Interim results
for the period ended
30 June 2008

# Centrica plc

## Financial overview:

- Group revenue^ £10bn (2007: £8.6bn)
- Operating profit*^ £992m (2007: £1,226m)
- Group effective tax rate*^ 58% (2007: 34%)
- Earnings*^ £416m (2007: £786m)
- Adjusted basic earnings per share^ 11.3p (2007: 21.4p)
- Interim ordinary dividend of 3.9p/share (2007: 3.35p/share)

## Operating overview:

- Good results in a difficult commodity environment
- Continued improvement in British Gas customer service
- Excellent operational performance in upstream gas production and storage
- Legacy industrial and commercial gas sales contracts weighed on earnings
- Strong growth from British Gas Business and British Gas Services
- £372m invested in energy assets in six months

---

*"We produced a good set of results in tough market conditions and against a record first half in 2007. Through the rest of 2008 and beyond we will continue to concentrate on improving customer service in British Gas, driving inefficiencies out of our entire business, moving in a disciplined manner towards a greater level of vertical integration and pursuing value-adding growth opportunities in all of our businesses."*

**Sam Laidlaw, Chief Executive**

## Statutory results:

The statutory results include certain re-measurements which are unrealised net gains on energy procurement and sale contracts falling under the scope of IAS39 which are explained in the Group financial summary and disclosed in note 7.

- Operating profit £2,965m (2007: £1,600m)
- Earnings £1,802m (2007: £1,006m)
- Basic earnings per ordinary share 48.9p (2007: 27.4p)

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements
^ from continuing operations

# Chairman's Statement

## Performance review

In the first half of 2008 Centrica delivered good financial results against a record six months of 2007 and made further progress in addressing the longer term priorities of the business. These achievements were made in a challenging period for Centrica and the whole energy supply industry in the UK. Never before has the UK experienced such sustained high wholesale gas and power prices, which were driven by record oil prices in an increasingly interconnected global energy market.

The high level of current and forward wholesale gas prices necessitated an increase in retail tariffs by British Gas early in the year and then again at the end of July. These increases were required to restore reasonable profitability in British Gas and to enable investment in additional gas and power assets. To minimise the impact to consumers we continued to reduce the operating costs in British Gas while delivering a step-change improvement to customer service. The results of this can already be seen in the reduction in complaints to Energywatch of over 90% from the peak in the early part of 2007.

We delivered some very encouraging results in our growth businesses. Of particular note are British Gas Business and British Gas Services where we increased revenue, operating profit and customer numbers. In Direct Energy we grew the mass markets energy and home services customer bases and delivered a satisfactory financial result in a difficult economic and commodity price climate.

During the period we also made some important investments. We added to the gas asset base both in the North Sea and in North America. In the UK we added to our equity position in the gas assets originally acquired from Newfield late in 2007 and followed this with an agreement in July to acquire additional producing and development gas assets in the Norwegian sector of the North Sea. In May we acquired the Canadian oil and gas assets of TransGlobe Energy to add to those gained through the acquisition of Rockyview Energy. We also acquired a commercial energy supply business, Strategic Energy, in the United States. These will all prove to be important additions to the business as we move forward. In July we also made valuable progress in Europe as we took a controlling 51% interest in SPE in Belgium through the acquisition of the 25.5% share held by Gaz de France.

## Dividend

In line with our policy of paying an interim dividend equivalent to 30% of the prior year's full year dividend, the board of Directors has declared an interim dividend of 3.9 pence per share to be paid in November 2008.

## Board changes

In March we announced the appointment of Mark Hanafin as Managing Director Centrica Energy and Europe, replacing Jake Ulrich. Jake resigned from the Board on 12 May and continued as a member of the Executive Committee until 31 July. I would like to thank him for the dedication he has shown since the formation of Centrica in 1997 and the material contribution he has made in building our portfolio of gas, power and storage assets. Mark joined on 14 July and took up membership of the Board and Executive Committee on this date. He brings with him 21 years of experience in Shell where he was most recently president and chief executive officer of Shell Energy North America.

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

## Our employees

In times when energy is high on the world agenda the dedication, effort, skill, enthusiasm and flexibility of all our employees continues to be a key ingredient of our success in dealing with our challenges and opportunities. I want to thank them for their commitment and loyalty.

## The future

The energy supply industry in the UK is currently under unprecedented scrutiny with the recent report from the Department for Business, Enterprise and Regulatory Reform select committee and with Ofgem due to report in the second half of the year. The interest of these bodies is unsurprising, given the current level of wholesale energy prices. Although energy retailing in the UK is an extremely competitive business we welcome any improvements which can be made. It is essential that the market continues to operate in a way that encourages the level of investment which will be required in gas and power infrastructure in the coming years.

The management team will remain focused on progressing the priorities we set out for the business back at the start of 2007. This will mean continuing to improve service whilst reducing cost in the mature businesses and driving even more rapid growth across the rest of the Group. We will continue to take every opportunity to improve the level of physical asset integration in Centrica while maintaining our emphasis on shareholder value in any acquisition or relationship we may undertake.

**Roger Carr**
**Chairman** 31 July 2008

Earnings and operating profit numbers are stated, throughout the commentary, before certain re-measurements where applicable – see note 3 for definition. The Directors believe this measure assists with better understanding the underlying performance of the Group. The equivalent amounts after certain re-measurements are reflected in note 6 and are reconciled at Group level in the Group Income Statement. Certain re-measurements are described in note 7. Adjusted earnings and adjusted basic earnings per share are reconciled to their statutory equivalents in note 10.

All current financial results listed are for the 6 months ended 30 June 2008. All references to ‘the prior-period’, ‘the prior-year’, ‘2007’ and ‘last year’ mean the 6 months ended 30 June 2007 unless otherwise specified.

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

# Chief Executive's Review

## Overview of 2008

Centrica once again delivered a good financial performance during six months when wholesale natural gas prices in the UK were on average more than double those in the same period of 2007. The operational performance of the business continues to improve as does its resilience to very volatile wholesale energy prices.

We continued to make real progress in transforming British Gas. The quality of the customer experience has improved substantially. Compared to 2007 we have been answering the phones 50% faster, we have substantially reduced the transactional exceptions associated with the new billing system and we have raised the percentage of customers who are dealt with first time by a single contact. As a result the number of complaints to Energywatch has fallen by over 90% and we are on track to remove £60 million from the operating cost base in 2008, bringing the total reduction to £200 million over two years. The sharp increase in wholesale prices forced British Gas to follow other suppliers and raise retail tariffs in January and then raise them again in July. The response to rising bills meant that energy account sales were lower over the period and at the end of June we served 15.8 million accounts.

In British Gas Business we moved ahead on both the top and bottom line as we added to our customer numbers in the period and drove inefficiencies out of our cost structure. In British Gas Services we increased operating profit by 35% while maintaining strong customer service statistics. Centrica Storage had another strong operational period and also restructured the standard storage contract in July to meet the increasingly complex requirements of our customers. We also moved forward our plans to grow this business with the announcement of pre-development studies for the conversion of the Bains gas field into an additional offshore storage facility.

Upstream in Centrica Energy the gas production business performed extremely well and benefited from higher production and the rising market gas prices. The increase in gas production profits, where tax rates are as high as 75%, drove the effective Group tax rate* up to 58% from 34% in the prior period. In July we continued to build our upstream business as we successfully reached an agreement to acquire a valuable package of gas assets in Norway. Higher wholesale prices resulted in the legacy industrial and commercial sales contracts becoming heavily loss-making in the period and an unplanned outage at our South Humber Bank power station during a time of particularly high spark spreads also impacted profit. By early July all of the power stations were back online.

Internationally conditions were challenging. In North America, natural gas prices doubled from a year ago and the slowing US economy, along with increased volatility in Texas wholesale power prices, reduced operating profit against the record first half of 2007. However against this backdrop we returned to growth in our mass markets customer base and completed the acquisition of Strategic Energy which positions us as a top three commercial and industrial energy supplier in North America. In Europe regulatory progress continued to be slow and our short term financial performance, particularly in The Netherlands, was hit by the rising wholesale gas prices. However, in July we did make progress in Belgium as we took a controlling interest in SPE through the acquisition of the stake disposed of by Gaz de France (GdF). This was sold as part of the remedies imposed by the European Commission as a condition of its approval of GdF's merger with Suez.

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

In summary, against a record 2007, the financial performance was good. Operationally we continued to make substantial progress in our UK residential business and produced strong growth in British Gas Business and British Gas Services. Despite inflationary pressures operating costs remained under tight control across the Group and were flat compared to the prior period. We also made some important investments in our energy asset base and in growing our supply business in North America. This positions us well for the second half of the year and beyond.

## Business outlook

We will continue to make progress against the four priorities which we communicated early in 2007. We set out to:

- Transform British Gas
- Sharpen the organisation and reduce cost
- Reduce risk through increased integration
- Build on our growth platforms

On our first priority of transforming British Gas, we have made considerable progress over the last 18 months. Our decision yesterday to raise retail tariffs was unavoidable given the extremely high wholesale gas prices in the UK. This is expected to restore reasonable operating margins in the second half of the year. We have committed to no further price rises for standard tariff customers for the remainder of 2008. We will work even harder in the short term and invest in our business to minimise the impact on our customer base and ensure that we continue to protect our vulnerable customers. Key to this will be building on the substantial progress we have made in improving customer service and the development of new marketing propositions. While we do this we will also concentrate on reducing the ongoing cost base and delivering on our commitment to remove another £60 million of operating costs in 2008.

