6,000 roles. Taking account of additional headcount in the growth areas, the net reduction should be about 4,000 roles, before growth in the workforce necessary to deliver the roll-out of smart meters in the UK. We would expect roughly half of the reduction in the 6,000 roles to come from natural attrition and half from redundancies, with most redundancies occurring before the end of 2017.

Financial framework

Bringing this all together, we are targeting operating cash flow growth of 3-5% per annum over the period 2015-2020, assuming flat real commodity prices at $70 per barrel of Brent Crude oil and 50p per therm of UK NBP gas, normal weather and excluding one-off cash expenses to deliver the efficiency programme. We will limit capital expenditure in the long term to no more than 70% of adjusted operating cash flow although in the short term, to underpin the dividend and credit rating, this will be limited to £1 billion per year. This is less than 50% of the Group's expected adjusted operating cash flow in 2015. This will result in the Group's net debt figure reducing to levels which will further strengthen the credit metrics currently required by Moody's and Standard & Poor's to retain strong investment grade credit ratings – Baa1 with Moody's and BBB+ with Standard & Poor's.

We will maintain controllable cost growth at below inflation, but in the period to 2020 we will deliver a nominal net reduction in costs through our efficiency programme. Taking into account the expected growth in cash flow and capital expenditure levels, we expect to deliver a sustainable return on average capital employed for the Group of 10-12%. The shift of reinvestment into less capital-intense activities should underpin higher returns in the longer term. We intend to deliver a progressive dividend relative to a 2015 base, with growth in line with the sustainable operating cash flow of the business. Having launched a scrip dividend for the first time earlier this year we will continue to offer this option to our investors in the near term, however we will keep it under review.

Cash flow and balance sheet

Group net debt fell by around £300 million to £4.9 billion in the first half of the year, despite a detrimental impact on working capital as a result of the billing issues we faced in UK business energy supply. This reflects the actions we announced at the time of our 2014 Preliminary Results in February, including reduced capital expenditure, most significantly in E&P. It also includes the impact of reduced cash outflow from dividend payments due to our decision to rebase the 2014 final dividend by 30%, and over 40% take-up for our scrip dividend alternative. In the first half of the year the Group disposed of the portion of the Lincs wind farm project financing debt owned by Centrica, resulting in a cash inflow to Centrica of £180 million. We also concluded the issuance of €750 million and £450 million hybrid securities, helping underpin the Group's financial metrics.

Centrica requires strong investment grade credit ratings to undertake its procurement, hedging and optimisation activity. On 19 March 2015, Moody's Investors Service downgraded the issuer rating and senior unsecured ratings for Centrica plc to Baa1 (stable outlook) from A3 (negative outlook), primarily as a result of the financial impact of the fall in energy prices and the continuing political, regulatory and competitive risks in the UK energy supply business. Standard & Poor's Rating Services currently has Centrica plc on an A- (negative outlook) credit rating, with their annual review due to be concluded shortly. Both ratings are consistent with the Company's target to maintain strong investment grade credit ratings.

Competition and Markets Authority Investigation

The Competition and Markets Authority (CMA) investigation into the UK energy market is ongoing and following the publication of their updated statement of issues on 18 February 2015, the CMA's provisional findings and notice of possible remedies were published on 7 July 2015. We welcome the CMA's wide-ranging review, which recognises the realities and difficulties of implementing policy, pricing and regulation in a complex marketplace, and their provisional findings look to be a comprehensive and thorough assessment. We also welcome the possibility that this review will have a constructive and positive influence on competition in the energy market. We have questions and concerns about some of the findings and proposals, including the potential introduction of a transitional 'safeguard regulated tariff' for 'disengaged' domestic and microbusiness customers, while we do not agree with their conclusions on profitability and returns. However we look forward to engaging with the CMA in the next phase of this process.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

Management update

In April, it was announced that Mark Hodges would become Managing Director, British Gas with effect from 1 June 2015. With a background in insurance, Mark brings a strong understanding of the UK consumer market and a track record in improving business performance. He is experienced in working in a regulated environment, driving significant improvements in customer service and efficiency, innovation, and in major IT and change projects.

In July 2015, it was announced that Jeff Bell had been appointed Chief Financial Officer, with effect from 1 August 2015. Jeff brings extensive experience in driving financial performance and has a strong track record in developing and leading finance teams both in the UK and in North America.

2015 full year outlook

We continue to plan on the basis of current low wholesale prices persisting for the rest of 2015. The full year outlook remains broadly unchanged but uncertainties include continuing low wholesale commodity prices and a competitive environment for our customer-facing businesses, as well as the ongoing resolution of British Gas business energy supply billling issues. As a result, 2015 full year Group adjusted basic earnings per share are expected to be weighted towards the first half of the year, with full year margins in UK residential energy supply expected to be broadly in line with recent years. In addition to commodity prices, the outlook remains subject to weather conditions and asset performance over the rest of 2015.

Following the removal of the requirement for UK listed companies to publish an Interim Management Statement (IMS), announced by the Financial Conduct Authority in November 2014, Centrica has decided to cease publication of IMSs. Centrica will instead provide two trading updates, the first to coincide with its Annual General Meeting in the Spring and the second in mid-December, in advance of the Company entering its Preliminary Results close period.

Summary

During the first half of the year, the Group delivered solid financial and operational performance, while we also made good progress in strengthening the balance sheet and reducing net debt.

Looking ahead, the conclusion of our strategic review provides a clear direction for the Group. With a renewed focus on our customer-facing activities, I am convinced that Centrica is well-placed to build on its existing strengths and able to compete materially against the emerging long-term trends in global energy markets. This revised strategy will establish Centrica as a leading energy and services company, able to satisfy the changing needs of our customers and deliver long-term shareholder value through returns and growth.

Iain Conn
Chief Executive
30 July 2015

GROUP FINANCIAL REVIEW

Group revenue

Group revenue decreased by 2% to £15,451 million (2014: £15,748 million). British Gas gross revenue remained broadly flat at £6.9 billion. Residential energy supply gross revenue increased by 3%, with the impact of a 9% increase in total residential gas consumption reflecting colder weather than the previous year, partially offset by lower unit prices due to a reduction in household gas tariffs at the end of February. Residential services gross revenue was broadly flat, with the impact of lower product holdings offset by inflationary price increases. Business energy supply and services gross revenue fell by 10%, reflecting a lower number of supply points.

Direct Energy gross revenue decreased by 9%. Residential energy supply gross revenue decreased by 14%, reflecting lower customer accounts and reduced unit prices in a lower commodity price environment. Business energy supply gross revenue decreased 7%, also reflecting reduced unit prices. Residential and business services gross revenue fell by 13%, with the impact of the Ontario home services disposal in the second half of 2014 partially offset by additional revenues from our solar business. Bord Gáis Energy reported gross revenue of £400 million in the first six months of the year.

Centrica Energy gross revenue fell by 8%. Gas gross revenue fell by 8% and power gross revenue fell by 9%, primarily reflecting lower achieved prices in the current low commodity price environment. Centrica Storage gross revenue remained broadly flat.

Operating profit

Throughout the statement, reference is made to a number of different profit measures, which are shown below:

				2015			2014
Period ended 30 June	Notes	**Business performance £m**	**Exceptional items and certain re-measurements £m**	**Statutory result £m**	Business performance £m	Exceptional items and certain re-measurements £m	Statutory result £m
Adjusted operating profit							
British Gas		**656**			455		
Direct Energy		**192**			41		
Bord Gáis Energy		**23**			–		
Centrica Energy		**116**			526		
Centrica Storage		**13**			10		
Total adjusted operating profit	4b	**1,000**			1,032		
Depreciation of fair value uplifts from Strategic Investments (nuclear post-tax)	4b	**(24)**			(40)		
Interest and taxation on joint ventures and associates	4b	**(51)**			(63)		
Group operating profit	4b	**925**	**418**	**1,343**	929	92	1,021
Net finance cost	7	**(135)**	**–**	**(135)**	(131)	–	(131)
Taxation	8	**(221)**	**45**	**(176)**	(281)	(59)	(340)
Profit for the period		**569**	**463**	**1,032**	517	33	550
Attributable to non-controlling interests		**18**			(17)		
Depreciation of fair value uplifts from Strategic Investments, after taxation	9	**24**			30		
Adjusted earnings		**611**			530		

British Gas operating profit increased by 44%. Residential energy supply operating profit increased, primarily reflecting the higher revenue from increased customer demand and lower environmental supply obligation costs associated with delivery of the ECO programme. Residential services profit fell by 3% with inflationary cost increases mostly offset by a one-time credit relating to the implementation of a Pension Increase Exchange (PIE) for our defined benefit scheme members. Business energy supply and services operating profit fell 95%, reflecting additional costs and a higher bad debt charge relating to the transition to a new billing and CRM system, and the reduction in revenue caused by lower customer accounts.

Direct Energy operating profit increased significantly. Similar to 2014, weather in the first half of the year was colder than normal in much of North America, but a combination of more stable physical infrastructure, market redesign and management action meant we did not see a repeat of the additional Polar Vortex related costs of $110 million (£65 million) incurred in 2014. Reflecting this, residential energy supply profit increased by 40% as unit margins returned to a more normalised level. Business energy supply profit also benefited from increased unit margins sold in prior periods and strong results from optimising transportation and gas storage positions. Residential and business services reported an operating loss, reflecting costs related to an accelerated investment in our solar business and the sale of the Ontario home services business in the second half of 2014.

Bord Gáis Energy made an operating profit of £23 million in the first six months of the year.

Centrica Energy operating profit fell by 78%. In gas, operating profit fell 90% reflecting the impact of a lower wholesale price environment and an operating loss in midstream gas. Power profitability increased by 11%, with the impact of lower wholesale prices and a lower power midstream profit more than offset by the absence of a £40 million write-off in 2014 associated with renewables projects.

Centrica Storage operating profit increased by 30% to £13 million, reflecting additional space sales in the 2014/15 storage year and lower fuel gas costs with a later start to the injection season.

Group finance charge and tax

Net finance costs increased slightly to £135 million (2014: £131 million), reflecting a higher interest cost on bonds following the issuance of £1 billion equivalent of hybrid securities. The taxation charge reduced to £221 million (2014: £281 million) and after taking account of tax on joint ventures and associates, and the impact of fair value uplifts, the adjusted tax charge was £240 million (2014: £318 million). The resultant adjusted effective tax rate for the Group was 29% (2014: 37%), predominantly reflecting a shift in the mix of profit towards the lower taxed downstream businesses. An effective tax rate calculation, showing the UK and non-UK components, is shown below:

Period ended 30 June	**UK £m**	**Non-UK £m**	**2015 Total £m**	UK £m	Non-UK £m	2014 Total £m
Adjusted operating profit	**766**	**234**	**1,000**	779	253	1,032
Share of joint ventures/associates interest	**(32)**	**–**	**(32)**	(36)	–	(36)
Net finance cost	**(74)**	**(61)**	**(135)**	(81)	(50)	(131)
Adjusted profit before taxation	**660**	**173**	**833**	662	203	865
Taxation on profit	**110**	**111**	**221**	137	144	281
Tax impact of depreciation on Venture fair value uplift	**–**	**–**	**–**	10	–	10
Share of joint ventures'/associates' taxation	**19**	**–**	**19**	27	–	27
Adjusted tax charge	**129**	**111**	**240**	174	144	318
Adjusted effective tax rate	**20%**	**64%**	**29%**	26%	71%	37%

Group earnings and dividend

Reflecting all of the above, profit for the year increased to £569 million (2014: £517 million) and after adjusting for losses attributable to non-controlling interests and fair value uplifts, adjusted earnings were £611 million (2014: £530 million). Adjusted basic earnings per share (EPS) was 12.3 pence (2014: 10.5 pence).

The statutory profit attributable to shareholders for the period was £1,050 million (2014: £533 million). The reconciling items between Group profit for the period from business performance and statutory profit are related to exceptional items and certain re-measurements. The increase compared to 2014 is principally due to a net gain from certain re-measurements of £347 million compared to a net loss of £107 million in 2014. The Group reported a statutory basic EPS of 21.1 pence (2014: 10.5 pence).

GROUP FINANCIAL REVIEW CONTINUED

An interim dividend of 3.57 pence per share, 30% lower than the 2014 comparative of 5.10 pence per share, will be paid on 26 November 2015 to shareholders on the register on 2 October 2015.

Group cash flow, net debt and balance sheet

Group operating cash flow before movements in working capital was broadly flat at £1,502 million (2014: £1,495 million). After working capital adjustments, tax, and payments relating to exceptional charges, net cash flow from operating activities was £1,340 million (2014: £1,054 million). This includes the impact of a net inflow of £298 million (2014: outflow of £127 million) of cash collateral, as a portion of the £776 million of cash collateral posted at the start of the year unwound in a more stable commodity price environment.

Adjusted operating cash flow, reconciled to operating cash flow in the table below, reduced to £1,149 million (2014: £1,286 million).

Period ended 30 June	2015	2014
Net cash flow from operating activities	£1,340m	£1,054m
Add back/(deduct):		
Net margin and cash collateral (inflow) / outflow	(£298m)	£127m
Payments relating to exceptional charges	£42m	£62m
Dividends received	£65m	£43m
Adjusted operating cash flow	£1,149m	£1,286m

The net cash outflow from investing activities decreased to £310 million (2014: £355 million), with lower organic capital expenditure and the £180 million cash inflow from the disposal of the portion of the Lincs wind farm project financing debt owned by Centrica broadly offsetting reduced proceeds from disposals.

The net cash outflow from financing activities was £575 million (2014: £587 million). The impact of lower cash dividends resulting from our decision to rebase the dividend by 30% and high take-up of our scrip dividend alternative, combined with no repurchase of shares, offset the impact of a net repayment of borrowings of £191 million compared to net inflow from borrowings of £300 million in 2014.

Reflecting all of the above, the net increase in cash and cash equivalents in the first half was £455 million and the Group's net debt at 30 June 2015 was £4,905 million (31 December 2014: £5,196m), which includes cash collateral posted or received in support of wholesale energy procurement.

During the first half of the year net assets increased to £3,470 million (31 December 2014: £3,071 million) primarily reflecting the level of retained earnings for the period.

