Centrica plc
Interim Results for the period ended 30 June 2014
Group results and highlights

RICK HAYTHORNTHWAITE, CHAIRMAN

"The first half of the year has seen challenging market conditions across the Group, both as a result of the weather and reflecting the wider political environment. We have continued our efforts to engage with our stakeholders, particularly our customers, working to restore their trust. And we are taking the steps to position the business for growth in 2015 and beyond.

Trust is addressed in part through our interactions with politicians, regulators and the media, recognising the importance of Centrica to the country's energy security. But most importantly, trust is earned through our service and relationship with the customer.

We have also reached an important stage in the succession of the Group's leadership, with the appointment of Iain Conn as Chief Executive, to succeed Sam Laidlaw, who will retire at the end of this year. Iain will bring an impressive combination of experience to our business, with deep understanding of the energy sector from a career spanning a variety of roles in one of the world's leading energy businesses. His breadth of knowledge and commitment to customers and safety make him ideally suited to lead Centrica in the next phase of its development.

Sam has shown exceptional leadership over the past eight years. Under his stewardship, Centrica has achieved greater strength and scale, and a platform for long term growth, delivering returns to shareholders and securing the future energy needs of our customers. Much remains to be achieved this year, and I am confident that under Sam's leadership, and with the depth of management we have across the Group, we are well placed to position the business for the long-term."

RICK HAYTHORNTHWAITE
Chairman
31 July 2014

FINANCIAL SUMMARY

Adjusted figures for the period ended 30 June	2014	2013	Change
Revenue	**£15.7bn**	£13.7bn	15%
Operating profit	**£1,032m**	£1,583m	(35%)
Taxation charge	**£318m**	£690m	(54%)
Effective tax rate	**37%**	47%	(10ppt)
Earnings	**£530m**	£767m	(31%)
Basic earnings per share (EPS)	**10.5p**	14.8p	(29%)
Interim dividend per share	**5.10p**	4.92p	4%
Net capital expenditure and acquisitions / disposals	**£409m**	£755m	(46%)
Lost time injury frequency rate (per 100,000 hours worked)	**0.12**	0.16	(25%)

- First half earnings down reflecting a challenging market environment, mild weather in the UK and the Polar Vortex in North America
- Full year EPS expected to be in the range 21-22p, taking account of a £40 million charge associated with writing off our Round 3 wind investment and around $110 million (£65 million) of costs attributable to the Polar Vortex
- Average actual British Gas customer bill expected to be around £90 (7%) lower in 2014 than 2013; full year BGR profit per household in 2014 expected to be around £40 (£51 before tax), 20% lower than in 2013

STATUTORY RESULTS

Figures for the period ended 30 June	2014	2013	Change
Operating profit	**£1,021m**	£1,590m	(36%)
Profit before tax	**£890m**	£1,487m	(40%)
Profit for the period	**£550m**	£819m	(33%)
Basic earnings per share	**10.5p**	15.8p	(34%)

Unless otherwise stated, all references to operating profit or loss, taxation and earnings throughout the announcement are adjusted figures, as reconciled to their statutory equivalents in the Group Financial Review on pages 17 to 20.

Group results and highlights continued

COMMITMENT TO REAL DIVIDEND GROWTH REAFFIRMED

- Interim dividend 30% of 2013 full year dividend, in line with established practice
- Expect to complete existing £420 million share repurchase programme in the second half of 2014
- Scrip dividend alternative to be introduced in April 2015

CONTINUED FOCUS ON STRONG BALANCE SHEET

- Optimise our assets, investing where we see attractive opportunities and realising value where appropriate
- Non-core asset disposals, including UK CCGTs and Ontario home services, and potential releases of capital from our gas assets in Trinidad and Tobago and our UK operational wind portfolio, expected to realise around £1 billion
- Seek to maintain existing credit ratings; proceeds to be retained to strengthen the balance sheet further
- Flexibility to invest along the gas value chain, in a rapidly evolving market place

GOOD STRATEGIC PROGRESS IN FIRST HALF OF 2014

- Improving customer service in the UK, with increases in BGR and BGS net promoter scores; residential energy accounts stabilised in the second quarter following 1% decline in the first quarter; installed our one millionth residential smart meter in the UK
- Implementation of our new BGB billing system proceeding to plan, enabling better service at lower cost
- $100 million cost reduction programme in Direct Energy on track; sold DEB unit gas and electricity margins increased by around a third in the first half of 2014 compared to the second half of 2013
- Bord Gáis acquisition completed; deregulation of the Irish residential gas market confirmed
- Continued progress on cost efficiency and positioning Centrica Energy for lower capital expenditure, against a backdrop of falling European wholesale gas prices
- Continued investment in securing sources of gas for the UK; around £60 billion of commitments to secure energy for our customers
- Recent acquisitions performing ahead of investment cases
    - Norwegian and Canadian gas assets delivering better than expected production, reserves and resources
    - Hess Energy Marketing delivering EBITDA ahead of expectations

CLEAR PRIORITIES FOR SECOND HALF OF 2014

- Continued focus on service, innovation and cost efficiency to drive growth in British Gas, with specific goals to:
    - complete the migration of customer accounts to the combined billing and CRM system in residential energy and services
    - increase the number of residential smart meters installed to around 1.3 million by the end of the year
    - complete the implementation of the new BGB billing system; deliver process improvement and continue progressing £100 million cost reduction programme
    - increase sales through the launch of new propositions for residential energy and services customers
- Complete the integration of Bord Gáis
- Deliver the cost reduction programme in Direct Energy; continue to develop innovative customer propositions; complete the Hess integration; continue US service protection plan and joint energy and services growth
- Focus on tight cost control and targeted capital expenditure in upstream gas; progress our development pipeline; progress the FERC approval process for the 5th train at Sabine Pass
- Develop investment plans for our smaller, more flexible gas-fired power plants under the proposed capacity mechanism; continue progressing the sales process for the three larger CCGTs
- Position the business for earnings growth in 2015

Group results and highlights continued

POSITIONED FOR GROWTH IN 2015, DESPITE LOWER UK COMMODITY PRICES IMPACTING THE UPSTREAM

- Expect to return to earnings growth in 2015, reflecting:
  - improving margins and more normal weather conditions in the US
  - our target to return to customer account growth in UK residential energy and services
  - growth in energy services on both sides of the Atlantic
  - cost reduction programmes in BGB and DE to improve competitiveness
  - a full year's contribution from Bord Gáis

SAM LAIDLAW, CHIEF EXECUTIVE

"With challenging trading conditions on both sides of the Atlantic in the first half, earnings will be lower in 2014 than in 2013. However, the Group is well positioned to return to growth in 2015, and the investments we have made mean that the business is balanced and more resilient, both upstream and downstream.

Our leadership in smart connected homes and innovation is helping customers reduce and control their energy consumption and offers a sustainable way to keep bills down. The combination of mild weather, and our expectation that we will not change energy prices this year, means the average actual British Gas household energy bill is expected to be around £90 lower in 2014 than in 2013.

Centrica plays a vital role in helping to secure the country's energy requirements, a role we can only undertake if the business is profitable and financially strong. We will continue to invest where we see attractive opportunities, along the gas value chain. And we will continue to drive operating efficiencies across the Group, for the benefit of both our customers and our shareholders."

SAM LAIDLAW
Chief Executive
31 July 2014

ENQUIRIES

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Interviews with Rick Haythornthwaite (Chairman), Sam Laidlaw (Chief Executive), Nick Luff (Chief Financial Officer), Chris Weston (Managing Director, International Downstream) and Mark Hanafin (Managing Director, International Upstream) are available on www.centrica.com.

Divisional results and highlights

INTERNATIONAL DOWNSTREAM

British Gas: Focus on service, efficiency, innovation and growth

Adjusted operating profit for the period ended 30 June	2014	2013	Change
Residential energy supply (BGR)	**£265m**	£356m	(26%)
Residential services (BGS)	**£129m**	£135m	(4%)
Business energy supply and services (BGB)	**£61m**	£78m	(22%)
Total British Gas adjusted operating profit	**£455m**	£569m	(20%)
Total British Gas adjusted operating profit after tax	**£355m**	£436m	(19%)

Performance indicators for the period ended	30 Jun 2014	31 Dec 2013	Change
Residential energy customer accounts (period end, ’000)	**15,055**	15,256	(1%)
Residential services product holding (period end, ’000)	**8,046**	8,227	(2%)
Business energy supply points (period end, ’000)	**900**	912	(1%)

- British Gas operating profit down, with lower consumption due to warmer than normal weather in the UK
- Average actual customer bill expected to be around £90 (7%) lower in 2014 than 2013, reflecting warmer weather and energy efficiency measures; the average bill for vulnerable customers was on average 20% lower this winter than last, due to the warm home discount and additional British Gas discounts
- No change to residential energy prices expected during 2014, recognising competitive conditions in the UK energy supply market and the need to buy forward in the current uncertain environment
    - Gas and electricity contracted up to three years in advance; majority of requirements for next winter already purchased
    - Benefit of lower wholesale commodity prices in 2015 offset by higher carbon, ROC and network costs
- British Gas Residential post-tax margins expected to be around 4%, lower than last year and below our long-term margin expectation of 4.5%-5%, which we believe is necessary to underpin investment in the business
- Clear strategy in place to focus on three priorities: deliver great service, transform to grow, engage key stakeholders; new organisational structure in place to enable delivery of strategy
- Good progress made in the first half of 2014, helping create a platform for long term sustainable growth
    - BGR customer accounts stabilised over the second quarter, following a 1% decline in the first quarter
    - Delivering improved service levels, with higher NPS in both BGR and BGS, as we target leading, high quality service for both residential and business customers
    - ECO delivery on track, with Affordable Warmth already completed ahead of March 2015 deadline
    - £100 million BGB cost reduction programme on track; implementation of new billing system to be completed in the second half of the year
- Second half focus on service, efficiency and innovation to drive growth
    - Improve service and deliver efficiencies by simplifying key customer interactions; single billing and CRM platform for energy and services expected to be completed in the third quarter of 2014
    - Growth opportunities in BGS through tailored offerings, new propositions targeted at energy customers
    - Development of new offerings, including business services, for valuable customer segments in BGB
- Smart, connected homes key to future growth
    - One million residential smart meters installed; over 350,000 customers receiving smart energy report
    - Targeting 2.4 million residential smart meter installations by the end of 2015
    - Launched smart meter enabled “Free Saturdays or Sundays” energy tariff trial
    - 100,000 smart thermostats sold to date, with increased sales under the Hive brand

Divisional results and highlights continued

Direct Energy: Focus on customer value, service and choice

Adjusted operating profit/(loss) for the period ended 30 June	2014	2013	Change
Residential energy supply (DER)	**£48m**	£99m	(52%)
Business energy supply (DEB)	**(£21m)**	£53m	nm
Residential and business services (DES)	**£14m**	£13m	8%
Total Direct Energy adjusted operating profit	**£41m**	£165m	(75%)
Total Direct Energy adjusted operating profit after tax	**£26m**	£103m	(75%)

Performance indicators for the period ended	30 Jun 2014	31 Dec 2013	Change
Residential energy customer accounts (period end, ’000)	**3,454**	3,360	3%
Residential services product holding (period end, ’000)	**2,625**	2,608	1%
Performance indicators for the period ended 30 June	**2014**	**2013**	Change
Business energy supply gas volumes (mmth)	**3,193**	494	546%
Business energy supply electricity volumes (TWh)	**48.9**	28.0	75%

- Operating profit significantly down, reflecting the impact of the Polar Vortex and a narrowing of energy supply margins due to challenging market conditions
  - Total Polar Vortex costs of $110 million (£65 million) recognised in first half operating profit, primarily relating to additional power market charges
- Sold B2B unit gross margins in the first half of 2014 increased by 35% for gas and 33% for power compared to the second half of 2013; expected to positively impact 2015
- Hess Energy Marketing business performing ahead of investment case
  - Further growth potential through enhanced scale, dual fuel capabilities, oil to gas switching, advantaged positions along the gas value chain and long term customer relationships
- $100 million cost reduction programme on track; driving synergies from enhanced scale
- Continued focus on value
  - Sale of Texas CCGTs generated a £219 million operating profit on disposal; downstream operations supported through contractual relationships
  - Agreed sale in July 2014 of Ontario home services business for C$550 million (£300 million); services focus now in the US, where we see better opportunities for growth including combined energy and services offerings
- Building a range of innovative energy and services product offerings, improving customer retention and attracting the highest value customers
  - Sales through digital channels nearly trebled in the first half of 2014 compared to the first half of 2013
  - Targeting 250,000 US services protection plan customers and 100,000 bundled energy and services propositions by end of 2014
  - Astrum Solar acquisition provides enhanced product range for residential customers, in a rapidly growing market
  - Further growth potential through connected homes and business propositions; Nest relationship supports innovation and customer value growth

Divisional results and highlights continued

INTERNATIONAL UPSTREAM

Centrica Energy: Securing energy supplies for our customers

Adjusted operating profit/(loss) for the period ended 30 June	2014	2013	Change
International gas	**£465m**	£683m	(32%)
UK power	**£61m**	£119m	(49%)
Gas-fired	*(£70m)*	*(£64m)*	*nm*
Renewables (operating assets)	*£23m*	*£12m*	*92%*
Renewables (one-off write-offs, profit/loss on disposal)	*(£40m)*	*£24m*	*nm*
Nuclear	*£125m*	*£122m*	*2%*
Midstream	*£23m*	*£25m*	*(8%)*
Total Centrica Energy	**£526m**	£802m	(34%)

Adjusted operating profit after tax for the period ended 30 June	2014	2013	Change
International gas	**£235m**	£182m	29%
UK power	**£42m**	£100m	(58%)
Total Centrica Energy	**£277m**	£282m	(2%)

Performance indicators for the period ended 30 June	2014	2013	Change
International gas production (mmth)[1]	**1,945**	1,696	15%
International liquids production (mmboe)[1]	**8.7**	9.8	(11%)
International total gas and liquids production (mmboe)[1]	**40.9**	37.6	9%
Total UK power generated (TWh)	**10.7**	10.6	1%

1. Includes a 100% share of Canadian assets held in partnership with QPI

- International gas profit after tax up 29% despite lower UK wholesale commodity prices, reflecting the benefits of forward hedging and small field tax allowances; full year profit after tax expected to be broadly unchanged compared to 2013
- Underlying power operating profit slightly higher, before impact of one-off write offs and profits/losses on disposal in renewables
- Previous investments performing well
    - Sustained strong power generation volumes from the nuclear fleet
    - E&P assets acquired from Statoil and Suncor both delivering production, reserves and resources in excess of investment cases
    - Good availability and favourable yields for operational wind farms
- Clear priorities in second half in low wholesale price environment
    - Targeting flat E&P unit lifting and cash production costs over the next three years
    - Targeting a reduction in E&P spend to around £900 million per year on average over the next three years; continue to optimise portfolio with targeted investment and selective divestments of non-core assets
    - Strategic review of gas-fired power generation portfolio completed; developing investment plans for smaller, more flexible plants and commenced sales process for three larger CCGTs

CENTRICA STORAGE

Making an important contribution to the UK's security of supply

Adjusted operating profit for the period ended 30 June	2014	2013	Change
Centrica Storage	**£10m**	£47m	(79%)

- Strong operational performance; substantially lower operating profit due to low seasonal gas spreads for 2013/14 and 2014/15 storage years
- Commenced programme to deliver £15 million of cost reductions through operational improvements over the next three years

Performance Overview

OVERVIEW

Centrica has faced a range of external challenges in the first half of this year. But we have shown the flexibility and determination to tackle those challenges, all the time underpinned by a clear sense of strategic direction. Customers are at the core of our business, in the UK, Ireland and North America. The combination of energy and services, alongside leadership positions in innovation and smart connected homes, provides us with a distinctive platform to build sustainable growth. And our vertically integrated business model enables us to direct capital where we see the most attractive returns, securing energy supplies for our customers in an increasingly international market.