On our second priority of sharpening the organisation and reducing cost we will continue to strike a balance between driving out inefficiencies across the business and allowing our growth platforms to prosper. This involves taking additional costs out of our mature businesses to fund this growth. Therefore, on a like for like basis, despite clear cost inflationary pressures, we expect to hold our total operating cost base broadly flat on 2007.

On our third priority of reducing risk through increased integration we will maintain our financial discipline in this increasingly high price energy environment. However we expect that value-adding assets will become available and we will continue to target those that provide a quality hedge for the gas exposure in our downstream businesses. We will also continue to work on building closer relationships with large scale gas producers, both in LNG and pipeline gas. Our gas exploration activities will remain focused, with the main activity taking place in the UK and Norway.

We are working on two important construction projects in power generation. Work on the 885 megawatt (MW) gas-fired plant at Langage in Devon will continue, with the expectation that this will come into service in the first half of 2009. The offshore wind farms, Lynn and Inner Dowsing, totalling 180MW, commenced generation from the first arrays in the second quarter of this year and are due to be fully commissioned in the fourth quarter. The Government's target to source 15% of UK

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

energy from renewable sources by 2020 and the recommendation in the Energy White Paper to increase the Renewable Obligation subsidy for new offshore wind farms provide us with ambitious goals as we move forward with planning on our Round 2 wind farm licences at Lincs, Docking Shoal and Race Bank.

We will also be concentrating on delivering our fourth priority of building on our growth platforms. British Gas Services and British Gas Residential already operate well together, with the customer bases delivering around 100,000 account sales in the first half alone. We will further strengthen this relationship with the launch of an innovative product which gives priority emergency call-out response to around 500,000 of the most valuable customers in British Gas Residential. This will also provide a boost to the important on-demand business in British Gas Services. In British Gas Business we expect to achieve further growth in the customer base and to grow the average customer size while maintaining the bottom line percentage margins. In Centrica Storage we expect to complete the injection into Rough in the third quarter and actively drive storage sales following approval of a new storage product. We will also begin to invest in the early stage assessment of the Bains storage project and a further storage prospect on the UK continental shelf. In total this could increase UK gas storage capacity by around 50%.

The growing awareness of climate change is also positive for British Gas New Energy. Here we are developing a range of products and services in what is expected to become a large market for domestic and commercial energy efficiency. We would also expect to bundle some of these products with gas and electricity to form new and attractive customer propositions.

In North America the economic environment remains uncertain. Here we will move ahead rapidly with the integration of the Strategic Energy business which we expect to have largely completed by the end of the year. We have also implemented price rises in Texas which will restore operating margins to acceptable levels and we will further increase our efforts to grow our mass markets customer base across all regions.

## Trading outlook

Commodity prices for the winter rose very sharply in the first half. In the current wholesale market our recent pricing decision in British Gas will enable us to deliver acceptable margins this year, with operating margins in the second half of the year currently forecast to be broadly in line with those in the first half. The gas production business continues to benefit from the current market conditions but this is offset by the higher resulting Group tax rate this drives and the losses in the legacy I&C gas sales contracts. Overall our 2008 earnings outlook remains in line with expectations.

We produced a good set of results in tough market conditions and against a record first half in 2007. Through the rest of 2008 and beyond we will continue to concentrate on further improving customer service in British Gas, driving inefficiencies out of our entire business, moving in a disciplined manner towards a greater level of vertical integration and pursuing value-adding growth opportunities in all of our businesses.

**Sam Laidlaw**
**Chief Executive** 31 July 2008

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

# Group Financial Summary

Group revenue from continuing operations was up 17% at £10 billion (2007: £8.6 billion). This was primarily driven by increases in British Gas, Centrica Energy, Direct Energy and European Energy with sales prices reflecting the high wholesale commodity price environment experienced during the first half of 2008.

Group operating profit* from continuing operations was down 19% at £992 million (2007: £1,226 million). The exceptional circumstances seen during the first half of 2007 were not repeated, resulting in lower reported margins in British Gas and losses in our legacy industrial and commercial contracts. This reduction was partially offset by the significant increase in profitability from our gas production and development business.

The statutory profit for the period was £1,802 million (2007: £1,006 million). The reconciling items between adjusted Group earnings* and the statutory profit are certain re-measurements that are explained below.

Group earnings* on a continuing basis were down by 47% to £416 million (2007: £786 million). This reduction in earnings* came from the lower operating profit* combined with a significant change in profit mix towards greater upstream contributions, resulting in a higher effective group tax rate of 58% in the period (2007: 34%).

Group operating cash flow before movements in working capital was down from £1,519 million in 2007 to £1,315 million. After working capital adjustments, operational interest, tax, and payments related to exceptional items this stood at £1,487 million (2007: £1,261 million). This increase in operating cash flow is primarily due to increased net margin cash balances held against positive mark-to-market positions on energy contracts. The net cash outflow from investing activities increased to £546 million (2007: £342 million), 60% higher than last year due to the Group's acquisitions of Strategic Energy and Canadian gas assets as described in note 18 to the condensed Interim Financial Statements and capital expenditure on UK power generation assets.

The Group's net recourse debt level at 30 June 2008 was £274 million (31 December 2007: £795 million, 30 June 2007: £942 million). This was down from 31 December 2007 primarily due to the increase in margin cash received from our counterparties. At the end of June we held £1.1 billion of net margin cash, almost all of which relates to hedging transactions which will unwind over the next 18 months.

During the period net assets increased to £5,204 million from £3,382 million as at 31 December 2007 (30 June 2007: £2,726 million). This increase was driven primarily by positive movements on the mark-to-market position of the Group's financial instruments as detailed below.

### Certain re-measurements

In our business we enter into a portfolio of forward energy contracts which include buying substantial quantities of commodity to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair valued under IAS 39. Fair valuing means that we apply the prevailing forward market prices to these contracts. The Group has shown the fair value adjustments separately as certain re-measurements

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

as they are unrealised and non-cash in nature. The profits* arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements.

The statutory results include credits to operating profit relating to these re-measurements of £1,973 million (2007: £374 million), primarily from marking-to-market some contracts relating to our energy procurement activities. As gas and power were delivered under these contracts, net in-the-money mark-to-market positions were unwound, generating a net charge to the Income Statement in the period of £41 million (2007: net credit of £309 million). As forward prices increased in the period to 30 June 2008 the portfolio of contracts fair valued through the income statement under IAS 39 reported a net credit on revaluation of £2,024 million (2007: net credit of £75 million). The remaining charge of £10 million (2007: charge of £10 million) reflects the proprietary trading positions relating to cross-border capacity and storage contracts.

The net profit of £1,973 million on the remeasurement of energy contracts largely represents unrealised mark-to-market value created by gas and power purchase contracts which are priced below the current wholesale market value of energy. This value is calculated with reference to forward energy prices and therefore the extent of the economic benefit arising over the life of these contracts is uncertain and is entirely dependent upon the level of future wholesale energy prices.

## Business combinations and capital expenditure

During the period the Group acquired business combinations for a total net cash consideration of £147 million, which included Strategic Energy for £78 million and Canadian oil and gas assets for £65 million. These are detailed in note 18 to the condensed Interim Financial Statements. Asset acquisitions and capital expenditure over the period totalled £400 million, the primary components being Sojitz, £36 million, and construction costs for Lynn and Inner Dowsing wind farms of £86 million and £87 million for the Langage power plant. Details of capital expenditure are provided in note 6(c) to the condensed interim Financial Statements.

## Principal risks and uncertainties

The Group's risk management process remains unchanged from 31 December 2007 and is described in detail in the Directors' Report of the Group's 2007 Annual Report and Accounts on pages 25-27. A description of the impact of the increase in wholesale gas prices and continuing shortage of available credit in the market on financial risk management is provided in note 4 to the condensed interim Financial Statements.

A description of the Group's principal risks and uncertainties for the remainder of the year is provided in the Trading outlook section of the Chief Executive's Review on page 6 of these interim results.

## Related party transactions

Related party transactions are described in note 20 to the condensed interim Financial Statements.

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

## Events after the balance sheet date

Changes to UK tax law substantively enacted in July 2008 relating to relief for upstream losses will result in a re-appraisal of approximately £70 million of the Group's unrecognised deferred tax assets during the second half of the year, which may give rise to a reduction to the full year tax charge and a corresponding increase to deferred tax assets.

On 9 July 2008, the Group announced it had reached an agreement to acquire interests in a package of gas and oil assets in the Norwegian North Sea. The agreed cash consideration of US$375 million (£190 million) will be adjusted downwards to reflect production since 1 January 2008. The agreement is subject to Norwegian government approvals.

On 23 July 2008, the Group announced that it is to increase its shareholding in Belgian generation and supply company SPE SA from 25.5%, to a controlling 51 per cent, through the acquisition of GDF International SAS's 50 per cent stake in the 50/50 joint venture, Segebel SA. Completion is subject to EC merger control approval, but is expected to take place in September 2008. The Group will pay €515 million (£409 million) in cash with additional deferred consideration of up to €105 million (£83 million).

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

## British Gas Residential

Against an external environment dominated by high wholesale energy prices, British Gas Residential made good progress in addressing its agenda of restoring customer service, reducing costs and leading industry innovation.

Compared with the same period last year, call volume fell by 37% and average speed to answer improved by 50%. Repeat calls have reduced by 15% and the backlog of outstanding process exceptions in the billing system reduced by 79%. As a consequence, by June complaints to Energywatch had fallen by over 90% from the peak in April 2007 and our share of Ombudsman complaints fell below the level of our market share to 26%. In May British Gas was also recognised by Ofgem as having the fewest sales complaints.