Exceptional items

On 18 March 2015, the Government announced a further 10% reduction in the UK Supplementary Corporation Tax (SCT) rate to the 2% reduction previously announced, resulting in an overall reduction from 32% to 20% with effect from 1 January 2015, and a 15% reduction in the Petroleum Revenue Tax (PRT) rate from 50% to 35% with effect from 1 January 2016. These changes resulted in a reduction in deferred tax liabilities and a £116 million exceptional tax credit.

In 2014, a £140 million post-tax gain was recognised following the disposal of the Group's Texas gas-fired power stations.

Certain re-measurements

The Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair-valued under IAS 39. The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. The operating profit in the statutory results includes a net pre-tax gain of £418 million (2014: net loss of £127 million) relating to these re-measurements, as a result of the commodity price environment. The Group recognises the realised gains and losses on these contracts in business performance when the underlying transaction occurs. The profits arising from the physical purchase and sale of commodities during the

year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements. See note 6 for further details.

Acquisitions and disposals

On 17 March 2015, the Group acquired control of AlertMe, a UK-based connected homes business that provides innovative energy management products and services. Prior to this date, the Group held a 21% interest in the company and this transaction acquired the remaining share capital for a gross purchase consideration of £58 million, with a net consideration of £42 million.

Further details on acquisitions, plus details of asset purchases, disposals and disposal groups are included in notes 4(d) and 11.

Events after the balance sheet date

There are no significant post balance sheet events.

Risks and capital management

The Group's principal risks and uncertainties are largely unchanged from those set out in its 2014 Annual Report and Accounts. Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note 18. Details on the Group's capital management processes are provided under sources of finance in note 12(a).

Accounting policies

UK listed companies are required to comply with the European regulation to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group's specific accounting measures are explained in note 3.

BUSINESS REVIEW

British Gas

Period ended 30 June	2015	2014	Change
Residential energy supply operating profit (BGR)	£528m	£265m	99%
Residential services operating profit (BGS)	£125m	£129m	(3%)
Business energy supply and services operating profit (BGB)	£3m	£61m	(95%)
Total British Gas operating profit	£656m	£455m	44%
BGR post-tax margin	9.0%	4.5%	4.5ppts
BGR average gas consumption per customer (therms) (i)	263	237	11%
BGR average electricity consumption per customer (kWh) (i)	1,815	1,784	2%
British Gas total gas consumption (mmth)	2,557	2,375	8%
British Gas total electricity consumption (TWh)	19.3	20.2	(4%)
Lost time injury frequency rate (per 100,000 hours worked) (ii)	0.17	0.14	21%

Period ended	30 Jun 2015	31 Dec 2014	Change
Residential energy customer accounts ('000)	14,733	14,778	(0%)
Residential services product holding ('000)	7,837	7,970	(2%)
Business energy supply points ('000)	802	854	(6%)

(i) 2014 average gas and electricity consumption per customer have been restated to reflect a restatement of residential energy customer accounts as indicated in the 2014 Preliminary Results.

(ii) 2014 lost time injury frequency rate (per 100,000 hours worked) has been restated to reflect additional data assurance activity.

British Gas operating profit increased by 44% in the first half of the year compared to the same period in 2014. Higher residential gas and electricity consumption, and lower costs associated with the ECO programme following the acceleration of delivery in the first half of 2014, led to higher residential energy supply operating profit. In BGS, operating profit fell, as new sales proved challenging and the impact of a 2% decline in product holdings was only partially mitigated by a continued focus on cost management and lower pension costs. In BGB, operating profit was significantly lower than last year, reflecting issues following the implementation of a new integrated billing and CRM system, and competitive pressures leading to lower margins and supply points. British Gas operating costs excluding bad debt charges were 5% higher in the first half than in the same period in 2014, reflecting a higher depreciation charge following investment in new billing and CRM systems, alongside continued investment in smart metering and connected homes. Costs will be a key area of focus as we target increased efficiencies and improved customer service across British Gas.

Customer service and digital

The NPS in our residential energy contact centres increased by 10 points to +29 in the first half, while the NPS for our service engineers increased to a new record high of +70 during the first half. Our nationwide network of around 8,000 highly trained service engineers with trusted access to customers' homes remains a key competitive advantage for British Gas. Improving our levels of customer service remains a key focus and in April we announced we were dedicating further resource in serving our residential energy customers, investing an additional £50 million over the next three years. To date, we have recruited 300 additional agents, and plan to recruit a further 50 agents in the third quarter of the year to provide a more resilient service in the lead up to winter.

Around two thirds of our customer interactions are made through digital channels, with more than half of those now initiated from a mobile or tablet device. Customer downloads of our mobile app have reached around 1.7 million, with online bookings for breakdown visits nearly 50% higher than last year. Over 40% of residential energy and services sales this year have been made through digital channels.

Innovation and smart connected homes

We continue to lead the UK energy sector in technology, innovation, smart and connected homes. We have installed more than 1.5 million residential smart meters in the UK, significantly more than any of our competitors. Over 600,000 of our smart meter customers now regularly receive our unique smart energy report, 'my energy', which provides a comprehensive analysis of their energy consumption including a breakdown by type of use, benchmarking against similar homes, personalised energy saving tips and access to an online tool. The report is helping to improve levels of customer satisfaction and the overall perception of British Gas, with a +9 NPS improvement for customers engaging

with the report. We are also trialling 'my energy live' which allows customers to access many of the in-home display functions on their smart phones, and we have significant enhancements planned for both of these products over 2015 and 2016.

We strongly support the 2020 mandate for full smart meter roll-out and we plan to continue leading the industry in the installation of compliant meters, maintaining an appropriate balance between additional cost and the benefit to customers. We continue to trial our smart prepayment meter which will enable us to commence the roll-out to our customers by the end of 2015.

In March 2015 we completed the acquisition of AlertMe, the provider of the technical platform that underpins our existing connected homes activity, including Hive, and have now successfully completed its integration into our Connected Homes division. The acquisition gives British Gas ownership and control over a scalable technology platform, software development capability and data analytics, and makes us the only UK connected homes provider with control over the end to end customer experience.

We have now sold over 200,000 smart thermostats, through our call centres and engineers, online and our retail partnerships, and have the largest installed base of connected thermostats in the UK. More than 90% of Hive customers say they have recommended the product and 96% say they feel more in control of their heating than before. In July we launched Hive Active Heating 2, the next generation of our Hive smart thermostat, alongside the ability to pre-register for our suite of new home technology products including smart lights, motion sensors and smart plugs. We have a strong development pipeline of further innovative products planned for 2015 and 2016, including our 'connected boiler', which is currently on commercial trial.

British Gas Residential

British Gas Residential operating profit increased in the first half of the year compared to the same period in 2014. This reflects an 11% increase in average gas consumption and a 2% increase in average electricity consumption, as a result of colder than normal weather in the UK compared to warmer than normal temperatures in the same period in 2014. In addition, the costs associated with delivery of the ECO programme were lower in the first half of 2015 than in the same period in 2014, predominantly reflecting the phasing of expenditure on the programme. In the first half of last year, we had accelerated delivery to ensure we met our obligations under Phase 1 of the programme, completing around twice as many measures than in the first half of 2015, and helping us complete our obligation three months earlier than the March 2015 deadline. We have helped more than 400,000 households under the ECO programme to date.

Our residential energy market share was broadly flat during the first half, reflecting our 5% reduction in residential gas tariffs from 27 February 2015, and British Gas adapting to the changing market with competitive fixed price and collective switch offerings. Our fixed-price Sainsbury's tariff delivered particularly strong sales, generating new to brand customers.

British Gas is committed to offering competitively priced products. On 15 July 2015, we announced a further 5% reduction in our residential gas tariffs, effective from 27 August 2015. The reduction reflects lower projected costs for the rest of 2015 and 2016, and our commitment to offering competitive prices. This is the second gas price reduction in 2015, and combined with the 5% reduction in February brings a total annual average saving of £72 for British Gas customers.

British Gas Services

British Gas Services operating profit was down 3% in the first half of the year, with the impact of lower contract holdings partly offset by a continued focus on cost management, including a £23 million credit relating to changes in our defined benefit pension schemes.

While customer retention remains strong, the sales environment is challenging, with a continued shift in customer demand towards cheaper on-demand and home emergency products. Against this backdrop, we are focused on improving sales performance through enhancing the online journey and we are launching a simplified product portfolio in the second half of the year to better meet this changing customer demand. The market for central heating installations is also proving challenging and the number of boilers installed was 4% lower in the first half of the year compared to the same period in 2014. With market demand changing towards simpler and faster installations, we are launching new propositions targeted at these customer segments in the second half of the year.

British Gas Business

British Gas Business operating profit was significantly lower in the first half of the year compared to the same period in 2014. This reflects additional costs associated with issues following the migration of customer accounts onto a new

BUSINESS REVIEW CONTINUED

billing and CRM system from multiple legacy systems, and margin pressures resulting from a competitive market environment.

All of our business customer accounts have now been migrated onto the new system, although we have faced issues related to producing timely customer bills. Reflecting the increased risk associated with these billing issues, the bad debt charge was higher in the first half compared to the same period last year, while we have also recruited additional resource to help resolve customer service issues. We are currently undertaking an extensive transition recovery programme, including continued investment in additional resource. Most of our customers are now being served normally, and we currently expect to have resolved the issues by the end of 2015.

Once fully functioning, we expect the new system to deliver improved service levels at reduced cost. This will help to offset lower margins, in part reflecting our commitment to increase customer fairness and lead the industry in ending the auto-rollover of contracts at renewal. The number of business supply points fell by 52,000 to 802,000 in the first half of the year, with our focus on resolving the billing issues for existing customers limiting the opportunity for new sales in a competitive market.

Business services continues to be a key source of differentiation and will help us retain existing customers and acquire new ones, as well as providing growth opportunities in its own right. We have good capabilities in this space, and are seeing continued growth in the market for energy efficiency services and for distributed energy.

Direct Energy

Period ended 30 June	2015	2014	Change
Residential energy supply operating profit (DER)	**£67m**	£48m	40%
Business energy supply operating profit/(loss) (DEB)	**£143m**	(£21m)	nm
Residential and business services operating (loss)/profit (DES)	**(£18m)**	£14m	nm
Total Direct Energy operating profit	**£192m**	£41m	368%
Total Direct Energy operating profit (excluding impact of Polar Vortex related charges)	***£192m***	*£106m*	*81%*
DER average gas consumption per customer (therms)	**784**	836	(6%)
DER average electricity consumption per customer (kWh)	**5,205**	5,500	(5%)
DEB total gas volumes (mmth)	**3,364**	3,193	5%
DEB total electricity volumes (TWh)	**46.3**	48.9	(5%)
Direct Energy total gas volumes (mmth)	**4,574**	4,526	1%
Direct Energy total electricity volumes (TWh)	**55.0**	58.9	(7%)
Lost time injury frequency rate (per 100,000 hours worked)	**0.02**	0.09	(78%)

Period ended	30 Jun 2015	31 Dec 2014	Change
Residential energy customer accounts ('000)	**3,188**	3,256	(2%)
Residential services product holding ('000)	**904**	897	1%

Direct Energy performed very well in the first half of 2015, with operating profit significantly higher than in the same period in 2014. The business experienced much colder than normal weather in the first quarter of 2015, however a combination of a more stable physical infrastructure, market redesign and management action meant we did not see a repeat of the additional network system charges resulting from the Polar Vortex in 2014. After excluding the impact of these charges from the 2014 comparative, underlying operating profit increased by 81% with our C&I business now benefitting from the actualisation of higher unit margins on contracts sold in prior periods.

We continue to develop and build our capabilities to deliver enhanced and innovative customer propositions, including the bundling of products enabling customers to control their energy usage, aimed at retaining and attracting the highest value customers. We also made good progress in building the Direct Energy brand across North America, including the rebranding of our recently acquired solar business as Direct Energy Solar. In March, we announced that Direct Energy was joining a range of well-known brands to launch Plenti, the first United States-based coalition loyalty programme,

where customers can earn and use reward points for purchasing a wide range of products. To date more than 20 million members have signed up to the programme.

Building on our successful cost reduction programme in 2014, we continue to invest in programmes that drive efficiency and enhance our customers' experience. This includes the consolidation of our operating platforms to enable an enhanced customer experience and drive growth through simplified cross-sell and innovation.

Direct Energy Residential

Direct Energy Residential operating profit increased in the first half of the year compared to the same period last year, predominantly reflecting the absence of the Polar Vortex costs incurred in 2014. We delivered organic growth in Texas, although this was more than offset by the expected decline in Ontario, with the Energy Consumer Protection Act (ECPA) continuing to make retention of customers difficult, and competitive market pressures in the US North East. As a result, the number of customer accounts declined by 68,000 in the first half of 2015.

We are focussed on expanding our range of customer propositions targeted at the most valuable customer segments. We continue to increase the bundling of energy and services products, with 42% of residential customers acquired in the first half of the year also taking a services protection plan or smart thermostat, up from 10% in the same period in 2014. Our partnership with Nest is helping our customers benefit from an innovative product which helps them to reduce and better control their energy consumption, while our investment in the 'Direct Your Energy' insight tool, launched in July, will allow customers to customise their energy usage to their unique needs. In July we also launched 'Direct Your Plan', a personalised service enabling residential customers to build their own energy plan from a number of options such as length of contract, energy type, energy efficiency tools, reward programmes and home services. The service enables customers to see how their choices affect the cost of their energy plan.

We continue to drive digital customer interactions, with 21% of customers acquired in the first half of 2015 coming through digital channels, an increase of 2 percentage points in comparison to the same period in 2014. We remain focussed on delivering high levels of customer service, including resolving a higher proportion of customer queries first time, and are on track to deliver a 9% year on year reduction in cost to serve per customer.

Direct Energy Business

Direct Energy Business benefited in the first half of 2015 from higher margins, strong asset optimisation and lower amortisation costs related to the Hess Energy Marketing acquisition, resulting in significantly higher underlying operating profit, even after taking into account the absence of the one-off Polar Vortex costs in 2014. The Hess Energy Marketing acquisition continues to perform ahead of its investment case and has improved the balance of the business between power and gas.