Overall, the quality of our recent investments across the Group has strengthened the business, forging strong relationships with world-class partners, and helping to offset the effects of market headwinds which have affected returns from existing assets. During the year to date, we have made good progress in key areas for the long term health of the business.

Management succession

On 29 July 2014, we announced the appointment of Iain Conn as Chief Executive, with effect from 1 January 2015. Iain will join from BP plc where he has been Chief Executive, Downstream, for the past seven years and brings an impressive combination of experience to Centrica. He heads a global consumer brand familiar to millions of people and possesses a deep understanding of the energy sector, built up over many years in the industry. Iain will succeed Sam Laidlaw who will retire from the Board on 31 December 2014.

Following the announcement of his resignation on 7 January 2014, Nick Luff, Centrica's Chief Financial Officer, will leave the company on 31 August 2014. Jeff Bell, currently Centrica's Director of Corporate Finance, will take on the role of Chief Financial Officer on an interim basis and will join the Executive Committee on 1 September 2014. Jeff has been with Centrica since 2002, and has held a number of other senior management positions, including Group Strategy Director.

It was announced on 29 May 2014 that Chris Weston, Managing Director, International Downstream had tendered his resignation. A succession process is underway, and further details regarding his succession will be given in due course.

With the announcement of a new Chief Executive and interim Chief Financial Officer, we are making the transition to a new management team which has deep experience of the energy markets that shape our business and of the challenges we face in building customer trust and creating a sustainable energy future.

Business performance summary

We delivered good operational performance in the first half of 2014, with high reliability from our gas and oil production, power generation and gas storage assets, and improved customer service levels in our downstream businesses. We also delivered further improvements in our health and safety record during the first half of the year, with a 25% reduction in the lost time incident frequency rate compared to the first half of 2013 and no significant process safety incidents recorded during the period.

Downstream in the UK, we faced challenging market conditions, continued political and regulatory scrutiny and warmer than normal weather. Against this backdrop we delivered much improved service levels in British Gas, while our residential energy customer account numbers stabilised in the second quarter following a period of sustained account losses in the fourth quarter of 2013 and early in 2014. We are targeting a return to growth in the second half. The transfer of customer accounts onto a new combined energy and services system is nearing completion and we are also making good progress on the transformation of British Gas Business, with the cost reduction programme and billing system upgrade on track.

We have now completed the acquisition of Bord Gáis Energy in Ireland. The business is expected to be earnings accretive in the first full year of ownership and is expected to contribute around €40 million of EBITDA in 2015. The transaction provides Centrica with a vertically integrated energy supply business in an adjacent deregulated market, and also provides a good platform for growth. We will use our experience from the UK and US to develop innovative propositions for our customers in Ireland, in energy supply and energy services.

In North America, extreme weather conditions due to the Polar Vortex held back earnings in the first half, with the business energy supply division making an operating loss, and market conditions remained challenging in residential energy supply. However margins on new B2B sales are improving, reflecting a re-pricing of risk, and the B2B energy marketing business acquired from Hess in 2013 is performing ahead of expectations. We are making good progress on developing innovative propositions across Direct Energy, and now have residential solar capability following the Astrum Solar acquisition. We are also on track to deliver our $100 million cost reduction programme. Direct Energy Services is performing well, with the focus now on delivering growth in Alberta and the United States, following our decision in July 2014 to dispose of our Ontario home services business.

In upstream exploration and production, against a backdrop of falling wholesale commodity prices, we are targeting stable unit production costs and a reduction in capital expenditure over the next three years, while forward hedging and tax allowances are helping to maintain current year profit after tax. We also further strengthened our relationship with Qatar Petroleum International, announcing that they will acquire a 40% share of our wholly owned gas assets in Western Canada, fully aligning our interests in the region.

In UK power generation, the nuclear fleet once again delivered strong operational performance, however market conditions remained weak for our gas-fired stations. As a result, following a review of the UK CCGT fleet, we will target investment towards our more flexible, smaller power stations, which are well positioned to benefit from the Government's capacity market proposals, while releasing capital from the larger stations.

Centrica Storage also delivered strong operational performance, with good reliability. However low seasonal gas price spreads meant that profitability was substantially lower than the first half of last year.

Earnings, dividend and outlook

Overall adjusted operating profit fell by 35%. This was partially offset by a lower effective tax rate, reflecting the mix of profit, the benefit of forward hedging, upstream small field allowances and a tax credit relating to the disposal of the Greater Kittiwake Area assets. As a result adjusted earnings per share (EPS) of 10.5p were 29% lower in the first half of 2014 compared to the first half of 2013. This predominantly reflects the impact of margin compression and the Polar Vortex in North America, mild weather in the UK, continued low seasonal gas storage spreads and a charge associated with writing off our Round 3 offshore wind investment. For the full year, we expect EPS to be in the range 21-22p, after taking into account the Round 3 wind write-off.

Looking further ahead, we expect the Group to return to earnings growth in 2015, with the prospect of underlying operating profit improvements in services and B2B in both the UK and North America, a first year of contribution from Bord Gáis and more normal weather conditions, more than offsetting the impact of lower UK gas prices on our E&P business. This remains subject to the usual variables of commodity prices, weather and asset performance, together with the downstream regulatory and competitive environment.

We reaffirm our commitment to delivering real dividend growth, a core component of ensuring appropriate returns to investors commensurate with the risks undertaken. We have now also completed just over half of the current £420 million share repurchase programme, having purchased 64.75 million shares to date for a total cost of £213 million, and expect to complete the programme later this year.

In line with our established practice, the Board proposes an Interim Dividend payment of 30% of the prior year's full year dividend, being 5.10 pence per share, payable on 12 November 2014 to shareholders on the register on 26 September 2014.

CLEAR PRIORITIES FOR SECOND HALF OF 2014

We have clear priorities for the second half of the year, aligned to our strategic priorities.

Downstream, new organisational structures are now operational on each side of the Atlantic, and we are improving our core operations to deliver better customer service, while continuing to drive efficiency improvements and working to achieve growth through innovative propositions.

In British Gas, we have a clear strategy focused on three priorities - deliver great service, transform to grow and engage key stakeholders. We continue to target leading service levels for all our customers, and will drive further improvements in the second half to increase the net promoter score (NPS). We are simplifying a number of key residential customer interactions, in particular for direct debit payments and moving home, and we will complete the migration of residential customers onto a single billing and CRM platform for energy and services during the third quarter. Overall we are targeting a return to residential customer account growth through competitively priced products, the launch of innovative new propositions and a trial of the smart meter enabled "Free Saturdays and Sundays" energy tariff.

In BGS, we have developed proposals to change engineer terms and conditions, which are strongly supported by the GMB Trade Union and are now subject to ballot. These changes will deliver greater operational flexibility to improve service levels for our customers and enable us to develop attractive new propositions. We are on track to have sold over 150,000 smart thermostats by the end of the year, in excess of our original target. We also continue to build our leadership position in smart, connected homes, and expect to have installed around 1.3 million residential smart meters by the end of the year and 2.4 million by the end of 2015, considerably more than any other energy supplier.

In BGB, we are implementing a new billing system, which is expected to be completed in the third quarter of 2014. Alongside an ongoing programme of process simplification, this should enable us to deliver improved service and lower costs, and we are on track to achieve £100 million of annual operating cost and bad debt reductions by the end of 2015. We are also looking to develop propositions tailored to valuable customer segments, driving growth through dual fuel offerings and energy efficiency packages.

In Direct Energy, we are targeting disciplined margin expansion across the business, focusing on customer value and customer service and choice. In DEB, we will look to build on the sales margin increases we experienced in the first half of the year, which should position the business to deliver a material improvement in profit in 2015. The Hess Energy Marketing acquisition is performing well, and we expect to complete the integration in the second half while looking to drive growth – through our dual fuel capabilities, oil to gas switching, advantaged positions along the gas value chain and long-term customer relationships. We will also continue to drive operational efficiency across Direct Energy, having grounded initiatives to deliver our $100 million cost reduction target.

In North America residential energy and services, we are targeting improved retention and attracting the highest value customers, through increased use of digital platforms and the development of attractive propositions. We expect to grow our services franchise footprint further, while we are targeting 250,000 US protection plan customers and also expect to have sold 100,000 bundled energy and services products by the end of the year. The acquisition of Astrum Solar in July 2014 will allow us to offer solar alongside our existing range of energy and services products, while smart connected homes and businesses will become increasingly important and we have an exclusive partnership with Nest to sell 100,000 smart thermostats across North America over the next 18 months.

In Centrica Energy, in a lower wholesale price environment, we will focus on improving our returns through operational efficiency and capital discipline. In E&P, we will look to deliver production and capital expenditure targets, and successful drilling results, while a fourth well at York and a new well at Grove are both set to produce first gas during the second half. In Midstream, we will continue to contract for sources of gas to provide energy security for our customers at competitive prices, and develop our LNG business. We continue to work towards approvals at the fifth train at the Sabine Pass LNG export facility in the United States, with FERC approval expected around the end of the year. Securing contracts to deliver gas for our customers remains an important role for the Group.

In Power, we have now commenced the sales process for the three larger gas-fired stations in our fleet, which we expect to occur within the next 12 months. We will continue to develop plans for our remaining smaller stations, evaluating investment options under the proposed capacity auction.

FOCUS ON MAINTAINING A STRONG BALANCE SHEET

Maintaining appropriate financial discipline, with a strong balance sheet and healthy cashflow position, is a core priority for the Group. It is also important that we maintain sufficient financial flexibility, to be able to deploy capital where we see attractive opportunities, and to realise value from non-core assets. In this context, we have initiated a programme of disposals, selling assets that are no longer core to the Group's strategy. The programme includes the disposal of our three larger gas-fired power stations in the UK and our Ontario home services business, while we will also potentially look to release capital from our gas assets in Trinidad and Tobago and our UK operational wind portfolio. In total, we expect the programme to realise around £1 billion.

As part of their ongoing review of the sector, in April, Moody's Investor Services Limited placed the Company on review for downgrade, noting the political and regulatory environment for energy supply in the UK, as well as the inherent risks upstream and in North America. In May, Standard & Poor's Credit Market Services Europe Limited placed the Company on CreditWatch Negative, noting the challenging regulatory, political and market outlook.

We continue to engage with both credit rating agencies, with a view to retaining the existing A3/A- credit ratings, underlining our position as a strong counterparty for procurement contracts to bring gas to the UK, and optimising our requirements for collateral in our trading and upstream operations. We would expect proceeds from the disposal programme to be retained to further strengthen the balance sheet and improve the Group's financial metrics. While we do not currently anticipate initiating a further share repurchase programme until the Group's financial metrics have been strengthened, the Group's underlying cash flows remain strong, underpinning future financial flexibility and the ability to invest for long term growth, or return capital to shareholders where appropriate.

In 2015, we expect to commence a scrip dividend programme as an alternative to the cash dividend commencing with the 2014 final dividend, subject to shareholder approval.

CONTINUED STAKEHOLDER ENGAGEMENT

Energy policy remains a key issue for the UK, as we seek to balance the often competing needs of energy security, climate change and affordability. With trust in the energy sector at a low level, it is vital that all stakeholders have the clear facts to form a balanced view, enabling greater understanding of the cost drivers behind energy bills and of the implications of the policy decisions being taken. To help achieve this, we will continue to engage closely with all stakeholders – policy makers, regulators, the media and above all, our customers – in an open and transparent way, to begin the task of restoring trust in the sector.

We welcome the clarity which the Competition and Markets Authority (CMA) investigation into the UK energy sector will bring. This will be a full and rigorous review by an independent and respected body and we look forward to engaging constructively and comprehensively throughout the process - helping to clear the air, enabling investment to continue and consumer confidence in the sector to be restored.

We believe that there is effective competition in the energy market and that it brings significant benefits to consumers, delivering consumer prices which remain low compared to many European markets. There are currently some 25 suppliers active in the British domestic retail market, with new entrants now an established competitive force. Today, over 60% of our customers receive electricity as well as gas from us – each of those electricity accounts was won in the competitive market. In the six months to March 2014, over 3.5m customer accounts moved from one supplier to another – roughly 7% of the total; and within British Gas, we see around 20% of customer accounts switching to a different tariff each year, including in response to our 'Tariff Check' service.

We offer exactly the same products and prices to existing and new customers. And through innovation, such as smart meters and our 'Hive' remote heating control product, we are able to help customers control their energy use and over time, to take advantage of time of use tariffs. However, rising retail energy prices have, understandably, become a real concern for customers. This upward trend over the past few years has been driven by increases in wholesale commodity prices, higher network charges and the rising costs of Government policies. Taken together, these factors make up around 85% of the typical British Gas dual fuel energy bill. With further upward pressure predicted, an open and honest debate about these costs, with transparency from all parties, is clearly needed.

Regulation and policy interventions continue to define the way in which suppliers compete in the market. While the UK Government's recent changes to the Energy Company Obligation and the Warm Home Discount have delivered a welcome short term reduction in costs, non-commodity costs are expected to increase because of the growing cost of decarbonisation and continued investment in energy networks. We therefore propose three principles which will help the country to meet its carbon reduction commitments in a more cost-effective way, without compromising long term ambitions: concentrate on the lowest-cost, least regret options; set simple and cost-effective decarbonisation targets; and support those most affected, whether they are energy intensive industries or vulnerable households. Together, these measures can help to ensure a sustainable, low carbon energy future for the UK, while minimising the cost for the consumer.

As North Sea resources decline, Centrica plays a critical role in bringing supplies of gas to the UK. Our vertically integrated business model enables us to protect our customers from short term volatility in market prices, at lower cost than would be the case for a stand-alone supplier. We invest over £1 billion each year across the Group, and have made commitments totalling around £60 billion to secure long term gas and power supplies to meet the future energy needs of our customers. We can only make this scale of contribution to the country's security of supply if we are a profitable company with a strong balance sheet and cash flows.