We continued to focus on reducing our operating costs, which were 8% lower than the same period last year. Step changes in underlying processes and the material improvement in customer service meant that overall headcount fell by 8% over this period and we are on track to deliver the targeted annual savings of £60 million in 2008.

British Gas is also continuing to demonstrate industry leadership in areas such as fuel poverty and smart metering. Our preferential Essentials tariff, targeted at vulnerable customers, remains the largest such commitment in the industry. In our 'Pay As You Go Energy' business we introduced prepayment dual fuel discounts and an on-line offer, and we continued to roll out our EnergyPoint device which allows customers to charge their meters in their own homes. This is now available to around 850,000 customers.

In July, in conjunction with British Gas Services, we launched a trial of a priority response emergency breakdown product for the top tranche of our high value energy customers. We believe this will drive additional value through increased loyalty and lower churn in this part of the customer base.

Revenue in the period was up by 9% to £3,823 million (2007: £3,497 million) due to the overall higher average selling prices. Operating profit*, however, was down to £166 million (2007: £533 million), a 4% operating margin. In the first half of 2007 rapidly falling wholesale energy prices drove an exceptional result. In 2008 wholesale gas and electricity prices rose throughout the period, averaging 122% and 126% respectively above the same period of 2007. As well as the year-on-year rise in our commodity costs of £634 million, transmission and metering charges rose by £67 million and Carbon Emission Reduction Target (CERT) obligations rose by a further £27 million to £70 million (2007: £43 million). This necessitated a price increase in January. Following this, customer numbers fell during the period and at the end of June we served 15.8 million customer accounts.

The forward price of commodity for the winter of 2008/09 is higher still and led to us announcing a further price increase in late July to maintain reasonable profitability in the second half of the year. We have sought to lessen the impact on the size of the customer base through the ongoing focus on service standards and the launch of a new suite of products including a market-leading fixed price offer which provides protection for customers for three years until the end of August 2011.

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

## British Gas Residential

| For the period ended 30 June 2008 | H1 2008 | H1 2007 | Δ% | FY 2007 |
|---|---|---|---|---|
| Customer numbers (period end): | | | | |
| Gas ('000) | **9,763** | 10,004 | (2.4) | 10,018 |
| Electricity ('000) | **6,004** | 5,817 | 3.2 | 6,019 |
| Total ('000) | **15,767** | 15,821 | (0.3) | 16,037 |
| Estimated market share (%): | | | | |
| Gas | **44.8** | 46.3 | (1.5) ppts | 46.4 |
| Electricity | **22.1** | 21.6 | 0.5 ppts | 22.4 |
| Average consumption: | | | | |
| Gas (therms) | **313** | 293 | 7 | 541 |
| Electricity (kWh) | **1,993** | 1,955 | 1.9 | 3,945 |
| Total consumption: | | | | |
| Gas (mmth) | **3,119** | 2,966 | 5 | 5,443 |
| Electricity (GWh) | **12,041** | 11,236 | 7 | 23,001 |
| Revenue (£m): | | | | |
| Gas | **2,605** | 2,447 | 6 | 4,296 |
| Electricity | **1,218** | 1,050 | 16 | 2,161 |
| Total | **3,823** | 3,497 | 9 | 6,457 |
| Commodity costs (£m): | **2,246** | 1,612 | 39 | 3,282 |
| Transmission & metering costs (£m): | | | | |
| Gas | **664** | 629 | 6 | 1,193 |
| Electricity | **300** | 268 | 12 | 541 |
| Total | **964** | 897 | 7 | 1,713 |
| Operating costs (£m): | **378** | 413 | (8) | 800 |
| Operating profit (£m)* | **166** | 533 | (69) | 571 |
| Operating margin (%) | **4.3** | 15.2 | (10.9) ppts | 8.8 |

## British Gas Business

Despite challenging wholesale energy market conditions during the first half, British Gas Business reported strong financial results and grew the customer base. We were also once again recognised as one of the UK's Top 50 "Best Workplaces for 2008" by the Financial Times.

Revenue increased by 14% to £1,444 million (2007: £1,267 million) due to tariff increases on the back of higher wholesale commodity costs, the renewal of contract customers at higher prices, reflecting the rise in wholesale commodity, and increased consumption across both gas and power.

Renewal rates across both the larger commercial and SME customers remained high, supported by the investment made in our differentiated service proposition through which we gave the bulk of our accounts a single point of contact for customer service. Along with the continued good sales performance, this led to a small increase in the number of customer supply points during the period, which was up to 957,000 (31 December 2007: 954,000).

Operating profit* in the period increased by 15% to £55 million (2007: £48 million). The underlying strong performance was the result of ongoing operating cost efficiencies and the maintenance of

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

gross margins in the more volatile commodity price environment. This included a contribution of £5 million (2007: £25 million) from a favourable historic electricity procurement contract.

## British Gas Business

| For the period ended 30 June 2008 | H1 2008 | H1 2007 | Δ% | FY 2007 |
|---|---|---|---|---|
| Customer supply points (period end): | | | | |
| Gas ('000) | **406** | 408 | (0.5) | 412 |
| Electricity ('000) | **551** | 548 | 0.5 | 542 |
| Total ('000) | **957** | 956 | 0.1 | 954 |
| Average consumption: | | | | |
| Gas (therms) | **2,229** | 2,137 | 4.3 | 3,729 |
| Electricity (kWh) | **16,795** | 15,416 | 9 | 32,644 |
| Total consumption: | | | | |
| Gas (mmth) | **918** | 859 | 7 | 1,524 |
| Electricity (GWh) | **9,169** | 8,300 | 10 | 17,356 |
| Revenue (£m): | | | | |
| Gas | **675** | 596 | 13 | 1,037 |
| Electricity | **769** | 671 | 15 | 1,394 |
| Total | **1,444** | 1,267 | 14 | 2,431 |
| Transmission & metering costs (£m): | | | | |
| Gas | **109** | 90 | 21 | 186 |
| Electricity | **161** | 142 | 13 | 298 |
| Total | **270** | 232 | 16 | 484 |
| Operating profit (£m)* | **55** | 48 | 15 | 120 |
| Operating margin (%) | **3.8** | 3.8 | 0.0 ppts | 4.9 |

## British Gas Services

British Gas Services performed strongly in the first half of the year. Revenue was up by 8% at £664 million (2007: £616 million) as we grew the number of customer product relationships by 5% to 7.8 million. We continued to experience particularly strong customer growth in our Plumbing and Drains Care and Home Electrical Care products, up by 9% and 16% respectively. During the period we also continued to invest in customer service. We successfully completed the transition to the new National Distribution Centre (NDC) which underpins our overnight parts delivery commitment. We also launched a new online booking facility which enables customers to schedule their annual service visit. Customer take-up to date has been very encouraging, with around 10% of customers choosing to use this facility.

We introduced new products to further extend our range of services to provide cover for water supply pipes and more general home emergencies and began the national roll out of TimeChoice, a product which offers customers a more precise time slot for engineer visits. We also maintained our share of the important on-demand market, carrying out over 150,000 jobs. These initiatives supplemented the significant ongoing cross-selling activity that benefits both the Home Services and Residential Energy businesses.

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

Central heating installations of 54,000 were maintained at broadly 2007 levels despite a more challenging economic climate.

Operating profit* increased by 35% to £85 million (2007: £63 million), reflecting the strong growth in higher margin care products outside the original central heating range, combined with the continued focus on cost control.

## British Gas Services

| For the period ended 30 June 2008 | H1 2008 | H1 2007 | Δ% | FY 2007 |
|---|---|---|---|---|
| Customer product holdings (period end): | | | | |
| Central heating service contracts ('000) | **4,511** | 4,444 | 1.5 | 4,525 |
| Kitchen appliances care (no. of customers) ('000) | **409** | 405 | 1.0 | 414 |
| Plumbing and drains care ('000) | **1,589** | 1,452 | 9 | 1,536 |
| Home electrical care ('000) | **1,246** | 1,072 | 16 | 1,173 |
| Total holdings ('000) | **7,755** | 7,373 | 5 | 7,648 |
| Central heating installations ('000) | **54** | 55 | (1.8) | 113 |
| Revenue (£m): | | | | |
| Central heating service contracts | **360** | 336 | 7 | 688 |
| Central heating installations | **174** | 161 | 8 | 348 |
| Other | **130** | 119 | 9 | 243 |
| Total | **664** | 616 | 8 | 1,279 |
| Engineering staff employed | **9,231** | 9,151 | 0.9 | 9,209 |
| Operating profit (£m)* | **85** | 63 | 35 | 151 |
| Operating margin (%) | **12.8** | 10.2 | 2.6 ppts | 11.8 |

# Centrica Energy

Centrica Energy once again performed well in a period when wholesale commodity prices were rising, with the very positive result in the gas production business only partially offset by the movement of the legacy industrial and commercial sales contracts into loss. Overall operating profit* was up 50% at £504 million (2007: £337 million).

### Gas production and development

Operating profit* in gas production rose to £638 million from £123 million in the same period of 2007. The key drivers of this were higher production volumes and a much higher gas selling price. Overall hydrocarbons production volume was up by 32% at 26.6 million barrels of oil equivalent (mboe) (2007: 20.2 mboe), with gas volumes up 34% at 1,413 million therms (mmth). The first half of 2008 benefited from consistent Morecambe production and additional volumes from the newly acquired Grove field of 0.9 mboe and 0.3 mboe from the Maria field, which came on-stream in January. Higher wholesale gas prices over this period drove the average gas selling price up 123% to 52.9 pence per therm (p/th) (2007: 23.7 p/th).