Unit margins on new C&I gas and power sales have remained broadly at the levels achieved in 2014, with increased margins on power sales and lower margins on gas sales. The business also utilised its natural gas pipeline and storage capacity contracts in cold weather during the first quarter of the year, to deliver strong optimisation performance. Overall gas and electricity volumes delivered to customers were broadly flat compared to the first half of 2014, maintaining Direct Energy's position as the largest C&I gas supplier on the East Coast of the United States and the second largest C&I power supplier.

We continue to partner with companies that enhance our offerings to our C&I customers. In July 2015, Direct Energy Business, in partnership with Xpress Natural Gas, opened the Manheim compressed natural gas (CNG) facility in New York. The facility has a capacity of 5.8 billion cubic feet per year and enables the transportation of CNG to customers without access to distributed natural gas. In solar, we have deployed an initial $125 million fund with Solar City. We have also built a successful partnership with Panoramic Power to offer wireless energy sensors and web based software to enable consumers to better understand their energy consumption.

Direct Energy Services

Direct Energy Services made an operating loss of £18 million in the first half of the year. This predominantly reflects an accelerated investment of £14 million in Direct Energy Solar. This investment is expected to drive improvements to operating profit and cash flow in 2016. Excluding the impact of solar investment and last year's contribution from the Ontario Home Services business, which was sold in October 2014, operating profit was broadly flat.

Contract relationships across North America have experienced organic growth and now exceed 900,000. In June 2015 we announced the acquisition of 14,000 new home services customers in the US North East, and the acquisition completed in July 2015. In addition we have expanded our HVAC leasing propositions and franchise reach to new states.

BUSINESS REVIEW CONTINUED

Bord Gáis Energy

Period ended 30 June	2015	2014	Change
Total Bord Gáis Energy operating profit	£23m	–	nm
Residential average gas consumption per customer (therms)	227	–	nm
Residential average electricity consumption per customer (kWh)	2,328	–	nm
Total gas volumes (mmth)	162	–	nm
Total electricity volumes (TWh)	1.3	–	nm
Total power generated (TWh)	1.1	–	nm

Period ended	30 Jun 2015	31 Dec 2014	Change
Residential energy customer accounts (period end, ’000)	600	608	(1%)
Business energy services customer supply points (period end, ’000)	33	31	6%

Bord Gáis Energy has performed well in the 12 months since its acquisition on 30 June 2014 and reported an operating profit of £23 million in the first half of 2015. In energy supply, colder weather resulted in higher than normal gas consumption, while the number of residential and business energy accounts remained broadly flat.

In January, Bord Gáis Energy was the first energy provider to announce a reduction in prices in the Republic of Ireland, with residential gas prices falling by 3.5% and residential electricity tariffs falling by 2.5%. This positioned us with the cheapest standard dual fuel offering amongst major competitors. Bord Gáis Energy is also leveraging Centrica’s expertise in deregulated energy markets, having launched the first residential fixed price tariff in the Republic of Ireland and also introduced Hive Active Heating, with a full launch scheduled for the third quarter before customers traditionally turn their heating on.

In power generation the 445MW Whitegate gas-fired station performed well in the first six months, with strong availability and reliability protecting our customers from power price volatility during peak times, and offering us further profit opportunity.

Centrica Energy

Period ended 30 June	2015	2014	Change
Gas operating profit	**£48m**	£465m	(90%)
Power operating profit/(loss)	**£68m**	£61m	11%
Gas-fired	*(£62m)*	*(£70m)*	*nm*
Renewables (operating assets)	*£18m*	*£23m*	*(22%)*
Renewables (one off write-off)	*–*	*(£40m)*	*nm*
Nuclear	*£108m*	*£125m*	*(14%)*
Midstream	*£4m*	*£23m*	*(83%)*
Total Centrica Energy operating profit	**£116m**	£526m	(78%)
Gas operating (loss)/profit after tax	***(£23m)***	*£235m*	*nm*
Gas production (mmth) (i)	**1,928**	1,945	(1%)
Liquids production (mmboe) (i)	**9.0**	8.7	3%
Total gas and liquids production (mmth) (i)	**2,471**	2,472	(0%)
Total gas and liquids production (mmboe) (i)	**40.7**	40.9	(0%)
Total UK power generated (TWh)	**9.8**	10.7	(9%)
Lost time injury frequency rate (per 100,000 hours worked)	**0.14**	0.19	(26%)

(i) Includes 100% share of Canadian assets owned in partnership with Qatar Petroleum.

Centrica Energy reported significantly reduced operating profit in the first half of 2015 compared to the same period in 2014, predominantly reflecting the impact of lower wholesale prices. The business delivered strong operational performance, with consistent E&P production across the first half and only slightly lower nuclear generation volumes despite the Heysham 1 and Hartlepool power stations operating at reduced power. We remain on track to reduce our E&P capital expenditure and cash production costs in line with our stated targets, as we look to deliver a broadly neutral free cash flow E&P business over the period 2015-16.

Gas

Our E&P business delivered production consistency across its asset base in the first half of the year. Total gas and liquids production was broadly flat compared to the first half of 2014, at 40.7mmboe, with gas volumes down 1% and liquids volumes up 3%.

In Europe, production from our UK and Netherlands assets decreased by 16% reflecting the natural decline from producing fields. However we saw recovery in flow rates from our Greater Markham Area fields, having worked to reduce the gas export constraints encountered in 2014, while production rates from our York field also improved with a fourth well having come on-stream in the second half of 2014. In Norway, production increased by 10% with consistent production from Kvitebjorn and Statfjord, and first gas from the large-scale Valemon project in the North Sea which came on-stream in January 2015.

Production in the Americas increased by 9%, with new wells drilled in Canada and assets acquired from Shell in 2014 producing ahead of expectations.

Against a backdrop of low wholesale prices, we made good progress in scaling back our development and exploration activity across the portfolio. We remain on track to deliver our reduced E&P capital expenditure plan of around £800 million for the full year, more than 25% below 2014 levels, with reduced expenditure in both Europe and the Americas. Given this level of capital expenditure, we continue to expect to deliver full year gas and liquids production of around 75mmboe in 2015. On development projects, the large-scale Cygnus project is now due to come on-stream in the first half of 2016, slightly later than originally planned. On exploration, three out of five wells drilled in Europe were successful in finding hydrocarbons, although none were classified as commercial discoveries.

We have also made good progress on our target to reduce cash production costs by 10%, or £100 million, in 2016 compared to 2014 levels. This includes the impact of absorbing the incremental costs of Valemon and Cygnus, which should both be on-stream by next year. We have delivered a number of initiatives to help meet this target, including management action to renegotiate contractor rates on more favourable terms, headcount reductions in support roles, and the planned cessation of production at A Fields. With cost saving initiatives likely to have more of an impact in the second half of the year, total cash production costs in the first half of 2015 were broadly unchanged compared to the

BUSINESS REVIEW CONTINUED

first half in 2014. In Europe, total cash production costs were broadly flat, although they were 7% higher on a unit basis reflecting lower production levels. This was offset by lower total cash production costs in the Americas, in part reflecting lower royalty rates in Canada as a result of low gas prices.

In LNG, the Federal Energy Regulatory Commission (FERC) issued authorisation in April to allow Sabine Pass Liquefaction LLC to construct and operate the fifth train expansion at their LNG facility in Louisiana. At the end of June, the project received a Non-Free Trade Agreement licence from the Department of Energy (DOE) and, with a positive final investment decision now having been made on the project, Centrica expects to take delivery of its first cargo under its US export contract in late 2018 or in 2019. We continue to increase our capabilities and presence in global LNG and in the first half of the year completed a number of “Free On Board” cargoes, including our first delivery to South America.

Gas operating profit for the year was 90% lower than for the same period last year, predominantly reflecting the impact of the lower wholesale price environment on our gas and liquids achieved prices. In addition, our gas midstream business was impacted by losses on flexible gas contracts which were optimised for value during a period of falling prices in 2014, with a consequential impact on 2015. As a result, the gas midstream business reported an operating loss, although it is expected to be profitable in the second half of the year. Reflecting the reduced pre-tax profit from our E&P assets and the loss from our lower taxed midstream operations, the business reported a post-tax loss of £23 million.

Power

Our share of nuclear generation volumes in the first half of the year was 6.1TWh, 2% lower than in the same period in 2014. This predominantly reflects the impact of four reactors at the Heysham 1 and Hartlepool power stations operating at lower power, as a result of the decision in the second half of last year to reduce operating temperatures following the identification of an issue on one boiler spine at Heysham 1. Remedial work is being undertaken during 2015 with the intention of allowing the reactors to run at higher power levels subject to regulatory approval, including a return to full power where possible.

Gas-fired power generation volumes were 20% lower in the first half than the same period in 2014, reflecting an unplanned outage at Langage, whilst market clean spark spreads remained relatively low throughout the period. In February, we announced we were planning to close our Killingholme power station, with the plant not economically viable in current market conditions. The plant is expected to close in 2016, having been awarded a Special Balancing Reserve (SBR) contract for the coming winter. In addition, we took the decision to reduce the maximum output from our South Humber Bank plant until March 2017. South Humber Bank, along with Langage, has a capacity contract starting in October 2018. We also announced in February that we would be closing our Brigg power station. However, following a review of alternatives to closure, Brigg will now operate at a reduced capacity as a distributed generation unit.

Our wind assets had good availability across the first half of 2015, but renewable generation volumes were down by 10%, reflecting the sale of our share in the Barrow offshore wind farm in December 2014.

Power operating profit increased by 11% compared to the first half of last year, mainly due to a higher reported renewables profit, with the first half of 2014 including a £40 million charge associated with the write-off of our investment in the Celtic Array Round 3 offshore wind project. The operating loss from our gas-fired generation business was slightly lower, reflecting a reduced depreciation charge following impairments at the end of 2014. Nuclear operating profit fell, with lower wholesale power prices and cost increases impacting the result, while midstream profitability was lower in comparison to a strong performance in the first half of 2014.

Centrica Storage

Period ended 30 June	2015	2014	Change
Total Centrica Storage operating profit	£13m	£10m	30%

Seasonal gas price spreads remain at low levels, with an abundance of flexible supply across Europe. Reflecting this, it was announced in April that all SBUs for the 2015/16 storage year had been sold at 21.1p, only marginally higher than the 20.0p achieved in 2014/15, which was the lowest SBU price since Centrica acquired the Rough asset in 2003. Operating profit in the first half of the year was slightly higher than in the same period in 2014, due to higher additional space sales in the 2014/15 storage year and lower fuel gas costs, with a later start to the injection season. Health and safety remains a top priority for Centrica Storage. During the first half of the year there were two lost time incidents, compared to one in the same period last year.

In March Centrica Storage announced that, during a routine inspection of Rough, a potential technical issue had been discovered. As a result, Centrica Storage decided to limit the maximum operating pressure of the Rough wells to 3,000 psi, the equivalent of limiting the maximum stock in the Rough asset to 29-32TWh. The maximum level reached in 2014 was 41.1TWh. It is anticipated that the limitation will remain in place at least until the testing and verification works are completed between September and December 2016. Centrica Storage sold 32TWh of capacity before the start of the 2015/16 storage year and, considering the curtailment in the reservoir volume, has successfully completed a programme to buy back space from the market. In addition, with the testing and verification works continuing over the summer injection period there will be no opportunity to sell additional space. The negative impact on full year profitability resulting from the operating pressure limit is expected to be broadly offset by the sale of cushion gas from the asset.

In June, Centrica Storage requested consent from the Oil and Gas Authority to increase the reservoir size of Rough by 4.5TWh. Consent was obtained in July 2015 and this increase in volume will go some way to restoring Rough to its previous capacity level before the limitation was imposed, as well as allowing the sale of the cushion gas.

We remain on track to deliver our £15 million of cost reductions by 2017, through operational improvements and capital discipline, excluding any additional costs relating to the testing and recovery of wells.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Interim Results for the six month period ended 30 June 2015 in accordance with applicable law, regulations and accounting standards. In preparing the condensed interim Financial Statements, the Directors are responsible for ensuring that they give a true and fair view of the state of affairs of the Group at the end of the period and the profit or loss of the Group for that period.

The Directors confirm that the condensed interim Financial Statements have been prepared in accordance with IAS 34: 'Interim Financial Reporting', as adopted by the European Union and that the Interim Results includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of the important events that have occurred during the first six months and their impact on the condensed interim Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months of the year and any material changes in the related party transactions described in the last annual report.

The Directors of Centrica plc are listed in the Group's 2014 Annual Report and Accounts. A list of current Directors is maintained on the Centrica plc website which can be found at www.centrica.com.

By order of the Board

Iain Conn
Chief Executive
30 July 2015

INDEPENDENT REVIEW REPORT TO CENTRICA PLC

Report on the condensed interim Financial Statements

Our conclusion

We have reviewed the condensed interim Financial Statements, defined below, in the Interim Results of Centrica plc for the six months ended 30 June 2015. Based on our review, nothing has come to our attention that causes us to believe that the condensed interim Financial Statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed

The condensed interim Financial Statements, which are prepared by Centrica plc, comprise:

- the Group Balance Sheet as at 30 June 2015;
- the Group Income Statement and Group Statement of Comprehensive Income for the period then ended;
- the Group Cash Flow Statement for the period then ended;
- the Group Statement of Changes in Equity for the period then ended; and
- the explanatory notes to the condensed interim Financial Statements.

As disclosed in note 2, the financial reporting framework that has been applied in the preparation of the full annual Financial Statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed interim Financial Statements included in the Interim Results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of condensed Financial Statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed interim Financial Statements.

Responsibilities for the condensed interim Financial Statements and the review

Our responsibilities and those of the Directors

The Interim Results, including the condensed interim Financial Statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Results in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express to the Company a conclusion on the condensed interim Financial Statements in the Interim Results based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

Chartered Accountants

30 July 2015

London

Notes

(i) The maintenance and integrity of the Centrica plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.