PREVIOUS INVESTMENTS AND CONTINUED FOCUS ON SERVICE AND COSTS LEAVE GROUP WELL PLACED

Organic investments and acquisitions over recent years have left the business better balanced and more resilient.

- We have invested in systems and service and developed a leadership position in innovation and smart connected homes in British Gas
- We have established a larger scale downstream business in North America, providing a platform for further growth in energy supply and services

- We have a more balanced upstream gas and oil business spanning the Atlantic basin, with scale positions in Norway and Western Canada in addition to the UK
- We have a power generation business that benefits from low carbon baseload nuclear production alongside renewables and gas-fired generation
- We have a growing midstream business, in an increasingly international energy market
- We have forged strong relationships with world-class global energy partners, providing security of supply for our customers

Our investments are generally performing well. The British Energy nuclear fleet is delivering sustained strong generation volumes, while in E&P, although some of our organic investments in the Southern North Sea have proved challenging, the gas and oil assets acquired from Statoil and Suncor have materially increased our upstream scale in Norway and Western Canada respectively, and have delivered reserves and production in excess of the original investment cases.

In North America, the Hess Energy Marketing acquisition is delivering returns ahead of the investment case, and gives us an industry leading position in B2B energy supply in North America, as well as enhanced presence along the gas value chain. We have also successfully integrated a number of residential bolt-on acquisitions, including the Bounce Energy acquisition which provides us with the foundation to grow our digital offering and offer innovative products across DE Residential. In energy services, through the Clockwork and Home Warranty of America transactions we now have a scalable platform in a growing but highly fragmented market, with the potential for energy and services bundling, while the recent acquisition of Astrum Solar provides us with capabilities in residential solar.

We have also added value through the development of a substantial wind portfolio, realising value through capital efficient financing and selective divestments, with further opportunities to realise value from the remaining five operational wind farms. By contrast, returns from our gas-fired power stations and the Rough gas storage facility have declined materially, while we suffered from the UK Government's decision to increase the effective tax rate on upstream gas and oil assets in the 2011 Budget. Overall, these impacts broadly offset the contribution from acquisitions.

Although a large proportion of investment has been in the upstream business and in North America, the UK downstream business remains core, contributing a material part of the Group's profit after tax. Our relentless focus on improving service and reducing costs, alongside investment in new systems, has helped us to maintain our competitive position over the past few years. And our leadership position in smart, connected homes and innovation provides a platform for long term, sustainable growth.

FIRST HALF PERFORMANCE

BRITISH GAS

British Gas Residential

British Gas Residential operating profit fell by 26% compared to the first half of 2013. This reflects warmer than normal weather and an underlying consumption decline, in part due to energy efficiency measures, resulting in 24% and 9% reductions in average residential gas and electricity consumption respectively.

The number of customer accounts reduced by around 1% during the first quarter of 2014, which reflected high levels of customer switching following the increase in residential prices in November 2013. However they were broadly stable over the second quarter, despite fierce competition from smaller suppliers who are currently benefiting from an exemption from some environmental obligations. This reflects British Gas being the first energy company to pass on savings in full to all our residential customers in January following the announcement of changes to the ECO programme, and the introduction of attractive fixed price propositions.

Service levels in British Gas Residential significantly improved over the first half of the year. Average answering and call handling times both reduced compared to the second half of 2013, and drove a +11 point movement in our contact NPS, reflecting our focus on delivering leading, high quality service. We are targeting a significant reduction in customer complaints over the next three years. We remain on track to complete the migration of all residential customers onto our new billing and CRM platform in the second half of 2014, and the new system will deliver a more integrated customer experience.

Innovation and smart connected homes

We continue to lead the industry in technology, innovation and smart connected homes. Around two-thirds of our customer interactions are now made through digital channels, with around half of those initiated from a mobile or tablet device, and customer downloads of our top rated mobile App have now reached 1.3 million.

We have now installed over one million residential smart meters in the UK and expect to have installed around 1.3 million by the end of the year. We strongly support the 2020 mandate for full smart roll-out and are on track to support the 'go live' of the Data Communications Company in December next year and to lead industry testing of the new systems in mid-2015. We encourage the industry, Government and regulatory bodies to maintain momentum on all fronts to ensure the smart roll-out is delivered on schedule. Smart meters will bring significant customer benefits including an end to estimated bills, greater ability to monitor and reduce consumption, flexible time of use tariffs, and simpler and faster switching between suppliers, helping to improve trust in the UK energy industry.

Over 350,000 smart meter customers now regularly receive our unique Smart Energy Report (SER). The SER provides customers with 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 improve levels of customer satisfaction and the overall perception of British Gas.

We have also taken the lead in the roll-out of smart meters to prepayment customers and are currently trialling a SMETs capable prepayment meter, the first of its kind. We plan to launch it in 2015, a year ahead of the Government's target. Leveraging our experience in Direct Energy, we are now also trialling a new time of use energy tariff, "Free Saturdays or Sundays September 2015", for full launch next year.

We have now sold 100,000 smart thermostat products in the UK, mostly under our innovative Hive brand that was launched in September 2013. The Hive product is now available in Apple stores nationwide and has been received extremely positively, featuring in T3's 'The Great British Tech List' in July this year. The brand NPS of customers using Hive is over +40, with 80% saying they would actively recommend the product. We have a strong development pipeline of further innovative products and have now commenced trials of a 'smart connected boiler' product and a 'virtual in home display', both of which we plan to launch next year. Our nationwide network of over 8,000 highly trained service engineers with trusted access to customers' homes remains a key competitive advantage for British Gas in the connected homes market.

Helping people today

Helping customers to reduce and control their energy consumption is the sustainable way to keep bills down. We have made good progress in delivering our commitments under ECO, which is providing energy efficiency measures such as insulation to transform homes and communities across the UK. We are on track to meet our obligations and have already delivered the Affordable Warmth component of the scheme, well in advance of the March 2015 deadline.

We do more than any other supplier to assist the most vulnerable customers. This past winter, in addition to the £135 Warm Home Discount, we made a payment of up to £60 to over 500,000 eligible customers, and these customers' bills were on average 20% lower this winter than last. This year we have committed £9 million to the British Gas Energy Trust, an independent charity giving grants to households struggling with bills, and our total donations since 2004 have now reached £65 million. We also continue to work closely with our key charity partners, Shelter and National Energy Action, to improve the safety and warmth of homes in the private rental sector and to tackle fuel poverty.

We continue to support job creation in the UK with over 1,100 apprentices currently in training and a further 250 expected to be recruited this year as part of our smart meter roll-out programme. We are also working with Accenture, Princes Trust, Job Centre Plus and Global Action Plan to provide training opportunities to young people not in employment, education or training (NEETs). In addition, all of our direct UK-based employees are paid at least the 'living wage' rate.

British Gas Services

British Gas Services delivered high levels of customer service in the period, both in our contact centres and in customers' homes. Customer complaints fell by 40% compared to last year and the NPS for our engineers increased to +64, with our investment in a more resilient operating model, in addition to the warmer weather, resulting in improved response times for breakdowns. We have developed proposals to change engineer terms and conditions, which are strongly supported by the GMB Trade Union and are now subject to ballot. These changes will deliver greater operational flexibility to improve service levels for our customers and enable us to develop attractive propositions to drive growth.

The market for central heating installations is showing signs of recovery, with the number of boilers installed increasing by 11% compared to the same period in 2013. For contract customers, retention levels remained high, underlining the value that our products continue to provide. However, improvements in the UK economy have yet to feed through into higher contract sales, which have also been impacted by a focus on compliance training for front line staff and protecting service levels during the migration of customer accounts onto the new billing and CRM platform. As a result, the number of services product holdings fell by 181,000 during the first half of the year, although we did see an increase in the number of landlord contracts, an important growth opportunity, and we are developing new channels and propositions to increase sales in the second half of the year. British Gas Services operating profit fell slightly compared to the first half of 2013, predominantly reflecting the decline in the number of contract holdings.

British Gas Business

The number of British Gas Business supply points was broadly flat over the first half. However operating profit reduced compared to the same period in 2013, largely reflecting the warmer than normal weather, with total gas and electricity volumes down by 22% and 3% respectively compared to the first half of 2013. We remain on track to deliver £100 million of targeted reductions in operating costs and bad debt, in part enabled by the implementation of a new billing system, which is expected to be fully operational by the third quarter of 2014, and so far this year we have removed over 300 roles from the business. We remain on track to deliver the programme by the end of 2015 and these cost efficiencies will help offset the margin pressures resulting from a competitive market and our decision in 2013 to end the auto-rollover of contracts at renewal.

To drive growth in BGB, we are developing a new customer segmentation model based on external research, to drive growth through dual fuel offerings, energy efficiency packages and joint energy and services propositions. We continue to develop our business services capabilities. We have secured a contract with Sainsbury's for ground source heat pump installations and three further energy performance contracts have entered the construction phase. Our solar business also continues to expand, with a landmark contract at Toyota's Deeside plant nearing completion, while we recently announced our participation in the Generation Community scheme to deliver up to £60 million in solar PV solutions for Local Authority and Housing Association properties.

DIRECT ENERGY

Direct Energy profit was 75% lower in the first half of 2014 compared to the same period in 2013, and 73% lower after adjusting for foreign exchange movements. This was predominantly due to margin pressures on sales made during the second half of 2013, particularly in our legacy business supply division, and the one-off impact of additional ancillary and other charges resulting from the extreme weather conditions, the Polar Vortex, seen across much of North America early in the year. The total impact of these charges was approximately $110 million (£65 million) in the first half of 2014, across both residential and business energy supply. However following the Polar Vortex we have seen evidence that the C&I market is pricing in additional risk into retail power products, and have seen a material increase in our sold unit margins for both gas and power over the first half of the year.

Our $100 million cost reduction programme is progressing to plan and we have now grounded initiatives to achieve the target by the end of 2014. A number of initiatives are underway, including investment in our billing systems, consolidation of our services operating systems and integration of our energy and services call centres.

Direct Energy Residential

The number of residential energy accounts increased by 94,000 in the first half of the year, despite the expected further decline in Ontario due to the Energy Consumer Protection Act (ECPA), as we gained accounts in the US North East following the acquisition of aggregation customers in Ohio. However Direct Energy Residential operating profit fell, as we incurred additional costs related to the extreme weather conditions and we faced a challenging competitive sales environment in both Texas and the US North East, leading to a reduction in unit margins. Against this challenging backdrop we are focused on delivering high quality customer service, and our NPS remained high and retention levels improved.

We also made good progress on developing innovative products and the number of residential sales coming through digital channels nearly trebled, following the acquisition of Bounce Energy in 2013. We have now started selling bundled energy and protection plan products, and have sold over 20,000 in the year to date. We have also now sold over 10,000 smart thermostats so far this year in Alberta, and have signed an exclusive partnership with Nest to sell 100,000 additional units across North America over the next 18 months. In July 2014, we entered the rapidly growing US residential solar market through the acquisition of Astrum Solar for $54 million (£32 million). The transaction allows Direct Energy to sell solar alongside its existing range of energy and services products, as we look to develop further attractive propositions and attract the highest value customers.

Direct Energy Business

In business energy supply, the Hess Energy Marketing acquisition is performing ahead of our investment case. This 2013 acquisition made Direct Energy the largest C&I gas supplier on the East Coast of the US and the second largest C&I power supplier in the competitive US retail markets, and we now have a more balanced gas and power portfolio. We have retained key personnel and systems and delivered good levels of customer service, with customer retention strong as a result. Reflecting the impact of the acquisition, business gas volumes increased by over 500% while power volumes increased by 75%.

Overall Direct Energy Business made an operating loss in the period, reflecting the one off impact of the Polar Vortex and also margin pressures on power sales made during 2013. However, sold margins in the first half of 2014 increased by 35% for gas and 33% for electricity compared to the second half of 2013, reflecting a re-pricing of risk following the Polar Vortex. This will improve margins over time and we expect the business to deliver a much improved result in the second half of 2014 and in 2015. We also continue to look to attract new customers who wish to switch from oil to natural gas heating and to develop innovative propositions for our C&I customers. We have a partnership agreement with BuildingIQ to offer cloud-based energy efficiency solutions for customers, while we have also partnered with Panoramic Power to offer wireless energy sensors, helping customers understand the details of their power consumption.

In January, we completed the sale of our three Texas CCGTs, releasing capital and recognising a £219 million profit on disposal as a result. The three year heat rate call option agreed at the time of signing the transaction has now commenced and we believe that this arrangement, together with a liquid physical and financial power market in Texas, can support our downstream operations through contractual relationships rather than asset ownership.

Direct Energy Services

The number of Direct Energy Services customer accounts was up slightly over the period, with growth in our US protection plan base offsetting a decline in accounts in Canada. Our HVAC leasing proposition is also progressing well, with customers willing to undertake a higher value of work when purchased through rental payments as opposed to upfront payment. First half operating profit was up slightly compared to 2013, although after accounting for exchange rate movements it increased by 27%.

In July 2014 we agreed to sell our branded Ontario home services business to EnerCare for C$550 million (£300 million) including normal adjustments for working capital. This is an attractive opportunity to realise value from our Ontario business and focus our attention on opportunities in the US and Alberta, where we see good prospects for growth. We also entered the rapidly growing US residential solar market through the acquisition of Astrum Solar for $54 million (£32 million). The transaction allows Direct Energy to sell solar alongside its existing range of energy and services products, as we look to develop further attractive propositions and attract the highest value customers.

CENTRICA ENERGY

E&P

Our E&P business is benefiting from previous investments in both Norway and Canada, with production from the assets acquired from Statoil in 2012 and from Suncor in 2013 both ahead of our investment cases. Following these recent acquisitions we now have a more diverse portfolio, and the new management structure put in place last year is enabling us to maximise the full potential of our core E&P regions of UK and Netherlands, Norway and Canada.

Our assets delivered high levels of availability during the first half of the year. Total gas and liquids production was up 9% compared to the same period in 2013, predominantly due to production from North America more than doubling following the acquisition of a package of assets from Suncor in the second half of 2013. In May 2014 we announced that QPI will acquire 40% of our wholly owned gas and liquids assets in Canada for C$200 million (£107 million), fully aligning our interests and further strengthening the relationship with our Qatari partners. We also announced in May that the partnership had agreed to acquire a package of natural gas assets in Alberta from Shell Canada Energy for C$42 million (£23 million). An increasing proportion of our capital is now being directed towards North America, where we are well placed to benefit from increases in gas prices through the accelerated development of our resources.