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

We acquired additional equity in North Sea gas fields from Sojitz for £36 million and after further development we expect to recognise around 32 billion cubic feet equivalent (bcfe) of reserves. In July we announced the investment of up to a further £190 million in Norwegian continental shelf gas assets in a deal with Marathon. The final consideration will be adjusted downwards to reflect production since 1 January 2008. An additional capital investment of approximately £125 million is expected to be required in order to maximise the total reserves potential of 165 bcfe over the next four years.

During the period we invested an additional £30 million in our current gas asset portfolio. We also approved further significant investment plans at an aggregate cost of around £250 million. These plans cover the Grove field where a rig is now on site to drill further production wells, Seven Seas which will be developed during 2008/09 and Babbage where we have a 13% interest. In doing so, we expect to recognise an additional 180 bcfe of reserves. We also invested £18 million in our focused exploration programme in Norway and seismic activity in Nigeria and agreed a long-term rig charter to enable the ongoing exploitation of our Norwegian development and exploration asset base.

### Power generation

The power generation segment delivered a loss in the first half of the year of £5 million (2007: profit of £47 million). The average load factor across the conventional fleet was marginally down at 64% (2007: 65%). Market spark spreads were higher but the operating result was held back by an ongoing forward sales contract which ends early in 2009 and an outage at the South Humber Bank station in the second quarter which coincided with the period of highest clean spark spreads. During the period we made good progress on our two large scale construction projects. The Lynn and Inner Dowsing wind farms and the Langage gas fired station remain on budget and are still due for completion in the fourth quarter of 2008 and the first half of 2009 respectively.

### Industrial and commercial

This business area reported an operating loss* of £156 million against a profit of £148 million in the same period of 2007. This swing was due to the sharp increase in wholesale gas prices between the two periods which drove the input cost of gas higher. Also the historically index-linked pricing mechanisms in these contracts limited the sales price movements on volumes sold. Customers also increased their gas takes from the contracts, lifting volumes sold by 27% to 1,343 mmth (2007: 1,058 mmth).

### Energy procurement

We continued to seek differentially indexed gas supply contracts to build the contractual hedge position in Centrica. During the period we successfully re-indexed an existing contract and negotiated additional medium term supply contracts. This totalled four billion cubic metres (BCM) of gas per annum.

### Accord trading

Accord delivered a strong operating profit* of £27 million, up 42% on the prior period (2007: £19 million), during another period of extremely volatile energy prices.

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

## Centrica Energy

| For the period ended 30 June 2008 | H1 2008 | H1 2007 | Δ% | FY 2007 |
|---|---|---|---|---|
| **Gas Production** | | | | |
| Gas production volumes (mmth) | | | | |
| Morecambe | **1,020** | 742 | 37 | 1,574 |
| Other | **393** | 312 | 26 | 686 |
| Total | **1,413** | 1,054 | 34 | 2,260 |
| Average gas sales price (p/therm) | **52.9** | 23.7 | 123 | 30.4 |
| Oil and condensate production volumes (mboe) | **3.3** | 3.0 | 10 | 5.6 |
| Average oil and condensate sales price (£/boe) | **43.5** | 33.1 | 31 | 33.3 |
| Revenue (£m) | **925** | 366 | 153 | 923 |
| External revenue (£m) | **237** | 137 | 73 | 299 |
| Operating costs (£m) | | | | |
| Volume related production costs | **181** | 128 | 41 | 291 |
| Other production costs | **106** | 115 | (8) | 203 |
| Total | **287** | 243 | 18 | 494 |
| Operating profit (£m)* | **638** | 123 | 419 | 429 |
| **Power generation** | | | | |
| Power generated (GWh) | **11,536** | 11,723 | (1.6) | 19,845 |
| Operating (loss) / profit (£m)* | **(5)** | 47 | nm | 46 |
| **Industrial & commercial** | | | | |
| External sales volumes (mmth) | **1,343** | 1,058 | 27 | 2,260 |
| Average sales price (p/therm) | **38.5** | 36.3 | 6 | 35.7 |
| External revenue (£m) | **525** | 395 | 33 | 838 |
| Operating (loss) / profit (£m)* | **(156)** | 148 | nm | 179 |
| **Accord** | | | | |
| Operating profit (£m)* | **27** | 19 | 42 | 9 |
| **Centrica Energy operating profit (£m)*** | **504** | 337 | 50 | 663 |

## Centrica Storage

Centrica Storage delivered a very strong operational performance during the first half of the year. We successfully completed a major project to replace and upgrade the two offshore compression trains for the Rough storage field. The resulting enhancement to injection rates has resulted in a record injection season to date, and increased asset flexibility. The improved injection performance meant that Rough was already over 70% full by the end of June, despite a lower level of stock carry over of more than 30% compared to the previous storage year. Reliability of both production and injection during the first half remained high, at over 98%.

Revenue in the period was up 24% to £244 million (2007: £196 million) reflecting higher gas sales driven by increased volumes and prices. The success of our virtual product (V Store) continued with sales for 2008/09 achieving a substantial premium to the Standard Bundled Unit (SBU). The average price achieved for an SBU was lower at 48.5p (2007: 61.5p), driven by the narrowing of the summer/winter gas price spread from the historic highs seen in 2006/07. As a result operating profit* for the period was down 27% at £93 million (2007: £128 million). In April we announced that

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

we had successfully sold all SBUs for the 2008/09 storage year at an average selling price of 38.8p (2007/08: 53.4p).

In response to market demand and to address customers' concerns about the availability of entry capacity to National Grid's system, we announced in May the introduction of an innovative new storage product, C Store, which includes pre-paid grid entry capacity. This was approved by Ofgem in July and sales began for the 2009/10 storage year. We also introduced for 2009/10, within-day and day ahead-only flexibility across our standard storage and C store products.

In March we announced our involvement in the proposed conversion of the Bains gas field in the East Irish Sea into a new offshore gas storage facility with a potential capacity of up to 20bcf. Pre-development studies will continue until the beginning of 2009 before an investment decision is made.

## Centrica Storage

| For the period ended 30 June 2008 | H1 2008 | H1 2007 | Δ% | FY 2007 |
|---|---|---|---|---|
| Average SBU price (calendar year) pence | **48.5** | 61.5 | (21) | 57.4 |
| Revenue (£m) | | | | |
| Standard SBUs | **110** | 139 | (21) | 261 |
| Extra space | **9** | 17 | (47) | 28 |
| Gas sales | **106** | 28 | 279 | 87 |
| Other | **19** | 12 | 58 | 27 |
| Total | **244** | 196 | 24 | 403 |
| External turnover (£m) | **212** | 162 | 31 | 340 |
| Cost of gas (£m) | **116** | 29 | 300 | 87 |
| Operating profit (£m)* | **93** | 128 | (27) | 240 |

# Direct Energy

Direct Energy faced difficult market conditions in the first half of 2008. The business performance was impacted by the US economic slowdown which coincided with record sustained wholesale gas prices and some challenging market dynamics in Texas.

Revenue in the period was up 18% on 2007 at £2,452 million (2007: £2,073 million) due mainly to the effect of higher retail prices and the continued growth in the commercial and industrial (C&I) energy supply business. Overall we delivered £91 million of operating profit*, down by 17% on the prior period (2007: £110 million).

### Mass markets energy

During the period mass markets energy experienced difficult trading conditions. Despite this we still managed to grow the customer base from the end of 2007. In Texas, high gas prices and transmission congestion during the second quarter caused spikes in intra-day balancing power prices. These prices stabilised towards the middle of June following the introduction of new load balancing protocols. In this higher wholesale commodity price environment it became necessary to raise our retail prices in order to restore margins to sustainable levels. In Canada and the US North

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

East we continued to grow our customer base with fixed price propositions becoming more attractive to consumers in an environment of rapidly rising energy prices.

Reported revenue was up 2.4% to £1,371 million (2007: £1,339 million) and reported operating profit* was down 31% at £61 million (2007: £88 million) due mainly to the impacts in Texas, partially offset by a recovery in Canada following the issues faced last year in renewing electricity contracts in Ontario.

**Commercial and industrial energy**

We continued to display strong top line revenue growth in our C&I business. Although selling became more difficult in Texas towards the end of the period due to high wholesale prices and an emerging backwardated commodity curve, volumes delivered rose by 2% in gas and 41% in electricity. In June we completed the acquisition of Strategic Energy for US$300 million, which included US$88.5 million of cash and cash equivalents. This doubles the size of our business and makes us one of the top three C&I energy suppliers in North America. We now serve 207,000 meters across Canada and the US and have equivalent annual energy sales of around 55TWh. The costs of integrating this new business will have an impact on reported results in the second half.

Revenue in the period was up 47% at £712 million (2007: £483 million) due to higher prices and the continued growth in the volumes of gas and electricity sold. We delivered an operating profit* of £8 million against a loss of £1 million in the same period of 2007.

**Home and business services**

In Canada we grew our protection plan customer base by 13% to over 700,000 plans and water heater numbers remained stable despite increasing competition. However the profitability of the US residential new construction business was adversely affected by the continued housing slowdown, with new home sales at their lowest level for 17 years. In response, we have significantly reduced our costs in this business and we are gaining market share.

Revenue in the period was down by 0.6% to £168 million (2007: £169 million). Overall operating profit* was flat at £3 million recognising that the phasing of profits is traditionally weighted toward the second half.