(ii) Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

GROUP INCOME STATEMENT

Six months ended 30 June	Notes	2015 Business performance £m	2015 Exceptional items and certain re-measurements £m	2015 Results for the period £m	2014 Business performance £m	2014 Exceptional items and certain re-measurements £m	2014 Results for the period £m
Group revenue	4(a)	**15,451**	**–**	**15,451**	15,748	–	15,748
Cost of sales before exceptional items and certain re-measurements		**(13,074)**	**–**	**(13,074)**	(13,472)	–	(13,472)
Re-measurement of energy contracts	6(b)	**–**	**413**	**413**	–	(146)	(146)
Cost of sales		**(13,074)**	**413**	**(12,661)**	(13,472)	(146)	(13,618)
Gross profit		**2,377**	**413**	**2,790**	2,276	(146)	2,130
Operating costs before exceptional items		**(1,525)**	**–**	**(1,525)**	(1,398)	–	(1,398)
Exceptional items	6(a)	**–**	**–**	**–**	–	219	219
Operating costs		**(1,525)**	**–**	**(1,525)**	(1,398)	219	(1,179)
Share of profits of joint ventures and associates, net of interest and taxation	5	**73**	**5**	**78**	51	19	70
Group operating profit	4(b)	**925**	**418**	**1,343**	929	92	1,021
Financing costs	7	**(166)**	**–**	**(166)**	(155)	–	(155)
Investment income	7	**31**	**–**	**31**	24	–	24
Net finance cost		**(135)**	**–**	**(135)**	(131)	–	(131)
Profit before taxation		**790**	**418**	**1,208**	798	92	890
Taxation on profit	8	**(221)**	**45**	**(176)**	(281)	(59)	(340)
Profit for the period		**569**	**463**	**1,032**	517	33	550
Attributable to:							
Owners of the parent		**587**	**463**	**1,050**	500	33	533
Non-controlling interests		**(18)**	**–**	**(18)**	17	–	17

Earnings per ordinary share		2015 Pence	2014 Pence
Basic	9	**21.1**	10.5
Diluted	9	**21.0**	10.5

The notes on pages 30 to 50 form part of these condensed interim Financial Statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June	**2015 £m**	2014 £m
Profit for the period	**1,032**	550
Other comprehensive (loss)/income:		
Items that will be or have been recycled to the Group Income Statement:		
(Losses)/gains on revaluation of available-for-sale securities, net of taxation	**(4)**	2
Net (losses)/gains on cash flow hedges	**(45)**	9
Transferred to income and expense on cash flow hedges	**42**	16
Taxation on cash flow hedges	**–**	(7)
	(3)	18
Exchange differences on translation of foreign operations	**(207)**	(130)
Share of other comprehensive income/(loss) of joint ventures and associates, net of taxation	**4**	(3)
	(210)	(113)
Items that will not be recycled to the Group Income Statement:		
Net actuarial (losses)/gains on defined benefit pension schemes	**(254)**	103
Taxation on net actuarial (losses)/gains on defined benefit pension schemes	**51**	(20)
	(203)	83
Share of other comprehensive loss of joint ventures and associates, net of taxation	**(17)**	(11)
Other comprehensive loss, net of taxation	**(430)**	(41)
Total comprehensive income for the period	**602**	509
Attributable to:		
Owners of the parent	**645**	494
Non-controlling interests	**(43)**	15

GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
1 January 2015	311	931	1,825	(332)	**2,735**	336	**3,071**
Total comprehensive income/(loss)	–	–	1,050	(405)	**645**	(43)	**602**
Employee share schemes	–	–	5	34	**39**	–	**39**
Dividends paid to equity holders (note 10)	5	171	(418)	–	**(242)**	–	**(242)**
30 June 2015	**316**	**1,102**	**2,462**	**(703)**	**3,177**	**293**	**3,470**

	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	Total £m	Non-controlling interests £m	Total equity £m
1 January 2014	321	931	4,255	(315)	5,192	65	5,257
Total comprehensive income/(loss)	–	–	533	(39)	494	15	509
Employee share schemes	–	–	(3)	49	46	–	46
Purchase of treasury shares	–	–	(1)	(212)	(213)	–	(213)
Cancellation of treasury shares	(7)	–	(382)	389	–	–	–
Dividends paid to equity holders (note 10)	–	–	(610)	–	(610)	–	(610)
Taxation on share based payments	–	–	–	(5)	(5)	–	(5)
30 June 2014	314	931	3,792	(133)	4,904	80	4,984

The notes on pages 30 to 50 form part of these condensed interim Financial Statements.

GROUP BALANCE SHEET

	Notes	30 June 2015 £m	31 December 2014 £m
Non-current assets			
Property, plant and equipment		**6,017**	6,377
Interests in joint ventures and associates		**2,206**	2,395
Other intangible assets		**2,124**	1,991
Goodwill		**2,590**	2,609
Deferred tax assets		**306**	354
Trade and other receivables		**69**	87
Derivative financial instruments		**288**	313
Retirement benefit assets	13(c)	**92**	185
Securities	12(b)	**254**	263
		13,946	14,574
Current assets			
Trade and other receivables		**4,888**	6,226
Inventories		**359**	555
Derivative financial instruments		**549**	617
Current tax assets		**87**	88
Securities	12(b)	**19**	11
Cash and cash equivalents	12(b)	**1,063**	621
		6,965	8,118
Total assets		**20,911**	22,692
Current liabilities			
Derivative financial instruments		**(964)**	(1,565)
Trade and other payables		**(4,706)**	(5,667)
Current tax liabilities		**(382)**	(348)
Provisions for other liabilities and charges		**(370)**	(395)
Bank overdrafts, loans and other borrowings	12(c)	**(466)**	(1,635)
		(6,888)	(9,610)
Non-current liabilities			
Deferred tax liabilities		**(501)**	(663)
Derivative financial instruments		**(375)**	(588)
Trade and other payables		**(169)**	(83)
Provisions for other liabilities and charges		**(3,002)**	(3,203)
Retirement benefit obligations	13(c)	**(256)**	(123)
Bank overdrafts, loans and other borrowings	12(c)	**(6,250)**	(5,351)
		(10,553)	(10,011)
Total liabilities		**(17,441)**	(19,621)
Net assets		**3,470**	3,071
Share capital		**316**	311
Share premium		**1,102**	931
Retained earnings		**2,462**	1,825
Other equity		**(703)**	(332)
Total shareholders' equity		**3,177**	2,735
Non-controlling interests		**293**	336
Total shareholders' equity and non-controlling interests		**3,470**	3,071

The notes on pages 30 to 50 form part of these condensed interim Financial Statements.

GROUP CASH FLOW STATEMENT

Six months ended 30 June	Notes	2015 £m	2014 £m
Group operating profit including share of results of joint ventures and associates (i)		**1,343**	1,021
Less share of profit of joint ventures and associates, net of interest and taxation		**(78)**	(70)
Group operating profit before share of results of joint ventures and associates		**1,265**	951
Add back/(deduct):			
Depreciation, amortisation, write-downs and impairments		**592**	623
Profit on disposals		**(15)**	(196)
Decrease in provisions		**(65)**	(23)
Defined benefit pension service cost and contributions (ii)		**(22)**	3
Employee share scheme costs		**25**	26
Unrealised (gains)/losses arising from re-measurement of energy contracts (i)		**(278)**	111
Operating cash flows before movements in working capital		**1,502**	1,495
Decrease in inventories		**193**	59
Decrease in trade and other receivables (i)		**785**	704
Decrease in trade and other payables (i)		**(954)**	(729)
Operating cash flows before payments relating to taxes, interest and exceptional charges		**1,526**	1,529
Taxes paid		**(144)**	(413)
Payments relating to exceptional charges		**(42)**	(62)
Net cash flow from operating activities		**1,340**	1,054
Purchase of businesses	11(a)	**(38)**	(113)
Sale of businesses		**–**	433
Purchase of property, plant and equipment and intangible assets	4(d)	**(524)**	(741)
Sale of property, plant and equipment and intangible assets		**2**	9
Investments in joint ventures and associates		**(12)**	(10)
Dividends received from joint ventures and associates		**65**	43
Repayments of loans to, and disposal of investments in, joint ventures and associates		**189**	13
Interest received		**17**	13
Purchase of securities	12(b)	**(9)**	(2)
Net cash flow from investing activities		**(310)**	(355)
Issue and surrender of ordinary share capital for share awards, net of payments for own shares		**15**	20
Purchase of treasury shares under share repurchase programme		**–**	(207)
Financing interest paid		**(105)**	(124)
Realised net foreign exchange (loss)/gain on financing activities		**(56)**	29
Repayment of borrowings	12(b)	**(1,191)**	(27)
Cash received from borrowings	12(b)	**1,000**	327
Equity dividends paid		**(238)**	(605)
Net cash flow from financing activities		**(575)**	(587)
Net increase in cash and cash equivalents		**455**	112
Cash and cash equivalents at 1 January		**621**	719
Effect of foreign exchange rate changes		**(13)**	(16)
Cash and cash equivalents at 30 June		**1,063**	815
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents	12(b)	**1,063**	815

(i) Includes movement in cash collateral posted or received under margin or collateral agreements of £298 million (net inflow) in 2015 (2014: £127 million net outflow).
(ii) Defined benefit pension service cost and contributions comprise £41 million service cost (2014: £70 million) net of £63 million of employer's contributions (2014: £67 million).

The notes on pages 30 to 50 form part of these condensed interim Financial Statements.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

Notes to the condensed interim Financial Statements provide additional information required by statute, accounting standards or Listing Rules to explain a particular feature of the condensed interim Financial Statements. These condensed interim Financial Statements should be read in conjunction with the information that was released in the Group's annual Financial Statements for the year ended 31 December 2014.

1. General information

Centrica plc is a Company domiciled and incorporated in the UK. The address of the registered office is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD. The Company has its listing on the London Stock Exchange.

These condensed interim Financial Statements for the six months ended 30 June 2015 were authorised for issue in accordance with a resolution of the Board of Directors on 30 July 2015. These condensed interim Financial Statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2014 were approved by the Board of Directors on 19 February 2015 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006. The financial information contained in these condensed interim Financial Statements is unaudited. The Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Changes in Equity and Group Cash Flow Statement for the interim period to 30 June 2015, and the Group Balance Sheet as at 30 June 2015 and related notes have been reviewed by the auditors and their report to the Company is set out on page 25.

2. Basis of preparation

These condensed interim Financial Statements for the six months ended 30 June 2015 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 'Interim financial reporting', as adopted by the European Union (EU).

These condensed interim Financial Statements should be read in conjunction with the Group's annual Financial Statements for the year ended 31 December 2014, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

Preparation of interim statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense. Actual amounts may differ from these estimates. In preparing these condensed interim Financial Statements, the significant judgements, estimates and assumptions made by management in applying the Group's accounting policies were consistent with those applied in the Group's annual Financial Statements for the year ended 31 December 2014. Further details on the impairment reviews of the long-lived assets are included below.

Taxes on income in the interim period are accrued using tax rates that would be applicable to expected total annual earnings for each relevant source of income.

Having reassessed the principle risks, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the condensed interim Financial Statements. Further details of the Group's liquidity position and going concern review are provided in note 18 of these condensed interim Financial Statements.

Impairment of long-lived assets

During the period, the Group has assessed or tested for impairment its long-lived assets. No impairment was necessary based on these assessments and tests. A key assumption in this process is the forecast of forward commodity prices and capacity market auction prices. The valuation of the long-lived assets is particularly sensitive to variations in these forecast prices. A sensitivity analysis has been performed to illustrate this, using a low case price forecast in the valuation models which has been based on an oil price assumption which is, on average, 16% lower than the impairment case assumption in the period 2020-2030. Assuming all other assumptions remain constant, these prices would give rise to a pre-tax impairment of the Group's investment in Nuclear of £586 million and of the CCGT fleet of £71 million, and a post-tax impairment of the Group's exploration and production assets of £351 million and of associated goodwill of £415 million. Further details of the methodology of the impairment tests are contained in note 7 and S2 of the Group's annual Financial Statements for the year ended 31 December 2014.

3. Accounting policies

This section details new accounting standards, amendments and interpretations, whether these are effective in 2015 or later years, and if and how these are expected to impact the financial position and performance of the Group. In addition, this section sets out the Group's specific accounting measures applied in the preparation of the condensed interim Financial Statements. These measures enable the users of the accounts to understand the Group's underlying and statutory business performance separately.

The accounting policies applied in these condensed interim Financial Statements are consistent with those of the Group's annual Financial Statements for the year ended 31 December 2014, as described in those annual Financial Statements, with the exception of standards, amendments and interpretations effective as of 1 January 2015. The Group has not early adopted other standards, interpretations and amendments that have been issued but are not yet effective. The nature and effect of these changes are disclosed below under sections (a) and (b).

(a) Standards, amendments and interpretations effective or adopted in 2015

From 1 January 2015, the limited amendments arising from 'Annual Improvement Project 2011-2013' are applicable, although their first time application does not have a material impact on the annual Financial Statements of the Group or these condensed interim Financial Statements.

(b) Standards, amendments and interpretations that are issued but not yet applied by the Group

The Group has not yet applied the following standards and limited amendments to standards:

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

3. Accounting policies

- Amendments to IAS 1: 'Presentation of financial statements' related to the disclosure initiative. Effective from 1 January 2016, subject to EU endorsement.
- Amendment to IAS 19: 'Employee benefits' relating to employees' contributions to defined benefit plans. Effective in the Group's annual Financial Statements from 1 January 2016, following EU endorsement.
- 'Annual Improvement Project 2010-2012'. Effective in the Group's annual Financial Statements from 1 January 2016, following EU endorsement.
- Amendments to IFRS 11: 'Joint arrangements' related to accounting for acquisitions of interests in joint operations. Effective from 1 January 2016, subject to EU endorsement.
- Amendments to IFRS 10: 'Consolidated financial statements' and IAS 28: 'Investments in associates and joint ventures' related to the sale or contribution of assets between an investor and its associate or joint venture. Effective from 1 January 2016, subject to EU endorsement.
- Amendment to IAS 16: 'Property, plant and equipment' and IAS 38: 'Intangible assets' related to the clarification of acceptable methods of depreciation and amortisation. Effective from 1 January 2016, subject to EU endorsement.
- 'Annual Improvement Project 2012-2014'. Effective from 1 January 2016, subject to EU endorsement.
- IFRS 15: 'Revenue from contracts with customers'. Effective from 1 January 2018, subject to EU endorsement.
- IFRS 9: 'Financial instruments'. Effective from 1 January 2018, subject to EU endorsement.

The Directors do not anticipate that the application of the Annual Improvement Project 2010-2012 and 2012-2014 and the limited amendments to IAS 1, IAS 16, IAS 19, IAS 28, IAS 38 and IFRS 10 will have a material impact on the amounts reported and disclosed by the Group.