In Europe, production from our core assets, such as Morecambe and Kvitebjorn, remained good. However, total production from the region decreased, partly as a result of the disposals of three packages of North Sea assets, all announced in late 2013. We continue to invest in new sources of gas for the UK, including the large-scale Cygnus and Valemon projects in the North Sea, which remain on schedule. We have completed fracking activities on our Grove project, and expect first production later in 2014, while we delivered first production from Kew in January 2014, with good initial performance. A fourth well at York has tested positively and is expected to produce first gas in the second half, following disappointing results on both the second and third wells. Two wells drilled adjacent to the Butch discovery, Butch East and Butch South West, did not find further commercial hydrocarbons, however the results contributed valuable information that should allow us to optimise the development of the main Butch field. On exploration, we drilled five wells, four of which were successful in finding hydrocarbons. Commercial development prospects are being reviewed for the Valemon North, Solberg and Cepheus wells, but the Novus exploration well in the Norwegian Sea is unlikely to be of commercial size and the Kookaburra well was dry.

In the current environment, with lower forward gas prices and higher costs, new North Sea development will be directed to the best projects. We expect to spend an average of £900 million over the next three years, down from 2013 levels, with capital expenditure expected to be around £1 billion in 2014 reflecting expenditure on Cygnus and Valemon. As a result, over the next few years a larger proportion of our capital employed will be productive. In 2014 we expect full year international gas and liquids production to be around 83mmboe and to remain in the 80-85mmboe per annum range in 2015 and 2016, subject to any acquisition or divestment activity. In July 2014, we agreed the disposal of the undeveloped 1a and 1b blocks in Trinidad. We are currently considering options for our remaining Trinidad and Tobago non-operated producing assets and operated undeveloped resources, to potentially release capital from the assets for value.

International gas operating profit fell by 32% in the first six months of 2014 compared to 2013 despite an increased contribution from our Canadian assets, reflecting lower wholesale gas and oil prices. However profit after tax increased by 29%, reflecting the benefits from forward hedging, a production mix weighted to lower taxed assets some small field tax allowances and a tax credit associated with the disposal of the Greater Kittiwake Area assets. Unit lifting and other cash production costs in the first half were slightly up compared to the same period in 2013, and with the leadership team focused on countering inflationary impacts, we are targeting stable unit costs over the next three years.

Midstream

Our midstream business continued to perform well in 2014, as we managed periods of wholesale market volatility related to the Russia and Ukraine dispute and falling UK gas and power prices. We see further growth opportunities in our asset backed trading and optimisation model, including the development of our LNG activities. In 2013, we signed a 20 year contract with Cheniere to purchase approximately 89 billion cubic feet (bcf) per annum of LNG for export from the Sabine Pass liquefaction plant in Louisiana, which gives us destination rights over cargoes for the first time, and will allow us to benefit from any differential between North American gas prices and other worldwide markets. Federal Energy Regulatory Commission (FERC) approval is currently anticipated for the fifth train at Sabine Pass around the end of 2014, and if approval is received, the US Department of Energy would then assess the export licence application. Subject to these regulatory approvals being received, we expect a final investment decision on the fifth train to be made in the first half of 2015, with a target date for first commercial delivery in September 2018.

Power

In UK power, the performance of the nuclear fleet was once again strong, with volumes in the first half 7% higher than in the same period in 2013. This reflects continued investment in the fleet and underlines the quality of the original investment we made in 2009. Nuclear operating profit was slightly up, as the benefit from higher generation volumes was mostly offset by the impact of lower wholesale power prices and inflationary cost increases.

Our renewables assets performed well, with favourable wind yields in the spring. Generation volumes increased substantially, reflecting a full contribution from the Lincs offshore wind farm, which was fully commissioned in the second half of 2013, and higher load factors due to windy weather conditions over the period. We have reviewed the economic viability of our Round 3 Irish Sea Zone project, Celtic Array, and following discussions with The Crown Estate and our partners in the project, Dong Energy, development activity has now stopped. We have recognised a charge of £40 million, principally in respect of writing off the total book value of the project, and as a result the renewables business reported an operating loss. However underlying renewables operating profit nearly doubled, when also taking account of £24 million of net one-off profit in 2013, predominantly reflecting a profit on disposal related to the sale of the Braes of Doune onshore wind farm.

The market remained challenging for our fleet of gas-fired power stations, with low market clean spark spreads resulting in low load factors and continued operating losses. Against this backdrop, and with the UK generation market undergoing significant structural change and capacity payments due to be introduced from 2018, we completed a strategic review of our gas-fired power business during the first half of the year. Following this review, we announced that we intend to focus our UK gas-fired generation strategy on smaller flexible "peaking" plants and we will seek to release capital through the sale of the three larger operating power stations in our portfolio.

CENTRICA STORAGE

The Rough gas storage asset delivered strong operational performance during the first half, with good reliability. The warmer than normal weather meant the net reservoir volume (NRV) ended the first half at the highest level for that time of year since Centrica acquired the asset in 2002. However seasonal gas price spreads were at historically low levels towards the end of 2013 and although forward summer / winter gas price differentials for the 2014/15 storage year increased slightly over the course of the first half, the financial impact was limited. We announced in April that we had sold all SBUs for the 2014/15 storage year at 20.0p, lower than the 23.3p achieved in 2013/14 and the 33.9p achieved in 2012/13. As a result, operating profit in the first half of the year was substantially lower than for the same period in 2013.

At the start of the year, Centrica Storage commenced a three year programme to deliver £15 million of cost reductions through operational improvements, starting with a reorganisation of our business and operational support functions, while maintaining a sharp focus on safety and capital discipline.

GROUP REVENUE

Group revenue increased by 15% to £15.7 billion (2013: £13.7 billion). British Gas gross revenue decreased by 12%, predominantly reflecting the impact of warmer than normal weather on domestic and business energy consumption compared to a colder than normal first half of 2013. Residential energy supply gross revenue fell by 17%, with total gas consumption 27% lower and total electricity consumption 11% lower, only slightly offset by the impact of higher retail tariffs. Residential services gross revenue was broadly flat, with higher central heating installation volumes and inflationary price increases offset by lower contract volumes. Business energy supply and services gross revenue fell by 3%, with lower consumption only partially offset by higher retail tariffs.

Direct Energy gross revenue more than doubled. This predominantly reflects additional business energy supply revenue following the Hess Energy Marketing acquisition, which completed in the second half of 2013. As a result, business energy supply gross revenue broadly trebled. Residential energy supply gross revenue increased by 7%, reflecting a slightly higher number of customer accounts and additional gas and power volumes as a result of extreme weather conditions across much of North America, while residential and business services gross revenue fell by 7%.

Centrica Energy gross revenue fell by 11%. International gas gross revenue fell by 13%, despite increased production resulting from the acquisition of Canadian assets from Suncor in 2013, reflecting lower European wholesale gas prices. Power gross revenue fell by 1%. Centrica Storage gross revenue fell by 35%, reflecting lower seasonal gas price spreads.

OPERATING PROFIT

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

Period ended 30 June	Notes	**2014** **Business performance £m**	**Exceptional items and certain re-measurements £m**	**Statutory result £m**	2013 Business performance £m	Exceptional items and certain re-measurements £m	Statutory result £m
Adjusted operating profit							
British Gas		**455**			569		
Direct Energy		**41**			165		
Centrica Energy		**526**			802		
Centrica Storage		**10**			47		
Total adjusted operating profit	4b	**1,032**			1,583		
Depreciation of fair value uplifts from Strategic Investments (British Energy post tax)	4b	**(40)**			(51)		
Share of joint ventures' / associates' interest and taxation	4b	**(63)**			(47)		
Group operating profit	4b, 6	**929**	**92**	**1,021**	1,485	105	1,590
Net finance cost	7	**(131)**	**-**	**(131)**	(103)	-	(103)
Profit before taxation		**798**	**92**	**890**	1,382	105	1,487
Taxation	6, 8	**(281)**	**(59)**	**(340)**	(649)	(19)	(668)
Profit for the year		**517**	**33**	**550**	733	86	819
Attributable to non-controlling interests		**(17)**			-		
Depreciation of fair value uplifts from Strategic Investments, after taxation	9	**30**			34		
Adjusted earnings		**530**			767		

British Gas operating profit fell by 20%. Profitability in residential energy supply fell by 26%, with lower revenue only partially offset by lower total commodity costs. Residential services profit, which includes the receipt of an ECO management fee from residential energy supply, fell slightly, predominantly reflecting a lower average number of contracts. Business energy and services operating profit fell by 22%, reflecting the warmer than normal weather and lower margins as a result of challenging market conditions and our decision to end the auto-rollover of contracts at renewal.

Direct Energy operating profit fell by 75%. This predominantly reflects challenging market conditions leading to a narrowing of margins in both residential and business energy supply, in particular in our legacy B2B power business, and additional ancillary and other charges incurred as a result of the Polar Vortex, estimated at approximately $110 million (£65 million). Residential energy supply profitability broadly halved, while the business energy supply division recorded an operating loss. Residential and business services profitability increased slightly.

Centrica Energy operating profit fell by 34%, with lower profitability in both the gas and power segments. Gas operating profit fell by 32%, despite higher production, reflecting the impact of lower achieved European gas prices in a lower wholesale price environment. Total costs increased reflecting higher volumes, with unit DDA rates falling reflecting a higher mix of production from North America. Unit lifting and other cash production costs increased reflecting our European production mix moving towards more recently developed fields and industry inflation. Power profitability fell by 49%. This predominantly reflects the impact of a £40 million charge associated with the impairment of our Round 3 wind interest in 2014, compared to one-off profits of £24 million in 2013, predominantly reflecting a profit on disposal related to the Braes of Doune wind farm.

Centrica Storage operating profit fell by 79%, reflecting the impact of low seasonal gas price spreads.

GROUP FINANCE CHARGE AND TAX

Net finance cost increased to £131 million (2013: £103 million), with higher average levels of debt in the period reflecting $1.35 billion raised in the US bond market in October 2013. The taxation charge reduced to £281 million (2013: £649 million) and after taking account of tax on joint ventures and associates and the impact of fair value uplifts, the adjusted tax charge was £318 million (2013: £690 million). The resultant adjusted effective tax rate for the Group was 37% (2013: 47%), reflecting the mix of profit, the impact of forward hedging in the upstream gas business, upstream small field tax allowances and a tax credit relating to the disposal of the Greater Kittiwake Area assets. An effective tax rate calculation, showing the UK and non-UK components, is shown in the table below:

Period ended 30 June	**UK £m**	**Non-UK £m**	**2014 Total £m**	UK £m	Non-UK £m	2013 Total £m
Adjusted operating profit	**779**	**253**	**1,032**	1,140	443	1,583
Share of joint ventures / associates interest	**(36)**	**-**	**(36)**	(23)	-	(23)
Net finance cost	**(81)**	**(50)**	**(131)**	(61)	(42)	(103)
Adjusted profit before taxation	**662**	**203**	**865**	1,056	401	1,457
Taxation on profit	**137**	**144**	**281**	376	273	649
Tax impact of depreciation on Venture fair value uplift	**10**	**-**	**10**	15	2	17
Share of joint ventures / associates taxation	**27**	**-**	**27**	24	-	24
Adjusted tax charge	**174**	**144**	**318**	415	275	690
Adjusted effective tax rate	**26%**	**71%**	**37%**	39%	69%	47%

GROUP EARNINGS AND DIVIDEND

Reflecting all of the above, profit for the period fell to £517 million (2013: £733 million) and after adjusting for profits attributable to non-controlling interests and fair value uplifts, adjusted earnings were £530 million (2013: £767 million). Adjusted basic earnings per share (EPS) were 10.5 pence (2013: 14.8 pence). The Group is currently reviewing its definition of adjusted earnings, with the possibility that it may change for the full year results. It expects to provide a further update around the time of its November Interim Management Statement.

The statutory profit for the period was £550 million (2013: £819 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 decrease compared with 2013 is principally due to lower profit from business performance and a net loss from certain re-measurements of £107 million (2013: gain of £86 million), partially offset by a net exceptional gain of £140 million (2013: £nil) relating to the disposal of gas-fired power stations in Texas. The Group reported a statutory basic EPS of 10.5 pence (2013: 15.8 pence).

An interim dividend of 5.10 pence per share (2013: 4.92 pence per share) will be paid on 12 November 2014 to shareholders on the register on 26 September 2014, in line with our established practice of paying an interim dividend of 30% of the prior year's full year dividend.

GROUP CASH FLOW, NET DEBT AND BALANCE SHEET

Group operating cash flow before movements in working capital was lower at £1,495 million (2013: £2,058 million), reflecting the reduced profit from business performance. After working capital adjustments, tax, and payments relating to exceptional charges, net cash flow from operating activities was £1,054 million (2013: £1,411 million).

The net cash outflow from investing activities was lower at £355 million (2013: £647 million), including the £411 million receipt from the disposal of the Texas gas-fired power stations.

The net cash outflow from financing activities was £587 million (2013: £897 million). The outflow reflects dividend and interest payments and shares repurchased under the programme announced in February, and was lower than in 2013 due to higher cash inflow from the net issuance of debt of £300 million (2013: £20 million).

Reflecting all of the above, the Group's net debt at 30 June 2014 was £5,197 million (31 December 2013: £5,049 million; 30 June 2013: £4,251 million).

During the period net assets decreased slightly to £4,984 million (31 December 2013: £5,257 million). Impacts of the Group's share repurchase programme, dividend payments, and foreign currency movements on the retranslation of foreign subsidiaries more than offset the retained earnings for the period and actuarial gains on the Group's defined pension schemes.

EXCEPTIONAL ITEMS

On 22 January 2014 the Group disposed of its Texas gas-fired power stations to Blackstone for consideration of £411 million. As a result, an exceptional pre-tax gain of £219 million was recognised within Group operating profit during the period. Taxation on this gain generated a charge of £79 million, resulting in an exceptional post-tax gain of £140 million.

No exceptional items were recorded during the six months ended 30 June 2013.

CERTAIN RE-MEASUREMENTS

As an integrated energy business 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 IAS39. 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 net pre-tax losses of £127 million (2013: gains of £105 million) relating to these re-measurements. 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 period, which reflect the prices in the underlying contracts, are not impacted by these re-measurements. See note 3 for further details.

BUSINESS COMBINATIONS

On 27 June 2014, the Group acquired natural gas assets in the Foothills region of Alberta from Shell Canada Energy for C$42 million (£23 million). The assets were acquired by the CQ Energy Canada Partnership (CQECP), the 60:40 partnership with Qatar Petroleum International (QPI). As part of the transaction, the Group disposed of its interests in the Burnt Timber gas processing plant and the Waterton undeveloped lands in south-west Alberta.

On 30 June 2014, the Group acquired Bord Gáis Energy's (BGE) gas and electricity supply business in the Republic of Ireland, including the Whitegate gas-fired power station for total consideration of €197 million (£160 million).

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

EVENTS AFTER THE BALANCE SHEET DATE

On 24 July 2014, the Group announced it had agreed to sell its Ontario home and small commercial services business to Enercare Inc. for C$550 million (£300 million) including normal adjustments for working capital, comprising of $450 million in cash and $100 million in ordinary equity. The transaction is expected to complete towards the end of 2014.