**Upstream and wholesale energy**

Operating profit* was marginally down year-on-year at £19 million (2007: £20 million), but contained some significant swings within the business. The natural gas production business was well ahead, with higher volumes from the original business and following the acquisitions of both Rockyview Energy and the Canadian assets of TransGlobe Energy. Gas production volumes were up by 22% at 183 mmth (2007: 150 mmth) and selling prices were also higher, reflecting the rising wholesale price of gas.

This was offset by events in Texas, where maintenance outages caused significant transmission congestion in West Texas, resulting in a sharp decline in achieved power prices for our wind farm power purchase agreements. In addition an unplanned outage at the Bastrop power station in June caused total power generated in Texas to fall by 8% to 2.3 TWh (2007: 2.5 TWh).

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

## Direct Energy

| For the period ended 30 June 2008 | H1 2008 | H1 2007 | Δ% | FY 2007 |
|---|---|---|---|---|
| **Customer numbers (period end):** | | | | |
| Mass markets energy ('000) | **3,034** | 3,187 | (4.8) | 3,005 |
| Home and business services ('000) | **2,112** | 2,000 | 6 | 2,033 |
| **Volumes:** | | | | |
| Commercial & industrial gas sales (mmth) | **362** | 356 | 1.7 | 627 |
| Commercial & industrial electricity sales (GWh) | **9,228** | 6,553 | 41 | 13,925 |
| Gas production (mmth) | **183** | 150 | 22 | 297 |
| Power generation (GWh) | **2,346** | 2,549 | (8) | 5,053 |
| **Revenue (£m):** | | | | |
| Mass markets energy | **1,371** | 1,339 | 2.4 | 2,437 |
| Commercial & industrial energy | **712** | 483 | 47 | 978 |
| Home and business services | **168** | 169 | (0.6) | 351 |
| Upstream and wholesale energy | **201** | 82 | 145 | 226 |
| Total | **2,452** | 2,073 | 18 | 3,992 |
| **Operating profit / (loss) (£m)*:** | | | | |
| Mass markets energy | **61** | 88 | (31) | 123 |
| Commercial & industrial energy | **8** | (1) | nm | 1 |
| Home and business services | **3** | 3 | 0 | 17 |
| Upstream and wholesale energy | **19** | 20 | (5) | 46 |
| Total | **91** | 110 | (17) | 187 |
| **Operating margin (%)** | **3.7** | 5.3 | (1.6) ppts | 4.7 |

## European Energy

Our European businesses faced tough market conditions during the first half of the year, with a reported operating loss* of £1 million (2007: operating profit* £11 million).

In Oxxio in The Netherlands, we experienced sustained higher commodity prices and increased market pressures, as the incumbent utilities have become increasingly competitive ahead of full market unbundling. Although the market is very challenging the customer base remained stable at around 750,000.

In Belgium, the financial performance of SPE was in line with the prior year and we are now serving 1.5 million customers. In June the framework agreement governing Pax Electrica 2 (PE2) was signed with Electrabel under which, subject to regulatory clearance, SPE will increase its share of nuclear capacity which will increase its competitiveness in future and consolidate its position as the number two energy supplier in Belgium. On 23 July Centrica agreed to acquire GdF's 25.5% of SPE for €515 million, plus additional deferred consideration of up to €105 million contingent upon the approval of the PE2 agreement. This gives Centrica a controlling stake of 51%.

In Spain, Centrica Energía is one of three 100% green suppliers in the country and now supplies approximately 2TWh of power to its business customers. This has been assisted by the introduction of a new innovative service for Special Regime renewable energy producers, which enables them to supply the Spanish power market on a more economic basis.

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

In Germany Centrica Energie GmbH is beginning to benefit from improved market conditions as competition begins to develop in Germany. Having successfully secured gas via E.ON's gas release programme, it is building its portfolio of wholesale and industrial and commercial customers.

* including joint ventures and associates stated net of interest and taxation, and before certain re-measurements

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the interim report for the six month period ended 30 June 2008 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 report 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 2007 Annual Report and Accounts, with the exception of the following changes: Jake Ulrich resigned from the Board on 12 May 2008 and Mark Hanafin joined the Board as an Executive Director on 14 July 2008. A list of current Directors is maintained on the Centrica plc web site which can be found at www.centrica.com.

By order of the Board

**Sam Laidlaw**
31 July 2008
**CHIEF EXECUTIVE**

**Nick Luff**
31 July 2008
**GROUP FINANCE DIRECTOR**

# Independent Review Report to Centrica plc

### Introduction
We have been engaged by the Company to review the condensed interim Financial Statements in the interim report for the six months ended 30 June 2008, which comprises the Group Income Statement, Group Balance Sheet, Group Statement of Recognised Income and Expense, Group Cash Flow Statement and related notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the condensed interim Financial Statements.

### Directors' responsibilities
The interim report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual Financial Statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed interim Financial Statements included in the interim report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

### Our responsibility
Our responsibility is to express to the Company a conclusion on the condensed interim Financial Statements in the interim report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, 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.

### Scope of review
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.

### Review conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed interim Financial Statements in the interim report for the six months ended 30 June 2008 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 Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
1 Embankment Place
London
WC2N 6RH
31 July 2008

### Notes
(a) The maintenance and integrity of the Centrica plc web site is the responsibility of the Directors; the work carried out by PricewaterhouseCoopers LLP does not involve consideration of these matters and, accordingly, PricewaterhouseCoopers LLP accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the web site.
(b) 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 | 2008 Results for the period before certain re-measurements (i) £m | 2008 Certain re-measurements (i) £m | 2008 Results for the period £m | 2007 (restated) (ii) Results for the period before certain re-measurements (i) £m | 2007 (restated) (ii) Certain re-measurements (i) £m | 2007 (restated) (ii) Results for the period £m |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| **Group revenue** | 6 | **10,032** | **–** | **10,032** | 8,570 | – | 8,570 |
| Cost of sales | | **(7,930)** | **–** | **(7,930)** | (6,234) | – | (6,234) |
| Re-measurement of energy contracts (i) | 6,7 | **–** | **1,973** | **1,973** | – | 379 | 379 |
| **Gross profit** | | **2,102** | **1,973** | **4,075** | 2,336 | 379 | 2,715 |
| Operating costs | | **(1,118)** | **–** | **(1,118)** | (1,120) | – | (1,120) |
| Share of profits/(losses) in joint ventures and associates, net of interest and taxation (i) | | **8** | **–** | **8** | 10 | (5) | 5 |
| **Group operating profit** | 6 | **992** | **1,973** | **2,965** | 1,226 | 374 | 1,600 |
| Interest income | 8 | **144** | **–** | **144** | 83 | – | 83 |
| Interest expense | 8 | **(142)** | **–** | **(142)** | (111) | – | (111) |
| Net interest income/(expense) | 8 | **2** | **–** | **2** | (28) | – | (28) |
| **Profit from continuing operations before taxation** | | **994** | **1,973** | **2,967** | 1,198 | 374 | 1,572 |
| Taxation on profit from continuing operations | 9 | **(577)** | **(587)** | **(1,164)** | (411) | (89) | (500) |
| **Profit from continuing operations after taxation** | | **417** | **1,386** | **1,803** | 787 | 285 | 1,072 |
| Profit/(loss) from discontinued operations (i) | | **–** | **–** | **–** | 2 | (67) | (65) |
| **Discontinued operations** | | **–** | **–** | **–** | 2 | (67) | (65) |
| **Profit for the period** | | **417** | **1,386** | **1,803** | 789 | 218 | 1,007 |
| Attributable to: | | | | | | | |
| Equity holders of the parent | | **416** | **1,386** | **1,802** | 788 | 218 | 1,006 |
| Minority interests | | **1** | **–** | **1** | 1 | – | 1 |
| | | **417** | **1,386** | **1,803** | 789 | 218 | 1,007 |
| | | **Pence** | | **Pence** | Pence | | Pence |
| **Earnings per ordinary share** | | | | | | | |
| From continuing and discontinued operations: | | | | | | | |
| **Basic** | 10 | | | **48.9** | | | 27.4 |
| Adjusted basic | 10 | 11.3 | | | 21.5 | | |
| **Diluted** | 10 | | | **48.2** | | | 27.0 |
| From continuing operations: | | | | | | | |
| **Basic** | 10 | | | **48.9** | | | 29.2 |
| Adjusted basic | 10 | 11.3 | | | 21.4 | | |
| **Diluted** | 10 | | | **48.2** | | | 28.7 |
| **Interim dividend per share** | 11 | | | **3.90** | | | 3.35 |
| **Prior year final dividend paid per share** | 11 | | | **9.65** | | | 8.00 |

(i) Certain re-measurements (notes 3 and 7) included within operating profit comprise re-measurement arising on our energy procurement activities and re-measurement of proprietary trades in relation to cross-border transportation or capacity contracts. Certain re-measurements included within profit from discontinued operations in 2007 comprise re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund. All other re-measurement is included within results for the period before certain re-measurements.

(ii) Restated to present The Consumers' Waterheater Income Fund as a discontinued operation as explained in note 3.

The notes on pages 26 to 44 form part of these condensed interim Financial Statements.