The amendment to IFRS 11 clarifies that an acquisition of a joint operation, that meets the definition of a business, is accounted for in accordance with IFRS 3: 'Business combinations'. This will lead to a change to the Group's current accounting policy for this type of acquisition. However, the amendment is only applicable prospectively for acquisitions on or after 1 January 2016 and therefore the accounting of acquisitions prior to this date will not be restated.

In respect of IFRS 9 and IFRS 15, the Group has started assessing their impact on the annual Financial Statements. Projects to oversee the implementation of these standards have commenced, however, at this stage it has not been practicable to quantify the full effect that these standards would have on the Group's annual Financial Statements upon transition. Management's preliminary assessment is that IFRS 9 will not have a material impact on the Group's annual Financial Statements, although the detailed analysis across business units and geographies is still in progress. In respect of IFRS 15, management has identified a number of areas where further analysis is required. These areas mainly affect the International Downstream segment where consideration is being given to specific issues centred around the identification and allocation of revenue to performance obligations within our contractual arrangements with customers. In particular, arrangements that may be structured through one or more individual contracts and relate to the provision of bundled goods and services (e.g. where a customer is supplied energy at the same time as being party to a service arrangement) or provide the customer with an incentive, are being focused on. It is not yet clear whether a change in the profile of revenue recognition will arise as a result of the application of the new standard. Initial indications suggest that IFRS 15 will have a more limited impact on the International Upstream segment; however, all business units are reviewing their contractual arrangements to identify any further impacts of application from both a financial and accounting policy perspective.

(c) Centrica specific accounting measures

Use of adjusted profit measures

The Directors believe that reporting adjusted profit and adjusted earnings per share provides additional useful information on business performance and underlying trends. These measures are used for internal performance purposes. The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

The measure of operating profit used by management to evaluate segment performance is adjusted operating profit. Adjusted operating profit is defined as operating profit before:

- exceptional items;
- certain re-measurements;
- depreciation resulting from fair value uplifts to property, plant and equipment (PP&E) on the acquisition of the Strategic Investments acquired in 2009;

but including:

- the Group's share of the results from joint ventures and associates before interest and taxation.

Note 4 contains an analysis of adjusted operating profit by segment and a reconciliation of adjusted operating profit to operating profit after exceptional items and certain re-measurements. Note 4 also details an analysis of adjusted operating profit after taxation by segment and a reconciliation to statutory profit for the period. Adjusted operating profit after taxation is defined as segment operating profit after tax, before exceptional items, certain re-measurements and impact of fair value uplifts from the Strategic Investments acquired in 2009. This includes the operating results of equity-accounted interests, net of associated taxation, before interest and associated taxation.

Adjusted earnings is defined as earnings before:

- exceptional items, net of taxation;
- certain re-measurements, net of taxation; and
- depreciation of fair value uplifts to PP&E on the acquisition of the Strategic Investments acquired in 2009, net of taxation.

A reconciliation of earnings is provided in note 9.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

3. Accounting policies

The Directors have determined that for Strategic Investments acquired in 2009, it is important to separately identify the earnings impact of increased depreciation arising from the acquisition-date fair value uplifts made to PP&E over their useful economic lives. As a result of the nature of fair value assessments in the energy industry, the value attributed to strategic assets is a subjective judgement based on a wide range of complex variables at a point in time. The subsequent depreciation of the fair value uplifts bears little relationship to current market conditions, operational performance or underlying cash generation. Management therefore reports and monitors the operational performance of Strategic Investments before the impact of depreciation on fair value uplifts to PP&E and the segmental results are presented on a consistent basis.

The Group has two Strategic Investments for which reported profits have been adjusted due to the impact of fair value uplifts. These Strategic Investments relate to the 2009 acquisitions of Venture Production plc (Venture), the results of which are included within the Centrica Energy – Gas segment, and the acquisition of the 20% interest in Lake Acquisitions Limited (Nuclear), which owns the former British Energy Group nuclear power station fleet now operated by EDF, the results of which are included within the Centrica Energy – Power segment.

(i) Venture

Significant adjustments have been made to the acquired PP&E to report the acquired oil and gas field interests at their acquisition-date fair values which are subsequently depreciated through the Group Income Statement over their respective useful economic lives using the unit of production method. Whilst the impact of unwinding the PP&E at their acquisition-date fair values is included in overall reported profit for the period ended 30 June 2015, the Directors have reversed the earnings impact of the increased depreciation and related taxation resulting from fair value uplifts to the acquired oil and gas interests in order to arrive at adjusted profit before and after taxation.

(ii) Nuclear

The 20% interest in Nuclear is accounted for as an investment in an associate using the equity method. The Group reports its share of the associate's profit or loss, which is net of interest and taxation, within the Group Income Statement.

The most significant fair value adjustments arising on the acquisition of the 20% investment in Nuclear relate to the fair value uplifts made to the nuclear power stations to report the PP&E at their acquisition-date fair values and fair value uplifts made to energy procurement contracts and energy sales contracts to report these at their acquisition-date fair values.

Whilst the impact of increased depreciation and related taxation through unwinding the fair value uplifts to the nuclear power stations is included in the share of associate's post-acquisition result included in overall reported Group profit, the Directors have reversed these impacts in arriving at adjusted profit for the period ended 30 June 2015. The impact of unwinding the acquisition-date fair values attributable to the acquired energy procurement and energy sales contracts is included within certain re-measurements.

Exceptional items and certain re-measurements

The Group reflects its underlying financial results in the 'business performance' column of the Group Income Statement. To be able to provide readers with this clear and consistent presentation, the effects of 'certain re-measurements' of financial instruments, and 'exceptional items', are reported separately in a different column in the Group Income Statement.

The Group is an integrated energy business. This means that it utilises its knowledge and experience across the gas and power (and related commodity) value chains to make profits across the core markets in which it operates. As part of this strategy, the Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers (downstream demand). These trades are designed to reduce the risk of holding such assets, contracts or downstream demand and are subject to strict risk limits and controls.

Primarily because some of these trades include terms that permit net settlement (i.e. they are prohibited from being designated as 'own use'), the rules within IAS 39: 'Financial instruments: Recognition and measurement' require them to be individually fair valued. Fair value movements on these commodity derivative trades do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. Therefore, these certain re-measurements are reported separately and are subsequently reflected in business performance when the underlying transaction or asset impacts profit or loss.

The arrangements discussed above and reflected as certain re-measurements are all managed separately from proprietary energy trading activities where trades are entered into speculatively for the purpose of making profits in their own right. These proprietary trades are included in the business performance column (i.e. in the results before certain re-measurements).

Exceptional items are those items which are of a non-recurring nature and, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. Again, to ensure the business performance column reflects the underlying results of the Group, these exceptional items are also reported in a separate column in the Group Income Statement. Items which may be considered exceptional in nature include disposals of businesses or significant assets, business restructurings, significant onerous contract charges and asset write-downs/impairments.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

4. Segmental analysis

The Group's operating segments are those used internally by management to run the business and make decisions. The Group's operating segments are based on products and services. The operating segments are also the Group's reportable segments. The Group's results are discussed in the Business Review.

(a) Revenue

Gross segment revenue represents revenue generated from the sale of products and services to both third parties and to other reportable segments of the Group. Group revenue reflects only the sale of products and services to third parties.

Six months ended 30 June	**2015** Gross segment revenue £m	**2015** Less inter-segment revenue £m	**2015** Group revenue £m	2014 Gross segment revenue £m	2014 Less inter-segment revenue £m	2014 Group revenue £m
International Downstream						
Residential energy supply	**4,691**	**(1)**	**4,690**	4,551	–	4,551
Residential services	**802**	**(66)**	**736**	804	(74)	730
Business energy supply and services	**1,421**	**(11)**	**1,410**	1,573	(38)	1,535
British Gas	**6,914**	**(78)**	**6,836**	6,928	(112)	6,816
Residential energy supply	**1,204**	**–**	**1,204**	1,399	–	1,399
Business energy supply	**4,475**	**–**	**4,475**	4,814	(6)	4,808
Residential and business services	**223**	**–**	**223**	256	–	256
Direct Energy	**5,902**	**–**	**5,902**	6,469	(6)	6,463
Bord Gáis Energy	**400**	**–**	**400**	–	–	–
International Upstream						
Gas	**1,962**	**(145)**	**1,817**	2,123	(183)	1,940
Power	**599**	**(145)**	**454**	661	(182)	479
Centrica Energy	**2,561**	**(290)**	**2,271**	2,784	(365)	2,419
Centrica Storage	**71**	**(29)**	**42**	70	(20)	50
	15,848	**(397)**	**15,451**	16,251	(503)	15,748

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

4. Segmental analysis

(b) Operating profit before and after taxation

The measure of profit used by the Group is adjusted operating profit. Adjusted operating profit is operating profit before exceptional items and certain re-measurements and before depreciation on fair value uplifts on the Strategic Investments acquired in 2009. This includes results of equity-accounted interests before interest and taxation.

This note also details adjusted operating profit after taxation. Both measures are reconciled to their statutory equivalents.

Six months ended 30 June	Adjusted operating profit (i)		Adjusted operating profit after taxation (ii)	
	2015 £m	2014 £m	**2015 £m**	2014 £m
International Downstream				
Residential energy supply	**528**	265	**423**	207
Residential services	**125**	129	**100**	101
Business energy supply and services	**3**	61	**2**	47
British Gas	**656**	455	**525**	355
Residential energy supply	**67**	48	**36**	30
Business energy supply	**143**	(21)	**86**	(14)
Residential and business services	**(18)**	14	**(11)**	10
Direct Energy	**192**	41	**111**	26
Bord Gáis Energy	**23**	–	**20**	–
International Upstream				
Gas [iii] [iv]	**48**	465	**(23)**	235
Power [iii]	**68**	61	**63**	42
Centrica Energy	**116**	526	**40**	277
Centrica Storage	**13**	10	**10**	7
	1,000	1,032	**706**	665
Share of joint ventures'/associates' interest and taxation	**(51)**	(63)		
Depreciation of fair value uplifts to property, plant and equipment – Venture [iii]	**(1)**	(17)		
Depreciation of fair value uplifts to property, plant and equipment (net of taxation) – associates – Nuclear [iii]	**(23)**	(23)		
	925	929		
Exceptional items (note 6)	**–**	219		
Certain re-measurements included within gross profit (note 6)	**413**	(146)		
Certain re-measurements of associates' energy contracts (net of taxation) (note 6)	**5**	19		
Operating profit after exceptional items and certain re-measurements	**1,343**	1,021		

Six months ended 30 June	**2015 £m**	2014 £m
Adjusted operating profit after taxation [ii]	**706**	665
Depreciation of fair value uplifts to property, plant and equipment (net of taxation) [iii]	**(24)**	(30)
Corporate and other taxation, and interest (net of taxation) [v]	**(113)**	(118)
Business performance profit for the period	**569**	517
Exceptional items and certain re-measurements (net of taxation) (note 6)	**463**	33
Statutory profit for the period	**1,032**	550

(i) Segment operating profit before exceptional items, certain re-measurements and impact of fair value uplifts from the Strategic Investments acquired in 2009. This includes results of equity-accounted interests before interest and taxation.
(ii) Segment operating profit after taxation, before exceptional items, certain re-measurements and impact of fair value uplifts from the Strategic Investments acquired in 2009. This includes operating results of equity-accounted interests, net of associated taxation, before interest and associated taxation.
(iii) See note 3 for an explanation of the depreciation on fair value uplifts to PP&E on the Strategic Investments acquired in 2009.
(iv) The Gas adjusted operating profit result includes a mixture of profits and losses in different tax jurisdictions, where different tax rates apply.
(v) Includes joint ventures'/associates' interest, net of associated taxation.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

4. Segmental analysis

(c) Included within adjusted operating profit

Presented below are certain items included within adjusted operating profit, including further details of impairments of property, plant and equipment and write downs relating to exploration and evaluation assets.

Six months ended 30 June	Share of results of joint ventures and associates before interest and taxation (i) 2015 £m	2014 £m	Depreciation and impairments of property, plant and equipment 2015 £m	2014 £m	Amortisation, write-downs and impairments of intangibles 2015 £m	2014 £m
International Downstream						
Residential energy supply	**(1)**	(1)	**(14)**	(8)	**(44)**	(24)
Residential services	**–**	–	**(11)**	(13)	**(5)**	(4)
Business energy supply and services	**–**	–	**(1)**	(1)	**(5)**	(4)
British Gas	**(1)**	(1)	**(26)**	(22)	**(54)**	(32)
Residential energy supply	**–**	–	**–**	–	**(17)**	(11)
Business energy supply	**–**	–	**–**	(1)	**(11)**	(17)
Residential and business services	**–**	–	**(2)**	(1)	**(4)**	(4)
Direct Energy	**–**	–	**(2)**	(2)	**(32)**	(32)
Bord Gáis Energy	**–**	–	**(1)**	–	**(3)**	–
International Upstream						
Gas (ii)	**–**	–	**(377)**	(410)	**(52)**	(41)
Power (ii)	**148**	138	**(15)**	(37)	**(1)**	–
Centrica Energy	**148**	138	**(392)**	(447)	**(53)**	(41)
Centrica Storage	**–**	–	**(14)**	(16)	**(1)**	–
Other (iii)	**–**	–	**(6)**	(6)	**(7)**	(8)
	147	137	**(441)**	(493)	**(150)**	(113)

(i) The share of results of joint ventures and associates is before interest, taxation, certain re-measurements and depreciation of fair value uplifts to PP&E on the Strategic Investments acquired in 2009.
(ii) Depreciation of PP&E is stated before depreciation of fair value uplifts for the Strategic Investments acquired in 2009.
(iii) The Other segment includes corporate functions.

Write-downs of intangible assets

During the period, £42 million (2014: £32 million) of write-downs relating to exploration and evaluation assets were recognised in the Centrica Energy – Gas segment within operating costs before exceptional items within the Group Income Statement.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

4. Segmental analysis

(d) Capital expenditure

Capital expenditure represents additions, other than assets acquired as part of business combinations, to property, plant and equipment, and intangible assets. Capital expenditure has been reconciled to the related cash outflow.