On 29 July 2014, the Group acquired the US residential solar business, Astrum Solar, for $54 million (£32 million). The transaction provides Direct Energy with a position in the rapidly growing US residential solar market.

Further details of events after the balance sheet are described in note 16.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's principal risks and uncertainties are largely unchanged from those set out in its 2013 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.

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, including changes of accounting presentation and selected key sources of estimation uncertainty, are explained in note 3.

Key Performance Indicators

BRITISH GAS

Total British Gas

Performance indicators for the period ended	H1 2014	H1 2013	Δ%	FY 2013
Total customer accounts (period end) ('000)	**24,001**	24,933	(4)	24,395
Total customer households (period end) ('000)	**10,961**	11,334	(3)	11,120
Joint product households (period end) ('000)	**2,174**	2,364	(8)	2,257
Gross Revenue (£m)	**6,928**	7,912	(12)	14,226
Operating cost (excluding bad debt) (£m)	**704**	686	3	1,392
Operating profit (£m)	**455**	**569**	**(20)**	**1,030**
Operating profit after taxation (£m)	**355**	436	(19)	777
Lost Time Injury Frequency Rate	**0.12**	0.15	(20)	0.11

Residential energy supply

For the period ended	H1 2014	H1 2013	Δ%	FY 2013
Customer accounts (period end):				
Gas ('000)	**8,466**	8,846	(4)	8,603
Electricity ('000)	**6,589**	6,828	(4)	6,653
Total ('000)	**15,055**	15,674	(4)	15,256
Estimated market share (%):				
Gas	**37.6**	39.3	(1.7) ppts	38.2
Electricity	**24.3**	25.3	(1.0) ppts	24.5
Average consumption:				
Gas (therms)	**236**	311	(24)	492
Electricity (kWh)	**1,765**	1,936	(9)	3,688
Total consumption:				
Gas (mmth)	**2,009**	2,763	(27)	4,342
Electricity (GWh)	**11,667**	13,146	(11)	25,078
Gross Revenue (£m):				
Gas	**2,899**	3,726	(22)	6,033
Electricity	**1,652**	1,760	(6)	3,454
Total	**4,551**	5,486	(17)	9,487
Operating profit (£m)	**265**	**356**	**(26)**	**571**
Operating profit after taxation (£m)	**207**	273	(24)	423
Post-tax margin (%)	**4.5**	5.0	(0.5) ppts	4.5

Key Performance Indicators continued

Residential services

For the period ended	H1 2014	H1 2013	Δ%	FY 2013
Customer product holdings (period end):				
Central heating service contracts ('000)	**4,470**	4,617	(3)	4,575
Kitchen appliances care (no. of customers) ('000)	**432**	460	(6)	453
Plumbing and drains care ('000)	**1,652**	1,711	(3)	1,683
Home electrical care ('000)	**1,397**	1,445	(3)	1,420
Other contracts ('000)	**95**	114	(17)	96
Total holdings ('000)	**8,046**	8,347	(4)	8,227
Domestic central heating installations ('000)	**51**	46	11	101
Gross Revenue (£m):				
Central heating service contracts	**404**	411	(2)	841
Central heating installations	**135**	121	12	263
Other	**265**	273	(3)	551
Total	**804**	805	(0)	1,655
Operating profit (£m)	**129**	**135**	**(4)**	**318**
Operating profit after taxation (£m)	**101**	103	(2)	241
Post-tax margin (%)	**12.6**	12.8	(0.2) ppts	14.6

Business energy supply and services

For the year ended	H1 2014	H1 2013	Δ%	FY 2013
Customer supply points (period end):				
Gas ('000)	**307**	317	(3)	310
Electricity ('000)	**593**	595	(0)	602
Total ('000)	**900**	912	(1)	912
Average consumption:				
Gas (therms)	**1,188**	1,480	(20)	2,476
Electricity (kWh)	**14,196**	14,651	(3)	28,852
Total consumption:				
Gas (mmth)	**366**	472	(22)	784
Electricity (GWh)	**8,487**	8,756	(3)	17,260
Gross Revenue (£m):				
Gas	**431**	531	(19)	904
Electricity	**1,004**	983	2	1,951
Business Services	**138**	107	29	229
Total	**1,573**	1,621	(3)	3,084
Operating profit (£m)	**61**	**78**	**(22)**	**141**
Operating profit after taxation (£m)	**47**	60	(22)	113
Post-tax margin (%)	**3.0**	3.7	(0.7) ppts	3.7

Key Performance Indicators continued

DIRECT ENERGY

Total Direct Energy

For the period ended	H1 2014	H1 2013	Δ%	FY 2013
Total residential energy and services accounts (period end) ('000)	**6,079**	5,838	4	5,967
Gross revenue (£m)	**6,469**	3,191	103	7,325
Operating profit (£m)	**41**	**165**	**(75)**	**276**
Operating profit after taxation (£m)	**26**	103	(75)	189
Lost Time Injury Frequency Rate	**0.09**	0.13	(31)	0.12

Residential energy supply

For the period ended	H1 2014	H1 2013	Δ%	FY 2013
Customer accounts (period end) ('000)				
Texas	**793**	719	10	787
Canada regulated	**758**	779	(3)	766
Canada deregulated	**446**	501	(11)	480
US North East	**1,457**	1,398	4	1,327
Total	**3,454**	3,397	2	3,360
Gross revenue (£m)	**1,399**	1,308	7	2,517
Operating profit (£m)	**48**	**99**	**(52)**	**163**
Operating profit after taxation (£m)	**30**	62	(52)	111
Post-tax margin (%)	**2.1**	4.7	(2.6) ppts	4.4
Post-tax underlying margin (%)	**3.6**	4.7	(1.1) ppts	4.4

H1 2014 post-tax underlying margin (%) excludes £21m (£33m pre-tax) of costs associated with the Polar Vortex.

Business energy supply

For the period ended	H1 2014	H1 2013	Δ%	FY 2013
Gas sales (mmth)	**3,193**	494	546	1,839
Electricity sales (GWh)	**48,894**	27,999	75	63,919
Gross revenue (£m)	**4,814**	1,609	199	4,238
Operating profit / (loss) (£m)	**(21)**	53	nm	77
Operating profit / (loss) after taxation (£m)	**(14)**	33	nm	53
Post-tax margin (%)	**(0.3)**	2.1	(2.4) ppts	1.3
Post-tax underlying margin (%)	**0.4**	2.1	(1.7) ppts	1.8

FY 2013 post-tax underlying margin (%) excludes £25m (£36m pre-tax) relating to amortisation of customer intangibles and integration costs associated with the Hess Energy Marketing acquisition.
H1 2014 post-tax underlying margin (%) excludes £9m (£13m pre-tax) relating to amortisation of customer intangibles and integration costs associated with the Hess Energy Marketing acquisition and £22m (£33m pre-tax) of costs associated with the Polar Vortex.

Residential and business services

For the period ended	H1 2014	H1 2013	Δ%	FY 2013
Contract relationships (period end) ('000)	**2,625**	2,441	8	2,608
On demand and installation jobs ('000)	**351**	350	0	748
Gross revenue (£m)	**256**	274	(7)	570
Operating profit (£m)	**14**	**13**	**8**	**36**
Operating profit after taxation (£m)	**10**	8	25	25
Post-tax margin (%)	**3.9**	2.9	1.0 ppts	4.4

Key Performance Indicators continued

Direct Energy (with comparator year of 2013 restated to remove effect of foreign exchange movements)

For the period ended	H1 2014	H1 2013	Δ%	FY 2013
Gross revenue (£m)				
Residential energy supply	**1,399**	1,168	20	2,301
Business energy supply	**4,814**	1,456	231	3,924
Residential and business services	**256**	245	4	520
Direct Energy revenue	**6,469**	2,869	125	6,745
Operating profit / (loss) (£m)				
Residential energy supply	**48**	90	(47)	152
Business energy supply	**(21)**	49	nm	73
Residential and business services	**14**	11	27	33
Direct Energy operating profit	**41**	**150**	**(73)**	**258**

2013 figures restated at H1 2014 weighted average exchange rate

Key Performance Indicators continued

CENTRICA ENERGY

Total Centrica Energy

For the period ended	H1 2014	H1 2013	Δ%	FY 2013
Operating profit (£m)	**526**	**802**	**(34)**	**1,326**
Operating profit after taxation (£m)	**277**	282	(2)	468
Lost Time Injury Frequency Rate	**0.19**	0.18	6	0.10

International gas

For the period ended	H1 2014	H1 2013	Δ%	FY 2013
Gas production volumes (mmth)				
East Irish Sea	**328**	344	(5)	718
Other UK and Netherlands	**490**	541	(9)	1,071
Norway	**378**	436	(13)	828
North America	**616**	252	144	701
Trinidad & Tobago	**133**	123	8	239
Total	**1,945**	1,696	15	3,557
Liquids production volumes (mmboe)				
UK and Netherlands	**2.4**	3.5	(31)	6.3
Norway	**5.1**	5.8	(12)	11.0
North America	**1.2**	0.5	140	1.4
Total	**8.7**	9.8	(11)	18.7
Total production volumes (mmboe)	**40.9**	37.6	9	77.3
Average achieved gas price (p/therm)				
Europe	**56.0**	65.8	(15)	65.0
North America and Trinidad & Tobago	**24.1**	20.5	18	20.9
Total	**44.0**	55.7	(21)	53.7
Average oil and condensate sales price (£/boe)				
Europe	**59.9**	64.5	(7)	62.9
North America and Trinidad & Tobago	**47.1**	46.8	1	43.3
Total	**58.4**	63.7	(8)	61.6
DDA costs (£/boe)				
Europe	**12.5**	12.9	(3)	12.9
North America and Trinidad & Tobago	**5.2**	7.0	(26)	6.1
Total	**10.0**	11.9	(16)	11.4
Lifting and other cash production costs (£/boe)				
Europe	**14.6**	13.0	12	13.5
North America and Trinidad & Tobago	**9.2**	8.5	8	9.7
Total	**12.8**	12.2	5	12.6
Exploration & appraisal costs (£m)	**48**	47	2	154
Operating profit (£m)	**465**	**683**	**(32)**	**1,155**
Operating profit after taxation (£m)	**235**	182	29	325

Key Performance Indicators continued

UK power

For the period ended	H1 2014	H1 2013	Δ%	FY 2013
Power generated (GWh)				
Gas-fired	**4,058**	4,531	(10)	8,897
Renewables	**483**	290	67	753
Nuclear	**6,173**	5,763	7	12,097
Total	**10,714**	10,584	1	21,747
Load factor				
Gas-fired	**24%**	27%	(2.9) ppts	27%
Renewables	**38%**	33%	5.4 ppts	36%
Nuclear	**80%**	76%	4.2 ppts	79%
Achieved Clean Spark Spread (£/MWh)	**9.8**	10.0	(2)	11.7
Achieved power price (including ROCs) (£/MWh) - renewables	**113.2**	104.3	9	114.5
Achieved power price (£/MWh) - nuclear	**51.0**	52.1	(2)	51.9
Operating profit / (loss) (£m)				
Gas-fired	**(70)**	(64)	nm	(133)
Renewables (operating assets)	**23**	12	92	36
Renewables (one off write-offs, profit/loss on disposal)	**(40)**	24	nm	(11)
Nuclear	**125**	122	2	250
Midstream	**23**	25	(8)	29
Operating profit (£m)	**61**	**119**	**(49)**	**171**
Operating profit after taxation (£m)	**42**	100	(58)	143

CENTRICA STORAGE

Total Centrica Storage

For the period ended	H1 2014	H1 2013	Δ%	FY 2013
Average SBU price (in period) (pence)	**22.2**	30.3	(27)	26.7
Gross Revenue (£m)				
Standard SBUs	**50**	69	(28)	121
Optimisation / other	**20**	38	(47)	67
Total	**70**	107	(35)	188
Operating profit (£m)	**10**	**47**	**(79)**	**63**
Operating profit after taxation (£m)	**7**	36	(81)	48
Lost Time Injury Frequency Rate	**0.07**	0.06	17	0.06

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Interim Results for the six month period ended 30 June 2014 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 2013 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

SAM LAIDLAW
31 July 2014
Chief Executive

NICK LUFF
31 July 2014
Chief Financial Officer

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 2014. 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 2014;
- 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 interim 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
31 July 2014
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 information may differ from legislation in other jurisdictions.

Group Income Statement

Six months ended 30 June	Notes	2014 Business performance £m	2014 Exceptional items and certain re-measurements £m	2014 Results for the period £m	2013 Business performance £m	2013 Exceptional items and certain re-measurements £m	2013 Results for the period £m
Group revenue	4(a)	**15,748**	**–**	**15,748**	13,651	–	13,651
Cost of sales before exceptional items and certain re-measurements		**(13,472)**	**–**	**(13,472)**	(10,886)	–	(10,886)
Re-measurement of energy contracts	6(b)	**–**	**(146)**	**(146)**	–	104	104
Cost of sales		**(13,472)**	**(146)**	**(13,618)**	(10,886)	104	(10,782)
Gross profit		**2,276**	**(146)**	**2,130**	2,765	104	2,869
Operating costs before exceptional items		**(1,398)**	**–**	**(1,398)**	(1,332)	–	(1,332)
Exceptional items	6(a)	**–**	**219**	**219**	–	–	–
Operating costs		**(1,398)**	**219**	**(1,179)**	(1,332)	–	(1,332)
Share of results of joint ventures and associates, net of interest and taxation	5	**51**	**19**	**70**	52	1	53
Group operating profit	4(b)	**929**	**92**	**1,021**	1,485	105	1,590
Financing costs	7	**(155)**	**–**	**(155)**	(129)	–	(129)
Investment income	7	**24**	**–**	**24**	26	–	26
Net finance cost		**(131)**	**–**	**(131)**	(103)	–	(103)
Profit before taxation		**798**	**92**	**890**	1,382	105	1,487
Taxation on profit	8	**(281)**	**(59)**	**(340)**	(649)	(19)	(668)
Profit for the period		**517**	**33**	**550**	733	86	819
Attributable to:							
Owners of the parent		**500**	**33**	**533**	733	86	819
Non-controlling interests		**17**	**–**	**17**	–	–	–

Earnings per ordinary share	Notes	2014 Pence	2013 Pence
Basic	9	**10.5**	15.8
Diluted	9	**10.5**	15.7

The notes on pages 33 to 50 form part of these condensed interim Financial Statements.