Condensed interim Financial Statements

# Group Balance Sheet

| | Notes | 30 June 2008 £m | 31 December 2007 £m | 30 June 2007 (restated) (i) £m |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Goodwill | | **1,135** | 1,074 | 1,086 |
| Other intangible assets | | **497** | 465 | 481 |
| Property, plant and equipment | | **4,099** | 3,910 | 3,665 |
| Interests in joint ventures and associates | | **305** | 285 | 228 |
| Deferred tax assets | | **13** | 27 | 59 |
| Trade and other receivables | | **95** | 33 | 19 |
| Derivative financial instruments | 12 | **376** | 72 | 14 |
| Available-for-sale financial assets | | **49** | 39 | 38 |
| Retirement benefit assets | 14 | **–** | 152 | 130 |
| | | **6,569** | 6,057 | 5,720 |
| **Current assets** | | | | |
| Inventories | | **307** | 241 | 229 |
| Current tax assets | | **46** | 40 | 19 |
| Trade and other receivables | | **3,731** | 3,423 | 2,855 |
| Derivative financial instruments | 12 | **5,170** | 914 | 658 |
| Available-for-sale financial assets | | **50** | 50 | 90 |
| Cash and cash equivalents | | **1,662** | 1,130 | 1,130 |
| | | **10,966** | 5,798 | 4,981 |
| **Total assets** | | **17,535** | 11,855 | 10,701 |
| **Current liabilities** | | | | |
| Trade and other payables | | **(4,261)** | (3,371) | (2,317) |
| Current tax liabilities | | **(551)** | (281) | (411) |
| Bank overdrafts, loans and other borrowings | 13 | **(468)** | (221) | (91) |
| Derivative financial instruments | 12 | **(2,979)** | (1,404) | (1,264) |
| Provisions for other liabilities and charges | | **(132)** | (140) | (89) |
| | | **(8,391)** | (5,417) | (4,172) |
| **Net current assets** | | **2,575** | 381 | 809 |
| **Non-current liabilities** | | | | |
| Trade and other payables | | **(69)** | (20) | (34) |
| Bank loans and other borrowings | 13 | **(1,567)** | (1,793) | (2,695) |
| Derivative financial instruments | 12 | **(1)** | (11) | (56) |
| Deferred tax liabilities | | **(1,380)** | (596) | (384) |
| Retirement benefit obligations | 14 | **(279)** | (55) | (57) |
| Provisions for other liabilities and charges | | **(644)** | (581) | (577) |
| | | **(3,940)** | (3,056) | (3,803) |
| **Net assets** | | **5,204** | 3,382 | 2,726 |
| **Equity** | | | | |
| Called up share capital | 15,16 | **229** | 227 | 227 |
| Share premium account | 16 | **718** | 685 | 678 |
| Merger reserve | 16 | **467** | 467 | 467 |
| Capital redemption reserve | 16 | **16** | 16 | 16 |
| Other reserves | 16 | **3,714** | 1,928 | 1,280 |
| **Shareholders' equity** | 16 | **5,144** | 3,323 | 2,668 |
| Minority interests in equity | 16 | **60** | 59 | 58 |
| **Total minority interests and shareholders' equity** | 16 | **5,204** | 3,382 | 2,726 |

(i) Restated to present exploration and evaluation expenditure, previously reported in property, plant and equipment, in other intangible assets on the Balance Sheet as explained in note 3.

The notes on pages 26 to 44 form part of these condensed interim Financial Statements.

Condensed interim Financial Statements

# Group Statement of Recognised Income and Expense

| Six months ended 30 June | Notes | 2008 £m | 2007 £m |
|---|---|---|---|
| **Profit for the period** | | **1,803** | 1,007 |
| (Losses)/gains on revaluation of available-for-sale financial assets | 16 | **(9)** | 1 |
| Gains/(losses) on cash flow hedges | 16 | **1,025** | (90) |
| Exchange differences on translation of foreign operations | 16 | **(1)** | 6 |
| Actuarial (losses)/gains on defined benefit pension schemes | 14 | **(492)** | 340 |
| Tax on items taken directly to equity | 16 | **(179)** | (68) |
| **Net income recognised directly in equity** | | **344** | 189 |
| Transferred to income and expense on cash flow hedges | 16 | **(20)** | 237 |
| Tax on items transferred from equity | 16 | **5** | (83) |
| **Transfers** | | **(15)** | 154 |
| **Total recognised income and expense for the period** | | **2,132** | 1,350 |
| Total income and expense recognised in the period is attributable to: | | | |
| Equity holders of the parent | | **2,131** | 1,349 |
| Minority interests | | **1** | 1 |
| | | **2,132** | 1,350 |

The notes on pages 26 to 44 form part of these condensed interim Financial Statements.

# Group Cash Flow Statement

| Six months ended 30 June | Notes | 2008 £m | 2007 (restated) (i) £m |
|---|---|---|---|
| Operating cash flows before movements in working capital | 17 | **1,315** | 1,519 |
| (Increase)/decrease in inventories | | **(67)** | 43 |
| (Increase)/decrease in receivables | | **(103)** | 722 |
| Increase/(decrease) in payables | | **682** | (963) |
| Cash generated from continuing operations | | **1,827** | 1,321 |
| Interest received | | **10** | 9 |
| Interest paid | | **(7)** | (1) |
| Tax paid | | **(277)** | (33) |
| Payments relating to exceptional charges | | **(66)** | (68) |
| Net cash flow from continuing operating activities | 17 | **1,487** | 1,228 |
| Net cash flow from discontinued operating activities | 17 | **–** | 33 |
| **Net cash flow from operating activities** | | **1,487** | 1,261 |
| Purchase of interests in subsidiary undertakings and businesses net of cash and cash equivalents acquired | 18 | **(147)** | (14) |
| Disposal of interests in subsidiary undertakings and businesses net of cash and cash equivalents disposed | | **–** | 1 |
| Purchase of intangible assets (i) | 6 | **(70)** | (73) |
| Disposal of intangible assets | | **–** | 2 |
| Purchase of property, plant and equipment (i) | 6 | **(333)** | (273) |
| Disposal of property, plant and equipment | | **12** | 76 |
| Investments in joint ventures and associates | | **(1)** | (2) |
| Disposal of interests in associates and other investments | | **1** | – |
| Interest received | | **11** | 12 |
| Net purchase of available-for-sale financial assets | | **(19)** | (42) |
| Net cash flow from continuing investing activities | | **(546)** | (313) |
| Net cash flow from discontinued investing activities | | **–** | (29) |
| **Net cash flow from investing activities** | | **(546)** | (342) |
| Issue of ordinary share capital | | **30** | 15 |
| Interest paid in respect of finance leases | | **(12)** | (28) |
| Other interest paid | | **(38)** | (51) |
| Interest paid | | **(50)** | (79) |
| Cash inflow from additional debt | | **38** | 53 |
| Cash outflow from payment of capital element of finance leases | | **(10)** | (9) |
| Cash outflow from repayment of other debt | | **(28)** | (104) |
| Net cash flow from decrease in debt | | **–** | (60) |
| Realised net foreign exchange loss on cash settlement of derivative contracts | | **(24)** | – |
| Equity dividends paid | 11 | **(356)** | (294) |
| Net cash flow from continuing financing activities | | **(400)** | (418) |
| Net cash flow from discontinued financing activities | | **–** | (6) |
| **Net cash flow from financing activities** | | **(400)** | (424) |
| **Net increase in cash and cash equivalents** | | **541** | 495 |
| Cash and cash equivalents at 1 January (ii) | | **1,100** | 592 |
| Effect of foreign exchange rate changes | | **1** | 1 |
| **Cash and cash equivalents at 30 June (ii)** | | **1,642** | 1,088 |

(i) Restated to present exploration and evaluation expenditure, previously reported in property, plant and equipment, in other intangible assets on the Balance Sheet and to present The Consumers' Waterheater Income Fund as a discontinued operation as explained in note 3.
(ii) Cash and cash equivalents are stated net of overdrafts of £20 million (2007: £42 million).

The notes on pages 26 to 44 form part of these condensed interim Financial Statements.

## 1. General information

Centrica plc is a limited liability company incorporated and domiciled in the UK. The address of the registered office is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD.

The Company has its primary listing on the London Stock Exchange.

The condensed interim Financial Statements for the six months ended 30 June 2008 were authorised for issue in accordance with a resolution of the Board of Directors on 31 July 2008.

These condensed interim Financial Statements do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 December 2007 were approved by the Board of Directors on 21 February 2008 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 237 of the Companies Act 1985.

The financial information contained in this report is unaudited. The Income Statement, Statement of Recognised Income and Expense and Cash Flow Statement for the interim period to 30 June 2008, and the Balance Sheet as at 30 June 2008 and related notes have been reviewed by the auditors and their report to the Company is set out on page 21.

## 2. Basis of preparation

These condensed interim Financial Statements for the six months ended 30 June 2008 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services 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 2007, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

## 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 2007, as described in the annual Financial Statements, with the exception of standards, amendments and interpretations effective in 2008.

**(a) Standards, amendments and interpretations effective in 2008**
At the date of authorisation of these condensed interim Financial Statements, the following interpretations issued by the International Financial Reporting Interpretations Committee were effective for the period:

- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions;
- IFRIC 12, Service Concession Arrangements; and
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The adoption of these interpretations has not led to any changes in the Group's accounting policies.

**(b) Certain re-measurements**
The Group's Income Statement and segmental note separately identify the effects of re-measurement of certain financial instruments, in order to provide readers with a clear and consistent presentation of the Group's underlying performance.