Six months ended 30 June	Capital expenditure on property, plant and equipment 2015 £m	Capital expenditure on property, plant and equipment 2014 £m	Capital expenditure on intangible assets other than goodwill 2015 £m	Capital expenditure on intangible assets other than goodwill 2014 £m
International Downstream				
Residential energy supply	**9**	11	**159**	182
Residential services	**3**	15	**4**	5
Business energy supply and services	**–**	–	**3**	12
British Gas	**12**	26	**166**	199
Residential energy supply	**–**	12	**5**	11
Business energy supply	**1**	1	**90**	52
Residential and business services	**4**	3	**1**	–
Direct Energy	**5**	16	**96**	63
Bord Gáis Energy	**1**	–	**1**	–
International Upstream				
Gas	**316**	471	**72**	115
Power	**9**	52	**1**	1
Centrica Energy	**325**	523	**73**	116
Centrica Storage	**13**	9	**1**	1
Other (i)	**2**	5	**8**	8
Capital expenditure	**358**	579	**345**	387
Capitalised borrowing costs	**(20)**	(18)	**(1)**	(5)
Movements in payables and prepayments related to capital expenditure	**50**	(7)	**10**	(1)
Purchases of emissions allowances and renewable obligations certificates	**–**	–	**(218)**	(194)
Net cash outflow	**388**	554	**136**	187

(i) The Other segment relates to corporate assets.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

5. Joint ventures and associates

Share of results of joint ventures and associates represents the results of businesses where we exercise joint control or significant influence and generally have an equity holding of up to 50%.

(a) Share of results of joint ventures and associates

The Group's share of results of joint ventures and associates for the six months ended 30 June 2015 principally arises from its interests in the following entities (predominantly reported in the Centrica Energy – Power segment):

- Wind farms – GLID Wind Farms TopCo Limited and Lincs Wind Farm Limited.
- Nuclear – Lake Acquisitions Limited.

Six months ended 30 June	Joint ventures Wind farms £m	Associates Nuclear £m	Other £m	2015 Total £m	2014 (i) Total £m
Income	50	322	1	**373**	389
Expenses excluding certain re-measurements (ii)	(35)	(218)	(2)	**(255)**	(280)
Certain re-measurements	–	4	–	**4**	18
	15	108	(1)	**122**	127
Interest paid	(21)	(11)	–	**(32)**	(36)
Taxation excluding certain re-measurements (ii)	7	(20)	–	**(13)**	(22)
Taxation on certain re-measurements	–	1	–	**1**	1
Share of post-taxation results of joint ventures and associates	**1**	**78**	**(1)**	**78**	70

(i) Comparative figures include Barrow Offshore Wind Limited and Celtic Array Limited (Round 3), which were disposed of or written off in 2014.
(ii) Includes £29 million (2014: £28 million) relating to depreciation of fair value uplifts to PP&E on investment in Nuclear. The associated tax impact is £6 million credit (2014: £5 million credit).

Nuclear

In November 2009, the Group acquired a 20% interest in Lake Acquisitions Limited (Nuclear). The Group's share of profit arising from its investment in Nuclear for the six months ended 30 June 2015, as set out in the above table, includes the effect of unwinding the fair value uplifts recognised at acquisition. As explained in note 3, the depreciation (net of taxation) arising on fair value uplifts attributed to the nuclear power stations, is reversed in arriving at adjusted profit for the period as shown in the reconciliation table below and as set out in notes 4(b) and 9.

(b) Reconciliation of share of results of joint ventures and associates to share of adjusted results of joint ventures and associates

Six months ended 30 June	Joint ventures Wind farms £m	Associates Nuclear £m	Other £m	2015 Total £m	2014 (i) Total £m
Share of post-taxation results of joint ventures and associates	1	78	(1)	**78**	70
Certain re-measurements (net of taxation)	–	(5)	–	**(5)**	(19)
Depreciation – Nuclear (net of taxation) (ii)	–	23	–	**23**	23
Interest paid	21	11	–	**32**	36
Taxation (excluding taxation on certain re-measurements and Nuclear depreciation)	(7)	26	–	**19**	27
Share of adjusted results of joint ventures and associates	**15**	**133**	**(1)**	**147**	137

(i) Comparative figures include Barrow Offshore Wind Limited and Celtic Array Limited (Round 3), which were disposed of or written off in 2014.
(ii) Relates to depreciation of fair value uplifts to PP&E on investment in Nuclear.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

6. Exceptional items and certain re-measurements

Exceptional items are those items which are of a non-recurring nature and, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. Items which may be considered exceptional in nature include disposals of businesses, business restructurings, significant onerous contract charges and asset write-downs.

(a) Exceptional items

Six months ended 30 June	2015 £m	2014 £m
Gain on disposal of Texas gas-fired power stations	–	219
Exceptional items included within Group operating profit	–	219
Taxation on exceptional items (note 8)	–	(79)
Effect of change in Upstream UK tax rates (note 8) (i)	116	–
Net exceptional items after taxation	116	140

(i) During the period, the UK supplementary charge was reduced from 32% to 20%, with effect from 1 January 2015 and the Petroleum Revenue Tax (PRT) rate was reduced from 50% to 35% with effect from 1 January 2016. These changes have been substantively enacted by the reporting date and the reduction in net deferred tax liabilities has been recognised immediately as an exceptional tax credit.

Certain re-measurements are the fair value movements on energy contracts entered into to meet the future needs of our customers or to sell the energy produced from our upstream assets. These contracts are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued, and are therefore separately identified in the current period and reflected in business performance in future periods when the underlying transaction or asset impacts the Group Income Statement.

(b) Certain re-measurements

Six months ended 30 June	2015 £m	2014 £m
Certain re-measurements recognised in relation to energy contracts (note 3):		
Net gains/(losses) arising on delivery of contracts	629	(77)
Net losses arising on market price movements and new contracts	(216)	(69)
Net re-measurements included within gross profit	413	(146)
Net gains arising on re-measurement of associates' energy contracts (net of taxation) (note 5)	5	19
Net re-measurements included within Group operating profit	418	(127)
Taxation on certain re-measurements (note 8)	(71)	20
Net re-measurements after taxation	347	(107)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

7. Net finance cost

Financing costs mainly comprise interest on bonds, bank debt and commercial paper, the results of hedging activities used to manage foreign exchange and interest rate movements on the Group's borrowings, and notional interest arising on discounting of decommissioning provisions. An element of financing cost is capitalised on qualifying projects.

Investment income predominantly includes interest received on short-term investments in money market funds, bank deposits, government bonds and notional interest on pensions.

Six months ended 30 June	Financing costs £m	Investment income £m	2015 Total £m	Financing costs £m	Investment income £m	2014 Total £m
Cost of servicing net debt						
Interest income	–	28	28	–	21	21
Interest cost on bonds, bank loans and overdrafts (i)	(138)	–	(138)	(126)	–	(126)
Interest cost on finance leases	(7)	–	(7)	(8)	–	(8)
	(145)	28	(117)	(134)	21	(113)
Net losses on revaluation (ii)	(3)	–	(3)	(5)	–	(5)
Notional interest arising from discounting and other interest	(39)	3	(36)	(39)	3	(36)
	(187)	31	(156)	(178)	24	(154)
Capitalised borrowing costs (iii)	21	–	21	23	–	23
(Cost)/income	(166)	31	(135)	(155)	24	(131)

(i) During the six months ended 30 June 2015, the Group increased its outstanding bond debt principal by €750 million and £450 million, and decreased it by $70 million. See note 12(c).
(ii) Includes gains and losses on fair value hedges, movements in fair value of other derivatives primarily used to hedge foreign exchange exposure associated with intercompany loans, and foreign currency gains and losses on the translation of intercompany loans.
(iii) Borrowing costs have been capitalised using an average rate of 3.85% (2014: 4.10%).

8. Taxation

The taxation note details the different tax charges arising in the Group. This tax charge excludes taxation on the Group's share of results of joint ventures and associates. The Group's adjusted effective tax rate for the six months to 30 June 2015 was 29% (2014: 37%) and is reconciled to this note in the Group Financial Review on page 13.

Analysis of tax charge

Six months ended 30 June	Business performance £m	Exceptional items and certain re-measurements £m	2015 Results for the period £m	Business performance £m	Exceptional items and certain re-measurements £m	2014 Results for the period £m
The taxation charge comprises:						
UK corporation tax	(100)	114	14	(96)	59	(37)
UK petroleum revenue tax	(10)	(33)	(43)	(41)	–	(41)
Non-UK tax	(111)	(36)	(147)	(144)	(118)	(262)
Total tax on profit (i) (ii)	(221)	45	(176)	(281)	(59)	(340)

(i) Total tax on profit excludes taxation on the Group's share of profits of joint ventures and associates.
(ii) Includes adjustments in respect of prior periods.

9. Earnings per ordinary share

Earnings per share (EPS) is the amount of profit attributable to each share. Basic EPS is the amount of profit for the period divided by the weighted average number of shares in issue during the period. Diluted EPS includes the impact of outstanding share options as if they were exercised at the end of the period.

Basic earnings per ordinary share has been calculated by dividing the profit attributable to equity holders of the Company for the period of £1,050 million (2014: £533 million) by the weighted average number of ordinary shares in issue during the period of 4,970 million (2014: 5,053 million).

The number of shares excludes 78 million ordinary shares (2014: 90 million), being the weighted average number of the Company's own shares held in the employee share trust and treasury shares purchased by the Group as part of the share repurchase programme.

The Directors believe that the presentation of adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for certain re-measurements, exceptional items and the impact of the Strategic Investments acquired in 2009, assists with understanding the underlying performance of the Group, as explained in note 3.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

9. Earnings per ordinary share

During the six month period to 30 June 2014, the Group purchased 64.8 million ordinary shares of $6\tfrac{14}{81}$ pence each. The shares were acquired as part of the £420 million share repurchase programme announced on 18 December 2013, and were purchased at an average price of £3.28 per share for a total consideration including expenses of £213 million. In the second half of the year ended 31 December 2014, an additional 67.3 million ordinary shares of $6\tfrac{14}{81}$ pence per share were purchased under the same scheme. These shares are held as treasury shares once purchased and are deducted from equity, unless they are cancelled. No further share purchases have taken place under the share repurchase programme during the current period.

In addition to basic and adjusted basic earnings per ordinary share, information is presented for diluted and adjusted diluted earnings per ordinary share. Under this presentation, no adjustments are made to the reported profit for either 2015 or 2014; however, the weighted average number of shares used as the denominator is adjusted for potentially dilutive ordinary shares.

Basic to adjusted basic earnings per share reconciliation

Six months ended 30 June	**2015** £m	**2015** Pence per ordinary share	2014 £m	2014 Pence per ordinary share
Earnings – basic	**1,050**	**21.1**	533	10.5
Net exceptional items after taxation (notes 3 and 6)	**(116)**	**(2.3)**	(140)	(2.7)
Certain re-measurement (gains)/losses after taxation (notes 3 and 6)	**(347)**	**(7.0)**	107	2.1
Depreciation of fair value uplifts to property, plant and equipment from the Strategic Investments acquired in 2009, net of taxation (note 3)	**24**	**0.5**	30	0.6
Earnings – adjusted basic	**611**	**12.3**	530	10.5
Earnings – diluted	**1,050**	**21.0**	533	10.5
Earnings – adjusted diluted	**611**	**12.2**	530	10.4

Strategic Investments

During 2009, the Group acquired a 20% interest in Lake Acquisitions Limited (Nuclear) and the entire share capital of Venture. As explained in note 3, the depreciation relating to fair value uplifts of the acquired Venture PP&E and associated taxation is excluded in arriving at adjusted earnings for the period, which amounted to £1 million (2014: £17 million) depreciation and a taxation credit of £nil (2014: £10 million) in the period. Additionally, the impact of depreciation arising on fair value uplifts attributed to the nuclear power stations and related taxation included within the Group's share of the post-taxation results of the associate is excluded in arriving at adjusted earnings for the period, which amounted to £23 million (2014: £23 million), net of taxation.

10. Dividends

Dividends represent the return of profits to shareholders and are paid twice a year: in June and November. Dividends are paid as an amount per ordinary share held. The Group retains part of the profits generated to maintain balance sheet strength and to meet future investment plans.

	2015 £m	**2015** Pence per share	**2015** Date of payment	2014 £m	2014 Pence per share	2014 Date of payment
Prior year final dividend	**418**	**8.4**	**25 Jun 2015**	610	12.08	11 Jun 2014

On 19 February 2015, the Company announced its intention to offer a scrip dividend alternative to its shareholders. The first eligible distribution was the final 2014 dividend for the year ended 31 December 2014, as detailed above.

£176 million of the £418 million distribution was in the form of ordinary shares to shareholders opting in to the scrip dividend alternative. The market value of ordinary shares at the date of payment was £2.57 per share, resulting in the issue of 68 million new shares to existing shareholders. The difference between the market value of the issued shares and their par value (of $6\tfrac{14}{81}$ pence per ordinary share) totalling £171 million has been credited to the share premium account.

An interim dividend of 3.57 pence (2014: 5.10 pence) per ordinary share, totalling £183 million (2014: £257 million), will be paid on 26 November 2015 (12 November 2014) to shareholders on the register on 2 October 2015.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

11. Acquisitions and disposals

This section details acquisitions (business combinations or asset acquisitions) and disposals made by the Group. The only significant transaction during the period was the acquisition of AlertMe, as described below.

(a) 2015 Business combinations

On 17 March 2015, the Group gained control of AlertMe, a UK-based connected homes business that provides innovative energy management products and services. Prior to this date, the Group held a 21% interest in the company and under this transaction acquired the remaining share capital. The original stake, which was previously accounted for as an investment in associate, was re-measured to its fair value at the acquisition date. A gain of £14 million was recognised in the Group Income Statement as a result of this re-measurement. The purchase consideration, net of cash received for the previously held interest, was £42 million, excluding £4 million of cash acquired with the business.

The AlertMe business forms part of the British Gas – Residential energy supply segment.

(b) 2014 Business combinations – measurement period adjustments

During the period, there have been no material updates to the fair value of assets and liabilities acquired in 2014.

(c) Disposals and assets or disposal groups held for sale

All disposals made by the Group during the period were immaterial both individually and in aggregate.