Group Statement of Comprehensive Income

Six months ended 30 June	2014 £m	2013 £m
Profit for the period	**550**	819
Other comprehensive income/(loss):		
Items that will be or have been recycled to the Group Income Statement:		
Gains on revaluation of available-for-sale securities, net of taxation	**2**	–
Net gains on cash flow hedges	**9**	2
Transferred to income and expense on cash flow hedges	**16**	12
Taxation on cash flow hedges	**(7)**	(4)
	18	10
Exchange differences on translation of foreign operations	**(130)**	42
Share of other comprehensive (loss)/income of joint ventures and associates, net of taxation	**(3)**	12
	(113)	64
Items that will not be recycled to the Group Income Statement:		
Net actuarial gains/(losses) on defined benefit pension schemes	**103**	(198)
Taxation on net actuarial result on defined benefit pension schemes	**(20)**	48
	83	(150)
Share of other comprehensive loss of joint ventures and associates, net of taxation	**(11)**	(15)
Other comprehensive loss, net of taxation	**(41)**	(101)
Total comprehensive income for the period	**509**	718
Attributable to:		
Owners of the parent	**494**	718
Non-controlling interests	**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 2014	321	931	4,255	(315)	**5,192**	65	**5,257**
Total comprehensive income	–	–	533	(39)	**494**	15	**509**
Employee share schemes	–	–	(3)	49	**46**	–	**46**
Purchase of treasury shares (note 9)	–	–	(1)	(212)	**(213)**	–	**(213)**
Cancellation of treasury shares	(7)	–	(382)	389	**–**	–	**–**
Dividends	–	–	(610)	–	**(610)**	–	**(610)**
Taxation	–	–	–	(5)	**(5)**	–	**(5)**
30 June 2014	**314**	**931**	**3,792**	**(133)**	**4,904**	**80**	**4,984**

	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	Total £m	Non-controlling interests £m	Total equity £m
1 January 2013	321	929	4,186	491	5,927	–	5,927
Total comprehensive income	–	–	819	(101)	718	–	718
Employee share schemes	–	2	(6)	35	31	–	31
Purchase of treasury shares (note 9)	–	–	–	(213)	(213)	–	(213)
Dividends	–	–	(611)	–	(611)	–	(611)
Taxation	–	–	–	14	14	–	14
Exchange adjustments	–	–	–	(2)	(2)	–	(2)
30 June 2013	321	931	4,388	224	5,864	–	5,864

The notes on pages 33 to 50 form part of these condensed interim Financial Statements.

Group Balance Sheet

	Notes	30 June 2014 £m	31 December 2013 £m
Non-current assets			
Property, plant and equipment		**6,767**	7,446
Interests in joint ventures and associates		**2,668**	2,658
Other intangible assets		**2,166**	1,905
Goodwill		**2,701**	2,819
Deferred tax assets		**112**	105
Trade and other receivables		**100**	150
Derivative financial instruments		**293**	227
Retirement benefit assets	13(c)	**276**	205
Securities	12(b)	**205**	202
		15,288	15,717
Current assets			
Trade and other receivables		**4,835**	5,446
Inventories		**471**	530
Derivative financial instruments		**834**	573
Current tax assets		**149**	151
Securities	12(b)	**11**	9
Cash and cash equivalents	12(b)	**815**	719
		7,115	7,428
Assets of disposal groups classified as held for sale	11(c)	**766**	301
		7,881	7,729
Total assets		**23,169**	23,446
Current liabilities			
Derivative financial instruments		**(960)**	(506)
Trade and other payables		**(5,092)**	(5,630)
Current tax liabilities		**(468)**	(645)
Provisions for other liabilities and charges		**(342)**	(258)
Bank overdrafts, loans and other borrowings	12(c)	**(1,118)**	(859)
		(7,980)	(7,898)
Liabilities of disposal groups classified as held for sale	11(c)	**(187)**	(99)
		(8,167)	(7,997)
Non-current liabilities			
Deferred tax liabilities		**(1,398)**	(1,426)
Derivative financial instruments		**(386)**	(431)
Trade and other payables		**(154)**	(64)
Provisions for other liabilities and charges		**(2,745)**	(2,934)
Retirement benefit obligations	13(c)	**(131)**	(165)
Bank overdrafts, loans and other borrowings	12(c)	**(5,204)**	(5,172)
		(10,018)	(10,192)
Total liabilities		**(18,185)**	(18,189)
Net assets		**4,984**	5,257
Share capital		**314**	321
Share premium		**931**	931
Retained earnings		**3,792**	4,255
Other equity		**(133)**	(315)
Total shareholders' equity		**4,904**	5,192
Non-controlling interests		**80**	65
Total shareholders' equity and non-controlling interests		**4,984**	5,257

The notes on pages 33 to 50 form part of these condensed interim Financial Statements.

Group Cash Flow Statement

Six months ended 30 June	Notes	2014 £m	2013 £m
Group operating profit including share of results of joint ventures and associates		**1,021**	1,590
Less share of profit of joint ventures and associates		**(70)**	(53)
Group operating profit before share of results of joint ventures and associates		**951**	1,537
Add back/(deduct):			
Depreciation, amortisation, write-downs and impairments		**623**	679
Profit on disposals		**(196)**	(30)
Decrease in provisions		**(23)**	(27)
Defined benefit pension service cost and contributions		**3**	(3)
Employee share scheme costs		**26**	23
Unrealised losses/(gains) arising from re-measurement of energy contracts		**111**	(121)
Operating cash flows before movements in working capital		**1,495**	2,058
Decrease in inventories		**59**	149
Decrease/(increase) in trade and other receivables [(i)]		**704**	(36)
Decrease in trade and other payables [(i)]		**(729)**	(227)
Operating cash flows before payments relating to taxes and exceptional charges		**1,529**	1,944
Taxes paid		**(413)**	(401)
Payments relating to exceptional charges		**(62)**	(132)
Net cash flow from operating activities		**1,054**	1,411
Purchase of businesses, net of cash and cash equivalents acquired		**(113)**	(2)
Sale of businesses, net of cash and cash equivalents disposed of		**433**	5
Purchase of property, plant and equipment and intangible assets	4(d)	**(741)**	(789)
Sale of property, plant and equipment and intangible assets		**9**	6
Investments in joint ventures and associates		**(10)**	(34)
Dividends received from joint ventures and associates		**43**	103
Repayments of loans to, and disposal of investments in, joint ventures and associates		**13**	59
Interest received		**13**	11
Purchase of securities	12(b)	**(2)**	(6)
Net cash flow from investing activities		**(355)**	(647)
Issue and surrender of ordinary share capital for share awards		**20**	9
Purchase of treasury shares under share repurchase programme		**(207)**	(203)
Financing interest paid		**(124)**	(116)
Realised net foreign exchange gain on cash settlement of derivative contracts		**29**	–
Repayment of borrowings	12(b)	**(27)**	(52)
Cash received from borrowings	12(b)	**327**	72
Equity dividends paid		**(605)**	(607)
Net cash flow from financing activities		**(587)**	(897)
Net increase/(decrease) in cash and cash equivalents		**112**	(133)
Cash and cash equivalents at 1 January		**719**	931
Effect of foreign exchange rate changes		**(16)**	2
Cash and cash equivalents at 30 June		**815**	800
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents	12(b)	**815**	800

(i) Includes net outflow of £127 million of cash collateral in 2014 (2013: £2 million).

The notes on pages 33 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.

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 2014 were authorised for issue in accordance with a resolution of the Board of Directors on 31 July 2014. 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 2013 were approved by the Board of Directors on 20 February 2014 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 2014, and the Group Balance Sheet as at 30 June 2014 and related notes have been reviewed by the auditors and their report to the Company is set out on page 28.

2. BASIS OF PREPARATION

These condensed interim Financial Statements for the six months ended 30 June 2014 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.

These condensed interim Financial Statements should be read in conjunction with the annual Financial Statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

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 the same as those applied in the annual Financial Statements for the year ended 31 December 2013.

After making enquiries, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis 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.

3. ACCOUNTING POLICIES

The accounting policies applied in these condensed interim Financial Statements are consistent with those of the annual Financial Statements for the year ended 31 December 2013, as described in those annual Financial Statements, with the exception of standards, amendments and interpretations effective in 2014.

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.

(a) Standards, amendments and interpretations effective or adopted in 2014

This section details new accounting standards, amendments and interpretations, whether these are effective in 2014 or later years, and if and how these are expected to impact the financial position and performance of the Group.

The Group has adopted IFRIC 21: 'Levies', which addresses the accounting for all levies within the scope of IAS 37 'Provisions, contingent liabilities and contingent assets' but not those within the scope of other standards (e.g. IAS 12 'Income taxes'). It clarifies that an entity only recognises a liability for levies when the activity that triggers an obligation occurs. It has had no effect on the consolidated interim Financial Statements for the period ended 30 June 2014, nor for earlier periods. It is not expected to have a significant effect on the results of the Group for the financial year ending 31 December 2014. However, proposed Electricity Market Reform (EMR) is likely to see the use of Contracts for Differences (CfDs) to incentivise low-carbon power generation in the energy industry. These CfDs are expected to ultimately be funded by the energy suppliers and are likely to be seen as a levy imposed by legislation. Accordingly, IFRIC 21 would be relevant to the Group if this market reform occurs.

Other amendments to effective IFRSs (amendment to IAS 36: 'Impairment of assets' on recoverable amount disclosure and amendment to IAS 39: 'Financial instruments: recognition and measurement' on novation of derivatives and continuation of hedge accounting) are not expected to have a material impact on the Group's accounts for the financial year ending 31 December 2014.

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

The Group is continuing to assess the impact that the following issued standards, which have not yet been applied by the Group, could have on future Financial Statements:

- IFRS 9: 'Financial instruments'. Mandatory effective date not yet determined by the International Accounting Standards Board (IASB). Endorsement by the European Union (EU) has been postponed.
- IFRS 15: 'Revenue from contracts with customers'. Effective on 1 January 2017 subject to EU endorsement.
- Amendments to IFRS 11: 'Accounting for acquisitions of interests in joint operations'. Effective on 1 January 2016 subject to EU endorsement.

3. ACCOUNTING POLICIES

(c) Centrica specific accounting measures

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.

Use of adjusted profit measures

The Directors believe that reporting adjusted profit and adjusted earnings per share measures 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.

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 operating results of which are included within the Centrica Energy – Gas segment, and the acquisition of the 20% interest in Lake Acquisitions Limited (British Energy), which owns the former British Energy Group nuclear power station fleet, 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, 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 after taxation.

(ii) British Energy

The 20% interest in British Energy 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 British Energy relate to the fair value uplifts made to the British Energy nuclear power stations to report the PP&E at their acquisition-date fair values and fair value uplifts made to British Energy's 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. 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.

3. ACCOUNTING POLICIES

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.

Disposal groups classified as held for sale

On 8 May 2014, the Group announced that it had undertaken a strategic review of its UK power station fleet and that it intends to focus its UK gas-fired power generation on small flexible 'peaking' plants. Consequently the Group will seek to release capital from its three larger operating plants, Langage, Humber and Killingholme in order to focus on other investment opportunities. As at 30 June 2014, these three power stations are shown as a disposal group held for sale because the Group considers it highly probable that their value will be principally recovered through a divestment and that this disposal will occur within 12 months. Management has initiated an active programme to realise the value of these assets and will shortly commence a formal competitive disposal process. This disposal group is included in the 'Centrica Energy – Power' segment and is not classified as a discontinued operation as it does not represent a separate major line of business or geographical area of operation.

Further information related to this disposal group is shown in note 11.

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 Performance Overview and Group Financial 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	2014 Gross segment revenue £m	2014 Less inter-segment revenue £m	2014 Group revenue £m	2013 Gross segment revenue £m	2013 Less inter-segment revenue £m	2013 Group revenue £m
International Downstream						
Residential energy supply	**4,551**	**–**	**4,551**	5,486	–	5,486
Residential services	**804**	**(74)**	**730**	805	(68)	737
Business energy supply and services	**1,573**	**(38)**	**1,535**	1,621	(2)	1,619
British Gas	**6,928**	**(112)**	**6,816**	7,912	(70)	7,842
Residential energy supply	**1,399**	**–**	**1,399**	1,308	–	1,308
Business energy supply	**4,814**	**(6)**	**4,808**	1,609	(22)	1,587
Residential and business services	**256**	**–**	**256**	274	–	274
Direct Energy	**6,469**	**(6)**	**6,463**	3,191	(22)	3,169
International Upstream						
Gas	**2,123**	**(183)**	**1,940**	2,448	(411)	2,037
Power	**661**	**(182)**	**479**	666	(151)	515
Centrica Energy	**2,784**	**(365)**	**2,419**	3,114	(562)	2,552
Centrica Storage	**70**	**(20)**	**50**	107	(19)	88
	16,251	**(503)**	**15,748**	14,324	(673)	13,651

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, 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 (ii) 2014 £m	Adjusted operating profit (ii) 2013 £m	Adjusted operating profit after taxation (iii) 2014 £m	Adjusted operating profit after taxation (iii) 2013 £m
International Downstream				
Residential energy supply	**265**	356	**207**	273
Residential services	**129**	135	**101**	103
Business energy supply and services	**61**	78	**47**	60
British Gas	**455**	569	**355**	436
Residential energy supply	**48**	99	**30**	62
Business energy supply	**(21)**	53	**(14)**	33
Residential and business services	**14**	13	**10**	8
Direct Energy	**41**	165	**26**	103
International Upstream				
Gas (i)	**465**	683	**235**	182
Power (i)	**61**	119	**42**	100
Centrica Energy	**526**	802	**277**	282
Centrica Storage	**10**	47	**7**	36
	1,032	1,583	**665**	857
Share of joint ventures'/associates' interest and taxation	**(63)**	(47)		
Depreciation of fair value uplifts to property, plant and equipment – Venture (i)	**(17)**	(27)		
Depreciation of fair value uplifts to property, plant and equipment (net of taxation) – associates – British Energy (i)	**(23)**	(24)		
	929	1,485		
Exceptional items (note 6)	**219**	–		
Certain re-measurements included within gross profit (note 6)	**(146)**	104		
Certain re-measurements of associates' energy contracts (net of taxation) (note 6)	**19**	1		
Operating profit after exceptional items and certain re-measurements	**1,021**	1,590		

Six months ended 30 June	2014 £m	2013 £m
Adjusted operating profit after taxation (iii)	**665**	857
Depreciation of fair value uplifts to property, plant and equipment (net of taxation) (i)	**(30)**	(34)
Corporate and other taxation, and interest (net of taxation) (iv)	**(118)**	(90)
Business performance profit for the period	**517**	733
Exceptional items and certain re-measurements (net of taxation) (note 6)	**33**	86
Statutory profit for the period	**550**	819

(i) See notes 3 and 9 for an explanation of the depreciation on fair value uplifts to PP&E on the Strategic Investments acquired in 2009.
(ii) 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.
(iii) 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 operating results of equity-accounted interests, net of associated taxation, before interest and associated taxation.
(iv) Includes joint ventures'/associates' interest, net of associated taxation.