As part of its energy procurement activities the Group enters into a range of commodity contracts designed to achieve security of energy supply. These contracts comprise both purchases and sales and cover a wide range of volumes, prices and timescales. The majority of the underlying supply comes from high volume long-term contracts which are complemented by short-term arrangements. These short-term contracts are entered into for the purpose of balancing energy supplies and customer demand and to optimise the price paid by the Group. Short-term demand can vary significantly as a result of factors such as weather, power generation profiles and short-term movements in market prices.

Many of the energy procurement contracts are held for the purpose of receipt or delivery of commodities in accordance with the Group's purchase, sale or usage requirements and are therefore out of scope of IAS 39, Financial Instruments: Recognition and

### 3. Accounting policies continued

Measurement. However, a number of contracts are considered to be derivative financial instruments and are required to be fair valued under IAS 39, primarily because their terms include the ability to trade elements of the contracted volumes on a net-settled basis.

The Group has shown the fair value adjustments arising on these contracts separately in the certain re-measurements column. This is because the intention of management is, subject to short-term demand balancing, to use these energy supplies to meet customer demand. Accordingly, management believe the ultimate net charge to cost of sales will be consistent with the price of energy agreed in these contracts and that the fair value adjustments will reverse as the energy is supplied over the life of the contract. This makes the fair value re-measurements very different in nature from costs arising from the physical delivery of energy in the period.

At the balance sheet date the fair value represents the discounted difference between the prices agreed in the respective contracts and the actual or anticipated market price of acquiring the same amount of energy on the open market. The movement in the fair value taken to certain re-measurements in the Income Statement represents the unwind of the contracted volume delivered or consumed during the period, combined with the change in fair value of future contracted energy as a result of movements in forward energy prices during the period.

These adjustments represent the significant majority of the items included in certain re-measurements. In addition to these, however, the Group has identified a number of comparable contractual arrangements where the discounted difference between the price which the Group expects to pay or receive under a contract and the market price is required to be recognised by IAS 39. These additional items relate to cross-border transportation or transmission capacity, storage capacity and contracts relating to the sale of energy by-products, on which economic value has been created which is not wholly recognised under the requirements of IAS 39. For these arrangements the related fair value adjustments are also included under certain re-measurements.

These arrangements are 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 results before certain re-measurements.

**(c) Change of accounting presentation**
As detailed in note 2(c) of the 2007 Annual Report and Accounts, the Group adopted a change in accounting presentation in relation to capitalised exploration and evaluation costs associated with oil and gas activities. Such costs, which were previously presented as property, plant and equipment, are now presented as intangible assets in order to better reflect their nature. The impact to comparatives of the change in accounting presentation is to reclassify £34 million of capitalised costs from property, plant and equipment to intangible assets as at 30 June 2007 and to reclassify £15 million of net cash flow from investing activities from purchase of property, plant and equipment to purchase of intangible assets for the period ended 30 June 2008.

**(d) The Consumers' Waterheater Income Fund**
As detailed in note 3 of the 2007 Annual Report and Accounts, the Group deconsolidated the Consumers' Waterheater Income Fund (the Fund) with effect from 1 December 2007. As a result, the comparative information within these condensed interim Financial Statements has been restated to present the results of the Fund in prior periods as discontinued operations distinct from continuing operations within the Income Statement.

## 4. Financial 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 Group's overall risk management process is designed to identify, manage and mitigate business risks, including financial risks. The Group's overall risk management process is described in the Group's 2007 Annual Report and Accounts.

The interim period to 30 June 2008 has seen a significant increase in commodity prices and a continuing shortage of available credit in the market. As a result of these external market factors, the Group is encountering an increase in commodity price risk, credit risk and liquidity risk compared with that experienced at the end of 2007.

The increase in commodity prices has resulted in significant mark-to-market gains on certain energy procurement contracts where the purchase price has been locked in by contract. This exposes the Group to an increase in the risk of loss associated with the counterparty's inability or failure to discharge its obligations under these contracts. The Group sets credit limits, uses master netting agreements and, where possible, net settles payments with counterparties to manage credit risk. In addition, the Group employs a variety of security measures to mitigate credit risk: margining, various forms of bank and parent company guarantees and letters of credit. At 30 June 2008 the Group was holding £1.1 billion (31 December 2007: £93 million, 30 June 2007: £7 million) of cash as

### 4. Financial risk management continued

collateral against counterparty balances and had pledged £25 million (31 December 2007: £118 million, 30 June 2007: £118 million) of cash as collateral, principally under margin calls to cover exposure to mark-to-market positions on derivative contracts.

The increase in commodity prices has also resulted in an increase in the volatility of cash balances as a result of the Group's various margin cash arrangements. Were commodity prices to fall significantly from their current levels, cash would be required to meet margin calls with some of the Group's counterparties. To mitigate this risk the Group holds cash on short-term deposit and maintains significant committed bank facilities. The Group's liquidity position is monitored and stress tested on a regular basis.

In addition to the above, the increase in commodity prices has increased the Group's working capital requirements as commodity settlement is generally required before funds are collected from retail customers.

The Group continues to manage these risks in accordance with its financial risk management processes and has not incurred any additional significant costs as a result of the increased liquidity or credit risk.

## 5. Seasonality of operations

Certain activities of the Group are affected by weather and temperature conditions. As a result of this, amounts reported for the interim period may not be indicative of the amounts that will 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 heating systems break down, 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 residential new construction in the US and the 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 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 when 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.

## 6. Segmental analysis

| Six months ended 30 June | | | 2008 | | | 2007 (restated) (iv) |
|---|---|---|---|---|---|---|
| **(a) Revenue** | **Gross segment revenue £m** | **Less inter-segment revenue (i),(ii),(iii) £m** | **Group revenue £m** | Gross segment revenue £m | Less inter-segment revenue (i),(ii),(iii) £m | Group revenue £m |
| Continuing operations: | | | | | | |
| British Gas Residential | **3,823** | **–** | **3,823** | 3,497 | – | 3,497 |
| British Gas Business | **1,444** | **–** | **1,444** | 1,267 | – | 1,267 |
| British Gas Services | **664** | **–** | **664** | 616 | – | 616 |
| Gas production and development (i) | **925** | **(688)** | **237** | 366 | (229) | 137 |
| Power generation (i) | **583** | **(305)** | **278** | 525 | (305) | 220 |
| Industrial and commercial (ii) | **790** | **(265)** | **525** | 395 | – | 395 |
| Accord energy trading (iii) | **31** | **(6)** | **25** | 26 | – | 26 |
| Centrica Energy | **2,329** | **(1,264)** | **1,065** | 1,312 | (534) | 778 |
| Centrica Storage (i) | **244** | **(32)** | **212** | 196 | (34) | 162 |
| Direct Energy (iv) | **2,452** | **–** | **2,452** | 2,073 | – | 2,073 |
| European Energy | **372** | **–** | **372** | 177 | – | 177 |
| | **11,328** | **(1,296)** | **10,032** | 9,138 | (568) | 8,570 |
| Discontinued operations: | | | | | | |
| The Consumers' Waterheater Income Fund (iv) | **–** | **–** | **–** | 22 | – | 22 |
| | **–** | **–** | **–** | 22 | – | 22 |

(i) Inter-segment revenue reflects the level of revenue generated on sales to other Group segments on an arm's length basis.
(ii) Inter-segment revenue in the Industrial and commercial segment reflects the sale of upstream gas produced or procured to other Group segments on an arm's length basis. Prior to 2008, the Group's downstream businesses procured gas directly from Gas production and development or externally.
(iii) Group revenue presented for Accord energy trading comprises both realised (settled) and unrealised (fair value changes) from trading in physical and financial energy contracts. Inter-segment revenue represents brokerage fees charged to other Group segments.
(iv) Restated to present The Consumers' Waterheater Income Fund as a discontinued operation as described in note 3. Discontinued operations previously formed part of the Direct Energy segment.

## 6. Segmental analysis continued

| Six months ended 30 June | Operating profit/(loss) before certain re-measurements | | Certain re-measurements (note 3) | | Operating profit/(loss) after certain re-measurements | |
|---|---|---|---|---|---|---|
| **(b) Operating profit** | **2008 £m** | 2007 (restated) (i) £m | **2008 £m** | 2007 £m | **2008 £m** | 2007 (restated) (i) £m |
| Continuing operations: | | | | | | |
| British Gas Residential | **166** | 533 | **1,546** | 103 | **1,712** | 636 |
| British Gas Business | **55** | 48 | **278** | 133 | **333** | 181 |
| British Gas Services | **85** | 63 | **–** | – | **85** | 63 |
| Gas production and development | **638** | 123 | **(70)** | – | **568** | 123 |
| Power generation | **(5)** | 47 | **(49)** | (1) | **(54)** | 46 |
| Industrial and commercial | **(156)** | 148 | **(309)** | 106 | **(465)** | 254 |
| Accord energy trading | **27** | 19 | **(1)** | (3) | **26** | 16 |
| Centrica Energy | **504** | 337 | **(429)** | 102 | **75** | 439 |
| Centrica Storage | **93** | 128 | **(35)** | (1) | **58** | 127 |
| Direct Energy (i) | **91** | 110 | **497** | 43 | **588** | 153 |
| European Energy | **(1)** | 11 | **116** | (5) | **115** | 6 |
| Other operations | **(1)** | (4) | **–** | (1) | **(1)** | (5) |
| | **992** | 1,226 | **1,973** | 374 | **2,965** | 1,600 |
| Discontinued operations: | | | | | | |
| The Consumers' Waterheater Income Fund (i) | **–** | 22 | **–** | – | **–** | 22 |
| | **–** | 22 | **–** | – | **–** | 22 |

(i) Restated to present The Consumers' Waterheater Income Fund as a discontinued operation as explained in note 3. Discontinued operations previously formed part of the Direct Energy segment.