12. Sources of finance

(a) Capital structure

The Group seeks to maintain an efficient capital structure with a balance of debt and equity as shown in the table below:

	30 June 2015 £m	31 December 2014 £m
Net debt	**4,905**	5,196
Equity	**3,177**	2,735
Capital	**8,082**	7,931

Debt levels are restricted to limit the risk of financial distress and, in particular, to maintain a strong credit profile. The Group's credit standing is important for several reasons: to maintain a low cost of debt; limit collateral requirements in energy trading, hedging and decommissioning security arrangements; and to ensure the Group is an attractive counterparty to energy producers and long-term customers.

On 19 March 2015, Moody's Investors Service Limited (Moody's) downgraded Centrica's long term credit rating to Baa1 (stable outlook) from A3 (negative outlook). At 30 June 2015, the Group's long term credit rating with Standard & Poor's Credit Market Services Europe Limited (S&P) was A- (negative outlook).

The Group monitors its current and projected capital position on a regular basis, considering a medium-term view of 18 months to two years, and different stress case scenarios, including the impact of changes in the Group's credit ratings and significant movements in commodity prices. A number of financial ratios are monitored, including those used by the credit rating agencies, such as debt to cash flow ratios and adjusted EBITDA to gross interest expense.

British Gas Insurance Limited (BGIL) is required under PRA regulations to hold a minimum capital amount and has complied with this requirement in 2015 (and 2014). For the remainder of the Group, the level of debt that can be raised is restricted by the Company's Articles of Association.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

12. Sources of finance

(b) Net debt summary

Net debt predominantly includes capital market borrowings offset by cash, cash posted or received under margin and collateral agreements, securities and certain hedging financial instruments used to manage interest rate and foreign exchange movements on borrowings.

	Cash and cash equivalents £m	Cash posted/(received) under margin and collateral agreements (i) £m	Current and non-current securities £m	Current and non-current borrowings, net of related deposits £m	Derivatives £m	Net debt £m
1 January 2015	621	776	274	(6,956)	89	**(5,196)**
Cash outflow from purchase of securities	(9)	–	9	–	–	**–**
Cash inflow from additional borrowings	1,000	–	–	(1,000)	–	**–**
Cash outflow from payment of capital element of finance leases	(17)	–	–	17	–	**–**
Cash outflow from repayment of borrowings	(1,174)	–	–	1,174	–	**–**
Net cash inflow decreasing net debt	357	–	–	–	–	**357**
Movement in cash posted or received under margin and collateral agreements	298	(298)	–	–	–	**–**
Revaluation	–	–	(7)	34	(80)	**(53)**
(Increase)/decrease in interest payable and amortisation of borrowings	–	–	–	(40)	1	**(39)**
Acquisition of businesses	–	–	2	–	–	**2**
Exchange adjustments	(13)	(13)	(5)	55	–	**24**
30 June 2015	**1,063**	**465**	**273**	**(6,716)**	**10**	**(4,905)**

(i) Of the net cash collateral posted at 30 June 2015, £219 million (31 December 2014: £961 million) is within trade and other receivables, £34 million (31 December 2014: £185 million) is within trade and other payables and £280 million (31 December 2014: £nil) has been offset against net derivative financial liabilities. The items, to which the cash posted or received as collateral under margin and collateral agreements relate, are not included within net debt.

	Cash and cash equivalents £m	Cash posted/(received) under margin and collateral agreements (i) £m	Current and non-current securities £m	Current and non-current borrowings, net of related deposits £m	Derivatives £m	Net debt £m
1 January 2014 (restated) (i)	719	107	211	(6,031)	52	(4,942)
Cash outflow from purchase of securities	(2)	–	2	–	–	–
Cash inflow from additional borrowings	327	–	–	(327)	–	–
Cash outflow from payment of capital element of finance leases	(16)	–	–	16	–	–
Cash outflow from repayment of borrowings	(11)	–	–	11	–	–
Net cash outflow increasing net debt	(59)	–	–	–	–	(59)
Movement in cash posted or received under margin and collateral agreements	(127)	127	–	–	–	–
Revaluation	–	–	3	(9)	14	8
(Increase)/decrease in interest payable and amortisation of borrowings	–	–	–	(36)	28	(8)
Exchange adjustments	(16)	(4)	–	54	–	34
30 June 2014 (restated) (i)	815	230	216	(6,322)	94	(4,967)

(i) Net debt has been restated to include cash posted or received as collateral under margin and collateral agreements, to more accurately reflect management's view of net debt. The items, to which the cash posted or received as collateral under margin and collateral agreements relate, are not included within net debt.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

12. Sources of finance

(c) Borrowings summary

	Coupon rate %	Principal m	Current £m	Non-current £m	30 June 2015 Total £m	Current £m	Non-current £m	31 December 2014 Total £m
Bank overdrafts and loans [(i)]			–	(309)	(309)	(427)	(312)	(739)
Bonds (by maturity date):								
31 March 2015	Floating	$70	–	–	–	(45)	–	(45)
10 September 2015	0.320	¥30,000	(156)	–	(156)	(161)	–	(161)
11 September 2015	Floating	£51	(51)	–	(51)	(51)	–	(51)
12 September 2015	Floating	€100	(71)	–	(71)	(78)	–	(78)
24 October 2016	5.500	£300	–	(312)	(312)	–	(316)	(316)
14 April 2017	Floating	$200	–	(127)	(127)	–	(128)	(128)
19 September 2018	7.000	£400	–	(437)	(437)	–	(444)	(444)
1 February 2019	3.213	€100	–	(71)	(71)	–	(78)	(78)
25 September 2020	Floating	$80	–	(51)	(51)	–	(51)	(51)
22 February 2022	3.680	HK$450	–	(37)	(37)	–	(37)	(37)
10 March 2022	6.375	£500	–	(519)	(519)	–	(528)	(528)
16 October 2023	4.000	$750	–	(487)	(487)	–	(494)	(494)
4 September 2026	6.400	£200	–	(221)	(221)	–	(225)	(225)
16 April 2027	5.900	$70	–	(44)	(44)	–	(45)	(45)
13 March 2029	4.375	£750	–	(737)	(737)	–	(741)	(741)
5 January 2032 [(ii)]	Zero	€50	–	(34)	(34)	–	(41)	(41)
19 September 2033	7.000	£770	–	(762)	(762)	–	(762)	(762)
16 October 2043	5.375	$600	–	(375)	(375)	–	(379)	(379)
12 September 2044	4.250	£550	–	(536)	(536)	–	(536)	(536)
25 September 2045	5.250	$50	–	(31)	(31)	–	(32)	(32)
10 April 2075 [(iii)]	5.250	£450	–	(446)	(446)	–	–	–
10 April 2076 [(iv)]	3.000	€750	–	(529)	(529)	–	–	–
			(278)	(5,756)	(6,034)	(335)	(4,837)	(5,172)
Commercial paper			(2)	–	(2)	(735)	–	(735)
Obligations under finance leases			(35)	(185)	(220)	(35)	(202)	(237)
Other borrowings			(12)	–	(12)	–	–	–
Interest accruals			(139)	–	(139)	(103)	–	(103)
			(466)	(6,250)	(6,716)	(1,635)	(5,351)	(6,986)

(i) Current bank overdrafts and loans as at 31 December 2014 included £300 million of short-term borrowings drawn under committed facilities with maturities of 1 April 2019.
(ii) €50 million of zero coupon notes have an accrual yield of 4.200%, which will result in a €114 million repayment on maturity.
(iii) The Group has the right to repay the hybrid bond at par on 10 April 2025 and every semi-annual interest payment date thereafter.
(iv) The Group has the right to repay the hybrid bond at par on 10 April 2021 and every annual interest payment date thereafter.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

13. Post retirement benefits

The Group manages a number of final salary and career average defined benefit pension schemes. It also has defined contribution schemes. The majority of these schemes by size are in the UK.

(a) Summary of main post retirement benefit schemes

Name of scheme	Type of benefit	Status	Country
Centrica Engineers Pension Scheme	Defined benefit final salary pension	Closed to new members in 2006	UK
	Defined benefit career average pension	Open to service engineers only	UK
Centrica Pension Plan	Defined benefit final salary pension	Closed to new members in 2003	UK
Centrica Pension Scheme	Defined benefit final salary pension	Closed to new members in 2003	UK
	Defined benefit career average pension	Closed to new members in 2008	UK
	Defined contribution pension	Open to new members	UK
Bord Gáis Energy Company Defined Benefit Pension Scheme	Defined benefit final salary pension	Closed to new members in 2014	Republic of Ireland
Bord Gáis Energy Company Defined Contribution Pension Plan	Defined contribution pension	Open to new members	Republic of Ireland
Direct Energy Marketing Limited Pension Plan	Defined benefit final salary pension	Closed to new members in 2004	Canada
Direct Energy Marketing Limited	Post-retirement benefits	Closed to new members in 2012	Canada

The Centrica Engineers Pension Scheme (CEPS), Centrica Pension Plan (CPP) and Centrica Pension Scheme (CPS) form the significant majority of the Group's defined benefit obligation and are referred to below as the 'Registered Pension Schemes'. The other schemes are individually, and in aggregate, immaterial.

The Registered Pension Schemes are subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employer contributions which, together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes.

The latest full actuarial valuations have been updated to 30 June 2015 for the purposes of meeting the requirements of IAS 19: 'Employee Benefits' (2011). Investments have been valued for this purpose at market value.

Based on the latest triennial valuations at 31 March 2012, the Group and the trustees of the Registered Pension Schemes agreed to fund the scheduled deficit payments using asset-backed contribution arrangements. Under the arrangements, certain loans to UK Group companies were transferred to Scottish Limited Partnerships established by the Group. During 2012 and 2013 the Group made special contributions to the Registered Pension Schemes of £444 million, which the Registered Pension Schemes immediately used to acquire interests in the partnerships for their fair value of £444 million. The Registered Pension Schemes' total partnership interests entitle them to distributions from the income of the partnerships over a period of between 4 and 15 years. In 2015 and 2016 this income will amount to £77 million per annum but will reduce thereafter. The partnerships are controlled by Centrica and their results are consolidated by the Group. As the trustees' interests in the partnerships do not meet the definition of a plan asset under IAS 19, they are not reflected in the Group Balance Sheet. Distributions from the partnerships to the Registered Pension Schemes will be recognised as scheme assets in the future as they occur.

Although there is a relatively small IAS 19 accounting deficit in the Registered Pension Schemes in comparison to the defined benefit obligation, the pension trustees are required to calculate the funding position on a more prudent 'Technical Provisions' basis. The next triennial review based on the position as at 31 March 2015 is in progress and because government bond yields are currently low this is likely to result in a Technical Provisions deficit in the Registered Pension Schemes. It is likely, therefore, that further deficit payments will be required following the triennial valuation.

Deficit payments are also being made in respect of the Direct Energy Marketing Limited Pension Plan in Canada. £1 million is to be paid in 2015, £2 million is to be paid in 2016 and £1 million is to be paid in 2017, 2018 and 2019.

During the period, the Group offered a pension increase exchange (PIE) to future retirees within the Registered Pension Schemes. The PIE gives the option to receive a higher initial pension in return for giving up certain future increases linked to RPI. This has resulted in a past service credit of £38 million in 2015.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

13. Post retirement benefits

(b) Accounting assumptions

The accounting assumptions for the Registered Pension Schemes have been given below:

Major assumptions used for the actuarial valuation	**30 June 2015 %**	31 December 2014 %
Rate of increase in employee earnings:		
Subject to cap	**1.7**	1.7
Other	**3.2**	3.0
Rate of increase in pensions in payment	**3.2**	3.0
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	**2.1**	1.9
In line with RPI	**3.2**	3.0
Discount rate	**3.9**	3.9

Longevity assumptions remain unchanged from 31 December 2014.

(c) Amounts included in the Group Balance Sheet

	30 June 2015 £m	31 December 2014 £m
Fair value of plan assets	**6,574**	6,444
Present value of defined benefit obligation	**(6,738)**	(6,382)
Net (liability)/asset recognised in the Group Balance Sheet	**(164)**	62
Pension (liability)/asset presented in the Group Balance Sheet as:		
Retirement benefit assets	**92**	185
Retirement benefit liabilities	**(256)**	(123)
Net pension (liability)/asset	**(164)**	62

Included within the Group Balance Sheet within non-current securities are £75 million (31 December 2014: £75 million) of investments, held in trust on behalf of the Group, as security in respect of the Centrica Unfunded Pension Scheme. Included within the pension scheme liabilities above are £51 million (31 December 2014: £49 million) relating to this scheme.

14. Financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group has documented internal policies for determining fair value, including methodologies used to establish valuation adjustments required for credit risk.

(a) Fair value hierarchy

Financial assets and financial liabilities measured and held at fair value are classified into one of three categories, known as hierarchy levels, which are defined according to the inputs used to measure fair value as follows:

- Level 1: Fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities;
- Level 2: Fair value is determined using significant inputs that may be directly observable inputs or unobservable inputs that are corroborated by market data; and
- Level 3: Fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

14. Financial instruments

	Level 1 £m	Level 2 £m	Level 3 £m	30 June 2015 Total £m	Level 1 £m	Level 2 £m	Level 3 £m	31 December 2014 Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	2	583	27	**612**	4	688	12	704
Interest rate derivatives	–	129	–	**129**	–	158	–	158
Foreign exchange derivatives	–	96	–	**96**	–	68	–	68
Treasury gilts designated at fair value through profit or loss	127	–	–	**127**	129	–	–	129
Debt instruments	58	–	10	**68**	59	–	3	62
Equity instruments [(i)]	27	49	2	**78**	24	59	–	83
Total financial assets at fair value	**214**	**857**	**39**	**1,110**	216	973	15	1,204
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	(93)	(833)	(112)	**(1,038)**	(320)	(1,268)	(321)	(1,909)
Interest rate derivatives	–	(34)	–	**(34)**	–	(32)	–	(32)
Foreign exchange derivatives	–	(267)	–	**(267)**	–	(212)	–	(212)
Total financial liabilities at fair value	**(93)**	**(1,134)**	**(112)**	**(1,339)**	(320)	(1,512)	(321)	(2,153)

(i) Level 2 equity instruments relate to shares acquired in Enercare Inc., received as part of the consideration for the disposal of the Ontario home services business in October 2014. The shares are listed on the Toronto Stock Exchange, but are subject to a lock-up period of 18 months.