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 2014 £m	2013 £m	Depreciation and impairments of property, plant and equipment 2014 £m	2013 £m	Amortisation, write-downs and impairments of intangibles 2014 £m	2013 £m
International Downstream						
Residential energy supply	**(1)**	–	**8**	8	**24**	25
Residential services	**–**	–	**13**	11	**4**	4
Business energy supply and services	**–**	–	**1**	1	**4**	3
British Gas	**(1)**	–	**22**	20	**32**	32
Residential energy supply	**–**	–	**–**	–	**11**	12
Business energy supply	**–**	–	**1**	10	**17**	7
Residential and business services	**–**	–	**1**	1	**4**	3
Direct Energy	**–**	–	**2**	11	**32**	22
International Upstream						
Gas (i) (ii)	**–**	–	**410**	446	**41**	38
Power (i) (ii)	**138**	123	**37**	48	**–**	1
Centrica Energy	**138**	123	**447**	494	**41**	39
Centrica Storage	**–**	–	**16**	15	**–**	–
Other	**–**	–	**6**	9	**8**	10
	137	123	**493**	549	**113**	103

(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.

Write-downs of intangible assets

During the period, £32 million of write-downs relating to exploration and evaluation assets were recognised in the 'Centrica Energy – Gas' segment (2013: £30 million), within 'operating costs before exceptional items' within the Group Income Statement.

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 2014 £m	2013 £m	Capital expenditure on intangible assets other than goodwill 2014 £m	2013 £m
International Downstream				
Residential energy supply	**11**	10	**182**	159
Residential services	**15**	18	**5**	5
Business energy supply and services	**–**	–	**12**	10
British Gas	**26**	28	**199**	174
Residential energy supply	**12**	1	**11**	3
Business energy supply	**1**	9	**52**	24
Residential and business services	**3**	1	**–**	–
Direct Energy	**16**	11	**63**	27
International Upstream				
Gas	**471**	434	**115**	69
Power	**52**	8	**1**	2
Centrica Energy	**523**	442	**116**	71
Centrica Storage	**9**	17	**1**	2
Other	**5**	5	**8**	21
Capital expenditure	**579**	503	**387**	295
Capitalised borrowing costs	**(18)**	(23)	**(5)**	(4)
Movements in payables and prepayments related to capital expenditure	**(7)**	135	**(1)**	29
Purchases of emissions allowances and renewable obligations certificates	**–**	–	**(194)**	(146)
Net cash outflow	**554**	615	**187**	174

5. JOINT VENTURES AND ASSOCIATES

Joint ventures and associates are 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 2014 principally arises from its interests in the following entities (predominantly reported in the Centrica Energy – Power segment):

- Wind farms – Barrow Offshore Wind Limited, GLID Wind Farms TopCo Limited, Lincs Wind Farm Limited and Celtic Array Limited (Round 3); and
- Nuclear – Lake Acquisitions Limited (British Energy).

Six months ended 30 June	Joint ventures Wind farms £m	Associates Nuclear £m	Other £m	2014 Total £m	2013 Total £m
Income	51	335	3	**389**	330
Expenses excluding certain re-measurements (i)	(62)	(214)	(4)	**(280)**	(238)
Certain re-measurements	–	18	–	**18**	1
	(11)	139	(1)	**127**	93
Interest paid	(24)	(12)	–	**(36)**	(23)
Taxation excluding certain re-measurements (i)	3	(25)	–	**(22)**	(17)
Taxation on certain re-measurements	–	1	–	**1**	–
Share of post-taxation results of joint ventures and associates (i)	(32)	103	(1)	**70**	53

(i) Includes £28 million (2013: £31 million) relating to depreciation of fair value uplifts to PP&E on acquiring British Energy. The associated tax impact is a £5 million credit (2013: £7 million credit).

5. JOINT VENTURES AND ASSOCIATES

British Energy

During November 2009 the Group acquired a 20% interest in British Energy. The Group's share of profit arising from its investment in British Energy for the six months ended 30 June 2014, 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	2014 Total £m	2013 Total £m
Share of post-taxation results of joint ventures and associates	(32)	103	(1)	**70**	53
Certain re-measurements (net of taxation)	–	(19)	–	**(19)**	(1)
Depreciation – British Energy (net of taxation) [(i)]	–	23	–	**23**	24
Interest paid	24	12	–	**36**	23
Taxation (excluding certain re-measurements and British Energy depreciation)	(3)	30	–	**27**	24
Share of adjusted results of joint ventures and associates	(11)	149	(1)	**137**	123

(i) Relates to depreciation of fair value uplifts to PP&E on acquiring British Energy.

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	2014 £m	2013 £m
Gain on disposal of Texas gas-fired power stations (note 11(b))	**219**	–
Exceptional items included within Group operating profit	**219**	–
Taxation on exceptional items (note 11(b))	**(79)**	–
Total exceptional items after taxation	**140**	–

Certain re-measurements are the fair value movements on energy contracts entered into to meet the future needs of our customers. 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	2014 £m	2013 £m
Certain re-measurements recognised in relation to energy contracts (note 3):		
Net (losses)/gains arising on delivery of contracts	**(77)**	291
Net losses arising on market price movements and new contracts	**(69)**	(187)
Net re-measurements included within gross profit	**(146)**	104
Net gains arising on re-measurement of associates' energy contracts (net of taxation) (note 5)	**19**	1
Net re-measurements included within Group operating profit	**(127)**	105
Taxation on certain re-measurements	**20**	(19)
Net re-measurements after taxation	**(107)**	86

7. NET FINANCE COST

Financing costs mainly comprises 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	2014 Total £m	Financing costs £m	Investment income £m	2013 Total £m
Cost of servicing net debt:						
Interest income	**–**	**21**	**21**	–	20	20
Interest cost on bonds, bank loans and overdrafts	**(126)**	**–**	**(126)**	(119)	–	(119)
Interest cost on finance leases	**(8)**	**–**	**(8)**	(9)	–	(9)
	(134)	**21**	**(113)**	(128)	20	(108)
Net (losses)/gains on revaluation (i)	**(5)**	**–**	**(5)**	4	–	4
Notional interest arising from discounting and other interest	**(39)**	**3**	**(36)**	(32)	6	(26)
	(178)	**24**	**(154)**	(156)	26	(130)
Capitalised borrowing costs (ii)	**23**	**–**	**23**	27	–	27
(Cost)/income	**(155)**	**24**	**(131)**	(129)	26	(103)

(i) Includes gains and losses on fair value hedges, movements in fair value of other derivatives primarily used to hedge foreign exchange exposure associated with inter-company loans and foreign currency gains and losses on the translation of inter-company loans.
(ii) Borrowing costs have been capitalised using an average rate of 4.10% (2013: 4.65%).

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 2014 was 37% (2013: 47%) and is reconciled to this note, in the Group Financial Review on page 18.

Analysis of tax charge

Six months ended 30 June	Business performance £m	Exceptional items and certain re-measurements £m	2014 Results for the period £m	Business performance £m	Exceptional items and certain re-measurements £m	2013 Results for the period £m
The taxation charge comprises:						
UK corporation tax (i)	**(96)**	**59**	**(37)**	(278)	(23)	(301)
UK petroleum revenue tax	**(41)**	**–**	**(41)**	(96)	–	(96)
Non-UK tax (i)	**(144)**	**(118)**	**(262)**	(275)	4	(271)
Total taxation on profit	**(281)**	**(59)**	**(340)**	(649)	(19)	(668)

(i) Including 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 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 earnings attributable to equity holders of the Company for the period of £533 million (2013: £819 million) by the weighted average number of ordinary shares in issue during the period of 5,053 million (2013: 5,181 million). The number of shares excludes 90 million ordinary shares (2013: 19 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.

During the six month period, the Group purchased 64.8 million (2013: 57.5 million) ordinary shares of $6^{14}/_{81}$ pence each, representing 1% (2013: 1%) of the called up share capital as at 30 June at an average price of £3.28 per share (2013: £3.68) for a total consideration including expenses of £213 million (2013: £213 million). Shares were purchased in 2014 as part of the £420 million share repurchase programme announced on 20 February 2014. Shares were purchased in 2013 as part of the £500 million share repurchase programme announced on 4 February 2013. These shares are held as treasury shares once purchased and are deducted from equity.

9. EARNINGS PER ORDINARY SHARE

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 earnings for either 2014 or 2013, 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	£m	2014 Pence per ordinary share	£m	2013 Pence per ordinary share
Earnings – basic	**533**	**10.5**	819	15.8
Net exceptional items after taxation (notes 3 and 6)	**(140)**	**(2.7)**	–	–
Certain re-measurement losses/(gains) after taxation (notes 3 and 6)	**107**	**2.1**	(86)	(1.7)
Depreciation of fair value uplifts to property, plant and equipment from the Strategic Investments acquired in 2009, net of taxation	**30**	**0.6**	34	0.7
Earnings – adjusted basic	**530**	**10.5**	767	14.8
Earnings – diluted	**533**	**10.5**	819	15.7
Earnings – adjusted diluted	**530**	**10.4**	767	14.7

Strategic Investments

During 2009, the Group acquired a 20% interest in British Energy 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 £17 million (2013: £27 million) depreciation and a taxation credit of £10 million (2013: £17 million) in the period. Also excluded in arriving at adjusted earnings for the period, is the impact of depreciation arising on fair value uplifts attributed to the British Energy nuclear power stations and related taxation included within the Group's share of the post-taxation results of the associate. This amounted to £23 million (2013: £24 million) net of taxation.

10. DIVIDENDS

Dividends represent the cash 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. We retain part of the profits generated in the year to meet future investment plans or to fund share repurchase programmes.

	£m	Pence per share	2014 Date of payment	£m	Pence per share	2013 Date of payment
Prior year final dividend	**610**	**12.08**	**11 June 2014**	611	11.78	12 June 2013

An interim dividend of 5.10 pence (2013: 4.92 pence) per ordinary share, totalling £257 million (2013: £253 million), will be paid on 12 November 2014 (13 November 2013) to shareholders on the register on 26 September 2014.

11. ACQUISITIONS, DISPOSALS AND DISPOSAL GROUPS

(a) Business combinations

During the period, the Group acquired Bord Gáis Energy's (BGE) gas and electricity supply business and some Canadian natural gas assets. The business combinations section details the consideration paid and the provisional fair values of the net assets acquired.

Bord Gáis

On 30 June 2014 the Group acquired 100% of BGE's gas and electricity supply business in the Republic of Ireland, including the Whitegate gas-fired power station, for consideration of €197 million (£160 million). The transaction provides a platform for growth in an adjacent downstream market to the UK. This business will be a separate reportable segment of International Downstream. No goodwill was recognised on this transaction.

Provisional fair values of the net assets acquired and consideration	£m
Non-current assets	89
Current assets (i)	232
Current liabilities	(149)
Non-current liabilities	(12)
Net assets acquired	**160**
Consideration comprises:	
Cash consideration paid	150
Contingent consideration due	10
Total consideration	**160**

(i) Includes £60 million of cash and cash equivalents.

11. ACQUISITIONS, DISPOSALS AND DISPOSAL GROUPS

Canadian natural gas assets

On 27 June 2014 the Group acquired natural gas assets in the Foothills region of Alberta from Shell Canada Energy for C$42 million (£23 million). The assets were acquired by the CQ Energy Canada Partnership (CQECP), the 60:40 partnership with Qatar Petroleum International (QPI). As part of the transaction, the Group disposed of its interests in the Burnt Timber gas processing plant and the Waterton undeveloped lands in south-west Alberta. The Group has judged that the assets acquired meet the definition of a business and that the Group has power over its relevant activities. Accordingly the acquisition is treated as a business combination of the Group. No goodwill arose on this transaction.

Acquisition related costs of £3 million for the Bord Gáis acquisition and £nil for the Canadian natural gas assets transaction were charged to operating costs within the Group Income Statement during the period.

2013 Business Combinations – fair value updates

There have been no significant updates in 2014 to the fair values recognised for businesses acquired in 2013.

(b) Disposals

At 31 December 2013 the Group classified its Texas gas-fired power stations and Greater Kittiwake upstream gas assets as disposal groups held for sale. These have now been disposed of by the Group and this note details the cash consideration received, the assets and liabilities disposed of and the profit after tax arising on disposal.

Date of disposal	22 January 2014	1 March 2014
Business/assets disposed of by the Group	Texas gas-fired power stations [(i)]	Greater Kittiwake upstream gas assets
Sold to	Blackstone Group LP	Enquest Heather Limited
	£m	£m
Property, plant and equipment	186	89
Other assets	9	21
Other liabilities	–	(20)
Non-current provisions for other liabilities and charges	(3)	(46)
Net assets disposed of	**192**	**44**
Cash consideration received	**411**	**18**
Profit/(loss) on disposal before tax	**219**	**(26)**
Taxation	**(79)**	**31**
Profit on disposal after tax	**140**	**5**

(i) The profit on disposal of the Texas gas-fired power stations has been treated as an exceptional item. See note 6.

All other disposals undertaken by the Group were immaterial, both individually and in aggregate.

(c) Assets and liabilities of disposal groups classified as held for sale

Assets, and associated liabilities, that are expected to be recovered principally through a sale have been classified as held for sale and are presented separately on the face of the Group Balance Sheet. These include the Langage, Humber and Killingholme power stations in the UK.

UK power stations

On 8 May 2014 the Group announced that it had undertaken a strategic review of its UK power station fleet and that it intends to focus its UK gas-fired power generation on small flexible 'peaking' plants. Consequently the Group will seek to release capital from the three larger operating plants, Langage, Humber and Killingholme in order to focus on other investment opportunities. As such these assets and liabilities are now classified as a disposal group held for sale. See note 3 for further information.

	UK gas-fired power stations £m	UK upstream gas assets £m	**Total £m**
Property, plant and equipment	698	10	708
Other assets	39	19	58
Assets of disposal groups classified as held for sale	**737**	**29**	**766**
Other liabilities	(19)	–	(19)
Non-current provisions for other liabilities and charges	(128)	(40)	(168)
Liabilities of disposal groups classified as held for sale	**(147)**	**(40)**	**(187)**
Net assets/(liabilities) of disposal groups classified as held for sale and total shareholders' equity	**590**	**(11)**	**579**

12. SOURCES OF FINANCE

(a) Capital structure

Debt levels are restricted to limit the risk of financial distress and, in particular, to maintain strong credit ratings. The Group's credit ratings are important for several reasons:

- to maintain a low cost of debt;
- to 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.

At 30 June 2014, the Group's long term credit rating was A3 (RuR-D) with Moody's Investors Service Limited (Moody's) and A- (CreditWatch negative) with Standard & Poor's Credit Market Services Europe Limited (S&P). On 29 April 2014, Moody's placed the rating under review for possible downgrade, and on 19 May 2014 S&P placed the rating on CreditWatch with negative implications. Both agencies are conducting a process to review whether the rating should be downgraded. These processes are expected to conclude by the end of August 2014.

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. The Group has a financial covenant in some of its debt facilities, which restricts adjusted net borrowings to less than 3.5 times adjusted EBITDA.

British Gas Insurance Limited (BGIL) is required under PRA regulations to hold a minimum capital amount and has complied with this requirement in 2014 (and 2013). For the remainder of the Group, net debt is restricted by the Company's Articles of Association.

(b) Net debt summary

Net debt includes predominantly capital market borrowings offset by cash, securities and certain hedging financial instruments used to manage interest rate and foreign exchange movements on borrowings. Net debt is limited to the greater of £5.0 billion and a gearing ratio of three times adjusted capital and reserves. This restriction can be amended or removed by the shareholders of the Company passing a special resolution.

	Cash and cash equivalents £m	Current and non-current securities £m	Current and non-current borrowings £m	Derivatives £m	**Net debt £m**
1 January 2014	719	211	(6,031)	52	**(5,049)**
Cash outflow from purchase of securities	(2)	2	–	–	**–**
Cash inflow from additional debt	327	–	(327)	–	**–**
Cash outflow from payment of capital element of finance leases	(16)	–	16	–	**–**
Cash outflow from repayment of other debt	(11)	–	11	–	**–**
Net cash outflow increasing net debt	(186)	–	–	–	**(186)**
Revaluation	–	3	(9)	14	**8**
(Increase)/decrease in interest payable	–	–	(36)	28	**(8)**
Exchange adjustments	(16)	–	54	–	**38**
30 June 2014	**815**	**216**	**(6,322)**	**94**	**(5,197)**

	Cash and cash equivalents £m	Current and non-current securities £m	Current and non-current borrowings £m	Derivatives £m	Net debt £m
1 January 2013	931	206	(5,328)	144	(4,047)
Cash outflow from purchase of securities	(6)	6	–	–	–
Cash inflow from additional debt	72	–	(72)	–	–
Cash outflow from payment of capital element of finance leases	(15)	–	15	–	–
Cash outflow from repayment of other debt	(37)	–	37	–	–
Net cash outflow increasing net debt	(147)	–	–	–	(147)
Revaluation	–	(2)	42	(41)	(1)
(Increase)/decrease in interest payable	–	–	(44)	37	(7)
Exchange adjustments	2	1	(52)	–	(49)
30 June 2013	800	211	(5,402)	140	(4,251)

12. SOURCES OF FINANCE

(c) Borrowings summary

	Coupon rate %	Principal m	Current £m	Non-current £m	30 June 2014 Total £m	Current £m	Non-current £m	31 December 2013 Total £m
Bank overdrafts and loans			**–**	**(301)**	**(301)**	(16)	(305)	(321)
Bonds (by maturity date):								
4 November 2014	Floating	$100	**(58)**	**–**	**(58)**	(60)	–	(60)
10 December 2014	5.125	£315	**(319)**	**–**	**(319)**	(323)	–	(323)
31 March 2015	Floating	$70	**(41)**	**–**	**(41)**	–	(42)	(42)
24 October 2016	5.500	£300	**–**	**(317)**	**(317)**	–	(321)	(321)
14 April 2017	Floating	$200	**–**	**(117)**	**(117)**	–	–	–
19 September 2018	7.000	£400	**–**	**(439)**	**(439)**	–	(443)	(443)
1 February 2019	3.213	€100	**–**	**(80)**	**(80)**	–	(83)	(83)
25 September 2020	Floating	$80	**–**	**(47)**	**(47)**	–	(48)	(48)
22 February 2022	3.680	HK$450	**–**	**(34)**	**(34)**	–	(35)	(35)
10 March 2022	6.375	£500	**–**	**(497)**	**(497)**	–	(490)	(490)
16 October 2023	4.000	$750	**–**	**(442)**	**(442)**	–	(444)	(444)
4 September 2026	6.400	£200	**–**	**(214)**	**(214)**	–	(212)	(212)
16 April 2027	5.900	$70	**–**	**(41)**	**(41)**	–	(42)	(42)
13 March 2029	4.375	£750	**–**	**(740)**	**(740)**	–	(740)	(740)
5 January 2032 (i)	Zero	€50	**–**	**(43)**	**(43)**	–	(46)	(46)
19 September 2033	7.000	£770	**–**	**(762)**	**(762)**	–	(762)	(762)
16 October 2043	5.375	$600	**–**	**(344)**	**(344)**	–	(356)	(356)
12 September 2044	4.250	£500	**–**	**(489)**	**(489)**	–	(489)	(489)
12 September 2044	4.250	£50	**–**	**(47)**	**(47)**	–	(47)	(47)
25 September 2045	5.250	$50	**–**	**(29)**	**(29)**	–	(30)	(30)
			(418)	**(4,682)**	**(5,100)**	(383)	(4,630)	(5,013)
Commercial paper			**(529)**	**–**	**(529)**	(325)	–	(325)
Obligations under finance leases			**(32)**	**(221)**	**(253)**	(32)	(237)	(269)
Interest accruals			**(139)**	**–**	**(139)**	(103)	–	(103)
			(1,118)	**(5,204)**	**(6,322)**	(859)	(5,172)	(6,031)

(i) €50 million of zero coupon notes have an accrual yield of 4.200%, which will result in a €114 million repayment on maturity.

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 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
Direct Energy Marketing Limited Pension Plan	Defined benefit final salary pension	Closed to new members in 2004	Canada
Direct Energy Marketing Ltd	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.

13. POST RETIREMENT BENEFITS

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 2014 for the purposes of meeting the requirements of IAS 19: 'Employee benefits'. Investments have been valued for this purpose at market value.

Based on the latest triennial valuation 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 2013 the Group made special contributions to the Registered Pension Schemes of £360 million which the schemes immediately used to acquire interests in the partnerships for their fair value of £360 million. The schemes' total partnership interests entitle them to distributions from the income of the partnerships over a period of between 4 and 15 years. Between 2014 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 Balance Sheet. Distributions from the partnerships to the schemes will be recognised as scheme assets in the future as they occur.

Deficit payments are also being made in respect of the Direct Energy Marketing Limited Pension Plan in Canada. £7 million per annum is to be paid from 2014 to 2018.

(b) Accounting assumptions

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

Major assumptions used for the actuarial valuation	**30 June 2014** %	31 December 2013 %
Rate of increase in employee earnings:		
Subject to cap	**1.7**	1.7
Other	**3.2**	3.3
Rate of increase in pensions in payment	**3.2**	3.3
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	**2.2**	2.3
In line with RPI	**3.2**	3.3
Discount rate	**4.5**	4.6

Longevity assumptions remain unchanged from 31 December 2013.

The remaining disclosures in this note cover all of the Group's defined benefit schemes.

(c) Amounts included in the Group Balance Sheet

	30 June 2014 £m	31 December 2013 £m
Fair value of plan assets	**5,936**	5,683
Present value of defined benefit obligation	**(5,791)**	(5,643)
Net asset recognised in the Group Balance Sheet	**145**	40
Pension asset presented in the Group Balance Sheet as:		
Retirement benefit assets	**276**	205
Retirement benefit liabilities	**(131)**	(165)
Net pension asset	**145**	40

Included within the Group Balance Sheet within non-current securities are £71 million (31 December 2013: £67 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 £44 million (31 December 2013: £42 million) relating to this scheme.

14. FINANCIAL INSTRUMENTS

(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.
- 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.

	Level 1 £m	Level 2 £m	Level 3 £m	30 June 2014 Total £m	Level 1 £m	Level 2 £m	Level 3 £m	31 December 2013 Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	24	617	269	910	27	450	115	592
Interest rate derivatives	–	120	–	120	–	95	–	95
Foreign exchange derivatives	–	97	–	97	–	113	–	113
Treasury gilts designated at fair value through profit or loss	126	–	–	126	126	–	–	126
Debt instruments	55	–	3	58	52	–	3	55
Equity instruments	25	–	7	32	23	–	7	30
Total financial assets	**230**	**834**	**279**	**1,343**	228	658	125	1,011
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	(3)	(1,007)	(127)	(1,137)	(24)	(648)	(81)	(753)
Interest rate derivatives	–	(34)	–	(34)	–	(48)	–	(48)
Foreign exchange derivatives	–	(175)	–	(175)	–	(136)	–	(136)
Total financial liabilities	**(3)**	**(1,216)**	**(127)**	**(1,346)**	(24)	(832)	(81)	(937)

The reconciliation of the Level 3 fair value measurements during the period is as follows:

	2014 Financial assets £m	2014 Financial liabilities £m	2013 Financial assets £m	2013 Financial liabilities £m
Level 3 financial instruments				
1 January	**125**	**(81)**	147	(157)
Total realised and unrealised gains/(losses) recognised in the Group Income Statement	**166**	**(16)**	(65)	37
Transfers between Level 2 and Level 3	**(12)**	**(30)**	(26)	6
30 June	**279**	**(127)**	56	(114)
Total gains/(losses) for the period recognised within certain re-measurements for Level 3 financial instruments held at the end of the reporting period (i)	**235**	**(65)**	(55)	37

(i) No gains or losses were recognised in other comprehensive income during the period (2013: none).

The Group's policy is to recognise transfers in and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. Transfers from Level 3 to Level 2 occur when the commodity market prices used in the valuation move from being internally derived to being quoted in an active market.

During the period there were transfers from Level 2 to Level 3 as a result of the reassessment of derivatives held within the Hess Energy Marketing business, which was acquired in 2013. This also resulted in the transfer of £31 million of net assets out of Level 1 into Level 2. There were no significant transfers between Level 1 and Level 2 in the period ended 30 June 2013.

14. FINANCIAL INSTRUMENTS

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

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 cashflows for the relevant commodities and the quoted prices for those commodities in an active market.

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. 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 2% per annum for 2014 (2013: 2%).

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 value 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.

(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:

		30 June 2014		31 December 2013
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Bank overdrafts and loans	**(301)**	**(340)**	(321)	(357)
Bonds	**(5,100)**	**(5,549)**	(5,013)	(5,399)
Obligations under finance leases	**(253)**	**(282)**	(269)	(298)

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 the Group is 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 property, plant and equipment and intangible assets, commodity purchase contracts, LNG capacity and transportation capacity. There have been no significant changes to these 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.

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 2014 and the date of this announcement.

Ontario Home Services disposal

On 24 July 2014, the Group announced that it had agreed to sell its Ontario home and small commercial services business, a component of Direct Energy's Residential and business services business, to Enercare Inc. for C$550 million, comprising of C$450 million in cash and C$100 million in ordinary equity. The transaction is forecast to complete towards the end of 2014. The business was not classified as held for sale at 30 June 2014 because the deal was not deemed highly probable at that time due to the uncertain state of the bilateral negotiations.

Astrum Solar acquisition

On 29 July 2014, the Group acquired the US residential solar business, Astrum Solar, for $54 million (£32 million).

Dividends

An interim dividend of 5.10 pence (2013: 4.92 pence) per ordinary share, totalling £257 million (2013: £253 million), will be paid on 12 November 2014 (13 November 2013) to shareholders on the register on 26 September 2014.

17. RELATED PARTY TRANSACTIONS

The Group's principal related party relationships arise from its investments in wind farms and the existing UK nuclear fleet.

During the period, the Group entered into the following arms 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	Other transactions (i) £m	Sale of goods and services £m	Purchase of goods and services £m	Other transactions (i) £m
			2014			2013
Joint ventures:						
Wind farms (as defined in note 5)	**9**	**(67)**	**3**	13	(42)	(3)
Associates:						
Nuclear (as defined in note 5)	**–**	**(332)**	**40**	27	(301)	103
	9	**(399)**	**43**	40	(343)	100

(i) In the first six months of 2014 a dividend of £40 million was received from Lake Acquisitions Limited (2013: £103 million).

	Amounts owed from £m	Amounts owed to £m	Amounts owed from £m	Amounts owed to £m
		30 June 2014		31 December 2013
Joint ventures:				
Wind farms (as defined in note 5)	**467**	**(45)**	475	(69)
Associates:				
Nuclear (as defined in note 5)	**–**	**(57)**	–	(62)
	467	**(102)**	475	(131)

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.

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, interest rate risk and equity price 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 2013.

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. The Financing & Treasury policy, which includes management of currency risk, interest rate risk, equity price risk and liquidity risk, is 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 2014, the Group continued to be exposed to commodity price risk in its upstream assets, energy procurement contracts and downstream 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 loss of £127 million from operations during the six months ended 30 June 2014 (six months ended 30 June 2013: gain of £105 million) on 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 below 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.

18. RISK MANAGEMENT

(b) Credit risk management

Credit risk management is an integral part of the risk management function. During the six months ending 30 June 2014, counterparty credit risk continued to be a key focus for Centrica and the Group continues to be vigilant in managing its counterparty credit exposures. Adhering to Group wide approved financial risk management policies, each business unit actively monitors, mitigates and reports the credit risks that they are exposed to. These exposures are consolidated to highlight the Group risks and are discussed by senior management. In the UK and US, there is a continuing emphasis on understanding the potential impact of regulatory changes which may result in increased trading over exchanges or via zero threshold margined contracts. This would help to reduce counterparty credit risk, but carries increased liquidity requirements.

(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, to 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 2014, the Group held £815 million (31 December 2013: £719 million) of cash and cash equivalents and had undrawn committed credit facilities of £3,800 million (31 December 2013: £3,780 million). 111% (31 December 2013: 113%) 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 13.1 years (31 December 2013: 13.8 years). The Group's high level of available cash resources and undrawn committed bank borrowing facilities has enabled the Directors to conclude that the Group has sufficient headroom to continue as a going concern.

The Group holds cash as collateral against counterparty balances and also pledges cash as collateral, principally under margin calls, to cover exposure to mark-to-market positions on certain wholesale commodity contracts. Generally, cash paid or received as collateral is interest-bearing and is free from any restriction over its use by the holder.

The table below summarises the cash collateral balances and associated movements for the Group's businesses:

	2014 £m	2013 £m
Cash pledged as collateral at 1 January	**(107)**	(102)
Net cash outflow	**(127)**	(2)
Foreign exchange movements	**4**	(6)
Cash pledged as collateral at 30 June	**(230)**	(110)

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 2014 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 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 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. Power generation volumes in North America are generally higher in the summer than in the winter and can be higher or lower from January to June compared to July to December.

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 2014 Interim Results presentation for analysts and institutional investors at 9.30am (UK) on **Thursday 31 July 2014**. There will be a live audio webcast of the presentation and slides from 9.30am 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 Interim Results 2014**".

An archived webcast and full transcript of the presentation and the question and answer session will be available on the website on Monday 4 August 2014.

ENQUIRIES

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FINANCIAL CALENDAR

Ex-dividend date for 2014 interim dividend	24 September 2014
Record date for 2014 interim dividend	26 September 2014
Payment date for 2014 interim dividend	12 November 2014
Interim Management Statement	20 November 2014
2014 Preliminary Results announcement	19 February 2015

REGISTERED OFFICE

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