There were no material transfers between Level 1 and Level 2 during the current period or the period ended 30 June 2014.

(b) Valuation techniques used to derive Level 2 and 3 fair values and Group valuation process

Level 2 interest rate derivatives and foreign exchange derivatives comprise interest rate swaps and forward foreign exchange contracts. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Forward foreign exchange contracts are fair valued using forward exchange rates that are quoted in an active market.

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during 2015 was 3% (Europe) and 1% (North America) per annum (31 December 2014: average discount rate of 1% (Europe) and 3% (North America) per annum).

For Level 3 energy derivatives, the main input used by the Group pertains to deriving expected future commodity prices in markets that are not active as far into the future as some of our contractual terms. This applies to certain contracts within the UK and US. Fair values are then calculated by comparing and discounting the difference between the expected contractual cash flows and these derived future prices using an average discount rate of 5% (UK) and 1% (US) per annum for 2015 (31 December 2014: average discount rate of 1% (UK) and 7% (US) per annum).

Active period of markets	Gas	Power	Coal	Emissions	Oil
UK (years)	**3**	**3**	**3**	**3**	**3**
North America (years)	**5**	**Up to 5**	**n/a**	**Up to 5**	**3**

Because the Level 3 energy derivative valuations involve the prediction of future commodity market prices, sometimes a long way into the future, reasonably possible alternative assumptions for gas, power, coal, emissions or oil prices may result in a higher or lower fair values for Level 3 financial instruments. Given the relative size of these fair values, it is unlikely that the impact of these reasonably possible changes would be significant when judged in relation to the Group's profit and loss or total asset value.

It should be noted that the fair values disclosed in the tables above only concern those contracts entered into which are within the scope of IAS 39. The Group has numerous other commodity contracts which are outside of the scope of IAS 39 and are not fair valued. The Group's actual exposure to market rates is constantly changing as the Group's portfolio of energy contracts changes.

The Group's valuation process includes specific teams of individuals that perform valuations of the Group's derivatives for financial reporting purposes, including Level 3 valuations. The Group has an independent team that derives future commodity price curves based on available external data and these prices feed in to the energy derivative valuations. The price curves are subject to review and approval by the Group's Investment Sub-Committee and valuations of all derivatives, together with other contracts that are not within the scope of IAS 39, are also reviewed regularly as part of the overall risk management process.

Where the fair value at initial recognition for contracts which extend beyond the active period differs from the transaction price, a day-one gain or loss will arise. Such gains and losses are deferred and amortised to the Group Income Statement based on volumes purchased or delivered over the contractual period until such time as observable market data becomes available. The amount that has yet to be recognised in the Group Income Statement relating to the differences between the transaction prices and the amounts that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is immaterial.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

14. Financial instruments

(c) Fair value of financial assets and liabilities held at amortised cost

The carrying value of the Group's financial assets and liabilities measured at amortised cost are approximately equal to their fair value except as listed below:

		Notes	30 June 2015 Carrying value £m	30 June 2015 Fair value £m	30 June 2015 Fair value hierarchy	31 December 2014 Carrying value £m	31 December 2014 Fair value £m	31 December 2014 Fair value hierarchy
Bank overdrafts and loans (i)		12(c)	**(309)**	**(355)**	**Level 2**	(739)	(792)	Level 2
Bonds	Level 1	12(c)	**(5,963)**	**(6,285)**	**Level 1**	(5,094)	(5,676)	Level 1
	Level 2	12(c)	**(71)**	**(101)**	**Level 2**	(78)	(111)	Level 2
Obligations under finance leases		12(c)	**(220)**	**(244)**	**Level 2**	(237)	(268)	Level 2

(i) Includes £nil (31 December 2014: £427 million of liabilities) where the carrying value is considered to approximate the fair value of the instrument.

15. Commitments and contingencies

(a) Commitments

Commitments are not held on the Group's Balance Sheet as these are executory arrangements, and relate to amounts that we are contractually required to pay in the future as long as the other party meets its contractual obligations.

The Group has commitments relating primarily to the acquisition of PP&E and intangible assets, commodity purchase contracts, LNG capacity and transportation capacity.

Commodity purchase contract commitments have increased by £9 billion since 31 December 2014 to £49 billion. This is predominantly due to the Group negotiating an increase in the volume of gas being purchased from Statoil ASA under an existing supply agreement and, in a separate agreement, extending its gas supply contract with Gazprom Marketing & Trading Limited.

There have been no other significant changes to commitments during the period.

(b) Contingent liabilities

The Group has contingent liabilities relating to the acquisition of an interest in the Bowland UK shale gas exploration licence. There have been no significant changes to these contingent liabilities during the period.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

16. Events after the balance sheet date

The Group updates disclosures in light of new information being received, or a significant event occurring, in the period between 30 June 2015 and the date of this report.

Dividends

An interim dividend of 3.57 pence (2014: 5.10 pence) per ordinary share, totalling £183 million (2014: £257 million), will be paid on 26 November 2015 (12 November 2014) to shareholders on the register on 2 October 2015.

There are no other material post balance sheet date events.

17. Related party transactions

The Group's principal related parties include its investments in wind farms and the existing EDF UK nuclear fleet.

During the period, the Group entered into the following arm's length transactions with related parties who are not members of the Group, and had the following associated balances:

Six months ended 30 June	**Sale of goods and services £m**	**Purchase of goods and services £m**	**2015 Other transactions (i) £m**	Sale of goods and services £m	Purchase of goods and services £m	2014 Other transactions (i) £m
Joint ventures:						
Wind farms (as defined in note 5)	**7**	**(59)**	**9**	9	(67)	3
Associates:						
Nuclear (as defined in note 5)	**–**	**(319)**	**60**	–	(332)	40
	7	**(378)**	**69**	9	(399)	43

(i) Other transactions relate to investment and funding transactions with joint ventures and associates. In 2015 a dividend of £60 million was received from Lake Acquisitions Limited (2014: £40 million).

	Amounts owed from £m	**30 June 2015 Amounts owed to £m**	Amounts owed from £m	31 December 2014 Amounts owed to £m
Joint ventures:				
Wind farms (as defined in note 5)	**232**	**(101)**	414	(104)
Associates:				
Nuclear (as defined in note 5)	**–**	**(49)**	–	(58)
	232	**(150)**	414	(162)

During the period, there were no material changes to commitments in relation to joint ventures and associates. No provision for bad or doubtful debts relating to amounts owed from related parties was required in any of the periods disclosed above. Amounts owed from wind farms reduced following the sale at par of loans of £180 million previously provided to the joint venture.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

18. Risk management

The Group's normal operating, investing and financing activities expose it to a variety of financial risks: market risk (including commodity price risk, currency risk and interest rate risk), credit risk and liquidity risk. The condensed interim Financial Statements do not include all financial risk management information and disclosures included in the annual Financial Statements; they should be read in conjunction with note S3 to the Group's Annual Report and Accounts as at 31 December 2014.

During the period, financial risk management was overseen by the Group Financial Risk Management Committee (GFRMC) according to objectives, targets and policies set by the Board. Commodity price risk management is carried out in accordance with individual business unit Financial Risk Management Committees and their respective financial risk management policies, as approved by the GFRMC under delegated authority from the Board. Treasury risk management, including management of currency risk, interest rate risk and liquidity risk is carried out by a central Group Treasury function in accordance with the Group's financing and treasury policy, as approved by the Board.

The wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with the Group's credit risk policy and collateral risk policy. Downstream credit risk management is carried out in accordance with individual business unit credit policies.

(a) Commodity price risk management

During the six months ended 30 June 2015, the Group continued to be exposed to commodity price risk in its upstream assets, energy procurement contracts, downstream procurement and proprietary energy trading activities. Specific limits are used to manage the exposure to commodity prices associated with the Group's activities to an acceptable level. Volumetric limits are supported by Profit at Risk (PaR) and Value at Risk (VaR) metrics in the UK and in North America to measure the Group's exposure to commodity price risk. Limits are also set on PaR and VaR measurements as a further control over exposure to market prices.

The Group measures and manages the commodity price risk associated with the Group's entire energy procurement, upstream and downstream portfolio. Only certain of the Group's energy procurement, upstream and downstream contracts constitute financial instruments under IAS 39.

The net gain of £418 million during the six months ended 30 June 2015 (2014: loss of £127 million) from certain re-measurements of energy contracts included within Group operating profit largely represents the unwinding of mark-to-market positions created by gas and power purchase contracts which were priced above the current wholesale market value of energy at the start of the period and the impact of wholesale market price movements during the period. These balance sheet mark-to-market positions are calculated with reference to forward energy prices and therefore the extent of the economic gain or loss arising over the life of these contracts is uncertain, and entirely dependent upon the level of future wholesale energy prices. Generally, subject to short-term balancing, the ultimate net charge to cost of sales will be consistent with the price of energy agreed in these contracts and the fair value adjustments will reverse as the energy is supplied over the life of the contract.

(b) Credit risk management

Credit risk management is an integral part of the risk management function. The Group continues to be vigilant in managing counterparty risks in accordance with its financial risk management policies. During the six months ended 30 June 2015 many large European utilities have been downgraded lowering the overall credit assessment of the industry. There have been significant downgrades for some European banks, but as most have exited the trading markets in Europe already, this has not had a material impact on trading; however it has reduced the pool of acceptable collateral providers.

The Group continually reviews its rating thresholds for counterparty credit limits, and updates these as necessary based on a consistent set of principles. It continues to operate within its limits. In the US and Europe, ongoing regulatory changes are increasing trading over exchanges or via zero threshold margined contracts. This helps to reduce counterparty credit risk, but carries increased liquidity requirements. The Group actively manages the trade-off between credit and liquidity risks by optimising the use of contracts with and without margining obligations, particularly in the US where margining is more prevalent.

The fall in oil prices in the latter part of 2014 and during the period has added financial pressure to certain counterparties which may in turn have a detrimental impact on their financial strength and resulting credit risk profile. These pressures will be taken into account in counterparty credit reviews.

(c) Liquidity risk management and going concern

The Group has a number of treasury and risk policies to monitor and manage liquidity risk. Cash forecasts identifying the Group's liquidity requirements are produced regularly and are stress-tested for different scenarios, including, but not limited to, reasonably possible increases or decreases in commodity prices and the potential cash implications of a credit rating downgrade. The Group seeks to ensure that sufficient financial headroom exists for at least a 12-month period to safeguard the Group's ability to continue as a going concern. It is the Group's policy to maintain committed facilities and/or available surplus cash resources of at least £1,200 million, raise at least 75% of its net debt (excluding non-recourse debt) in the long-term debt market and to maintain an average term to maturity in the recourse long-term debt portfolio greater than five years.

At 30 June 2015, the Group had undrawn committed credit facilities of £4,190 million (31 December 2014: £3,751 million) and £817 million (31 December 2014: £374 million) of unrestricted cash and cash equivalents. 137% (31 December 2014: 112%) of the Group's net debt has been raised in the long-term debt market and the average term to maturity of the long-term debt portfolio was 11.8 years (31 December 2014: 12.8 years). For the calculation of debt duration, the Group has taken the earliest dates on which it has the right to repay its hybrid debt issues as their maturity dates.

The Group's liquidity is impacted by the cash posted or received under margin and collateral agreements. The terms and conditions of these depend on the counterparty and the specific details of the transaction. With the exception of variation margin, cash is generally returned to the Group or by the Group within two days of trade settlement. Refer to note12(b) for movement in cash posted or received under margin and collateral agreements.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

19. Seasonality of operations

Certain activities of the Group are affected by weather and temperature conditions. As a result of this, amounts reported for the six months ended 30 June 2015 may not be indicative of the amounts that would be reported for the full year due to seasonal fluctuations in customer demand for gas, electricity and services, the impact of weather on demand and commodity prices, market changes in commodity prices and changes in retail tariffs.

Customer demand for gas in the UK, Republic of Ireland and North America is driven primarily by heating load and is generally higher in the winter than in the summer, and higher from January to June than from July to December. Customer demand for electricity in the UK and the Republic of Ireland generally follows a similar pattern to gas, but is more stable. Customer demand for electricity in North America is also more stable than gas but is driven by heating load in the winter and cooling load in the summer. Generally demand for electricity in North America is higher in the winter and summer than it is in the spring and autumn, and higher from July to December than it is from January to June.

Customer demand for home services in the UK is generally higher in the winter than it is in the summer, and higher in the earlier part of the winter as that is typically when heating systems tend to break down most, so that customer demand from July to December is higher than from January to June. Customer demand for home services in North America follows a similar pattern, but is also higher in the summer as a result of servicing of cooling systems.

Gas production volumes in the UK are generally higher in the winter when gas prices are higher. Gas production volumes are generally higher from January to June than they are from July to December, as outages are generally planned for the summer months when gas demand and prices are at their lowest. Gas production volumes in North America are generally not seasonal.

Power generation volumes are dependent on spark spread prices, which is the difference between the price of electricity and the price of gas multiplied by a conversion rate and, as a result, are not as seasonal as gas production volumes in the UK; as wholesale prices for both gas and electricity are generally higher in the winter than they are in the summer.

The impact of seasonality on customer demand and wholesale prices has a direct effect on the Group's financial performance and cash flows.

DISCLOSURES

Disclaimers

This announcement does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any Centrica shares or other securities.

This announcement contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of Centrica plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts.

Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

For further information

Centrica will hold its 2015 Interim Results and Strategic Review presentation for analysts and institutional investors from 9.00am (UK) on Thursday 30 July 2015. There will be a live audio webcast of the presentation and slides at www.centrica.com/investors.

A live audio broadcast of the presentation will be available by dialling in using the following number:

+ 44 20 3059 8125

The call title is "**Centrica plc 2015 Interim Results Announcement**".

An archived webcast and full transcript of the presentation and the question and answer session will be available on the website on 4 August 2015.

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Financial calendar

Ex-dividend date for 2015 interim dividend	1 October 2015
Record date for 2015 interim dividend	2 October 2015
Final date to elect to participate in 2015 interim scrip dividend programme	5 November 2015
Payment date for 2015 interim dividend	26 November 2015
2015 Preliminary Results announcement	18 February 2016

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