## 6. Segmental analysis continued

| Six months ended 30 June<br>(c) Capital expenditure | Capital expenditure on property, plant and equipment 2008 £m | Capital expenditure on property, plant and equipment 2007 (restated) (i) £m | Capital expenditure on intangible assets other than goodwill (ii) 2008 £m | Capital expenditure on intangible assets other than goodwill (ii) 2007 (restated) (i) £m |
|---|---|---|---|---|
| British Gas Residential | **–** | 1 | **5** | 1 |
| British Gas Business | **1** | – | **–** | 6 |
| British Gas Services | **5** | 3 | **–** | 2 |
| Gas production and development | **69** | 69 | **9** | 7 |
| Power generation | **213** | 160 | **30** | 32 |
| Industrial and commercial | **–** | 7 | **8** | 3 |
| Accord energy trading | **–** | – | **–** | – |
| Centrica Energy | **282** | 236 | **47** | 42 |
| Centrica Storage | **8** | 6 | **–** | – |
| Direct Energy | **31** | 23 | **10** | 14 |
| European Energy | **2** | 7 | **6** | 6 |
| Other operations | **1** | 8 | **2** | 1 |
| **Additions** | **330** | 284 | **70** | 72 |
| Increase/(decrease) in prepayments related to capital expenditure | **(27)** | (35) | **–** | – |
| (Increase)/decrease in trade payables related to capital expenditure | **30** | 24 | **–** | 1 |
| **Net cash outflow** | **333** | 273 | **70** | 73 |

(i) Restated to present exploration and evaluation expenditure, previously reported in property, plant and equipment, in other intangible assets on the Balance Sheet as described in note 3.
(ii) See note 18 for additions to goodwill.

# 7. Certain re-measurements

| Six months ended 30 June | 2008 £m | 2007 £m |
|---|---|---|
| **Certain re-measurements recognised in relation to energy contracts** | | |
| Net (loss)/gain arising on delivery of contracts (i) | **(41)** | 309 |
| Net gains arising on market price movements and new contracts (ii) | **2,024** | 80 |
| Net losses arising on proprietary trades in relation to cross-border transportation or capacity contracts (iii) | **(10)** | (10) |
| **Net re-measurement of energy contracts included within gross profit** | **1,973** | 379 |
| Net losses arising on re-measurement of joint ventures' energy contracts (iv) | **–** | (5) |
| **Net re-measurement included within Group operating profit** | **1,973** | 374 |
| Taxation on certain re-measurements | **(587)** | (89) |
| **Net re-measurement after taxation** | **1,386** | 285 |
| Discontinued operations: | | |
| Fair value losses arising on re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund (v) | **–** | (67) |
| **Total certain re-measurements** | **1,386** | 218 |

(i) As energy is delivered or consumed from previously contracted positions, the related fair value recognised in the opening balance sheet (representing the discounted difference between forward energy prices at the opening balance sheet date, and the contract price of energy to be delivered) is charged or credited to the Income Statement.
(ii) Represents fair value gains arising from the change in fair value of future contracted sales and purchase contracts as a result of changes in forward energy prices between reporting dates (or date of inception and the reporting date, where later).
(iii) Comprises movements in fair value arising on proprietary trades in relation to cross-border transportation or storage capacity, on which economic value has been created which is not wholly accounted for under the provisions of IAS 39.
(iv) Certain re-measurements included within Group operating profit also include the Group's share of the certain re-measurements relating to the energy procurement activities of joint ventures.
(v) Certain re-measurements included within discontinued operations comprise re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund.

## 8. Net interest

| Six months ended 30 June | Interest expense £m | Interest income £m | 2008 Total £m | Interest expense £m | Interest income £m | 2007 (restated) (i) Total £m |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| **Cost of servicing net debt** | | | | | | |
| Interest income | – | 43 | 43 | – | 28 | 28 |
| Interest expense on bank loans and overdrafts | (51) | – | (51) | (44) | – | (44) |
| Interest expense on finance leases (including tolling agreements) | (12) | – | (12) | (24) | – | (24) |
| | (63) | 43 | (20) | (68) | 28 | (40) |
| **(Losses)/gains on revaluation** | | | | | | |
| Fair value (losses)/gains on hedges | (12) | 12 | – | (12) | 9 | (3) |
| Fair value (losses)/gains on other derivatives | (36) | 51 | 15 | (21) | 7 | (14) |
| Net foreign exchange translation of monetary assets and liabilities | (14) | – | (14) | – | 7 | 7 |
| | (62) | 63 | 1 | (33) | 23 | (10) |
| **Other interest** | | | | | | |
| Notional interest arising on discounted items | (8) | 29 | 21 | (10) | 26 | 16 |
| Interest on margin cash balances | (9) | 1 | (8) | – | 1 | 1 |
| Interest on supplier early payment arrangements | – | 8 | 8 | – | 5 | 5 |
| | (17) | 38 | 21 | (10) | 32 | 22 |
| **Interest (expense)/income** | (142) | 144 | 2 | (111) | 83 | (28) |

(i) Restated to present The Consumers' Waterheater Income Fund as a discontinued operation as explained in note 3.

## 9. Taxation

| Analysis of tax charge for the period | Six months ended 30 June 2008 £m | Six months ended 30 June 2007 £m |
|---|---|---|
| UK corporation tax (including adjustments in respect of prior years) | 290 | 324 |
| UK petroleum revenue tax | 267 | 55 |
| Foreign tax (including adjustments in respect of prior years) | 20 | 32 |
| **Taxation on profit before certain re-measurements** | 577 | 411 |
| Tax on certain re-measurements (note 7) | 587 | 89 |
| **Total tax on profit from continuing operations** | 1,164 | 500 |

The Group's effective tax rate on a continuing basis before certain re-measurements increased to 58% for the six months ended 30 June 2008 (2007: 34%) as a result of the change in profit mix towards greater upstream contributions.

## 10. Earnings per ordinary share

Basic earnings per ordinary share has been calculated by dividing the earnings attributable to equity holders of the Company for the period of £1,802 million (2007: £1,006 million) by the weighted average number of ordinary shares in issue during the period of 3,686 million (2007: 3,667 million).

The reconciliation of basic to adjusted basic earnings per ordinary share is as follows:

| Six months ended 30 June | 2008 | | 2007 | |
|---|---|---|---|---|
| **(a) Continuing and discontinued operations** | £m | Pence per ordinary share | £m | Pence per ordinary share |
| Earnings – basic | **1,802** | **48.9** | 1,006 | 27.4 |
| Certain re-measurement gains after tax (notes 3 and 7) | **(1,386)** | **(37.6)** | (218) | (5.9) |
| Earnings – adjusted basic | **416** | **11.3** | 788 | 21.5 |
| Earnings – diluted | **1,802** | **48.2** | 1,006 | 27.0 |

| Six months ended 30 June | 2008 | | 2007 | |
|---|---|---|---|---|
| **(b) Continuing operations** | £m | Pence per ordinary share | £m | Pence per ordinary share |
| Earnings – basic | **1,802** | **48.9** | 1,071 | 29.2 |
| Certain re-measurement gains after tax (notes 3 and 7) | **(1,386)** | **(37.6)** | (285) | (7.8) |
| Earnings – adjusted basic | **416** | **11.3** | 786 | 21.4 |
| Earnings – diluted | **1,802** | **48.2** | 1,071 | 28.7 |

| Six months ended 30 June | 2008 | | 2007 | |
|---|---|---|---|---|
| **(c) Discontinued operations** | £m | Pence per ordinary share | £m | Pence per ordinary share |
| Loss – basic | **–** | **–** | (65) | (1.8) |
| Loss – diluted | **–** | **–** | (65) | (1.7) |

Certain re-measurements (notes 3 and 7) included within operating profit comprise re-measurement arising on our energy procurement activities and re-measurement of proprietary trades in relation to cross-border transportation or capacity contracts. Certain re-measurements included within discontinued operations comprise re-measurement of the publicly traded units of The Consumers' Waterheater Income Fund. All other re-measurements are included within results before certain re-measurements.

## 11. Dividends

The prior year final dividend of 9.65 pence (2007: 8.00 pence) per ordinary share was paid on 11 June 2008 (2007: 13 June) totalling £356 million (2007: £294 million).

An interim dividend of 3.90 pence (2007: 3.35 pence) per ordinary share (totalling £145 million) will be paid on 12 November 2008.

## 12. Derivative financial instruments

Derivatives held for proprietary energy trading are carried at fair value with changes in fair value recognised in the Group's results for the period before certain re-measurements, with the exception of certain derivatives related to cross-border transportation and capacity contracts (note 3). Derivative financial instruments held for treasury management or energy procurement are also carried at fair value with changes in the fair value of derivatives related to treasury management reflected in results for the period before certain re-measurements, and those related to energy procurement reflected in certain re-measurements. Energy contracts designated at fair value through profit and loss include certain energy contracts that the Group has, at its option, designated at fair value through profit and loss under IAS 39 because the energy contract contains one or more embedded derivatives that significantly modify the cash flows under the contract. In cases where a derivative does qualify for hedge accounting, derivatives are classified as fair value hedges, cash flow hedges or hedges of a net investment in a foreign operation. The increase in unrealised mark-to-market assets is due to gas and power purchase contracts which are priced below the current wholesale value of energy.

| | **30 June 2008 £m** | 31 December 2007 £m | 30 June 2007 £m |
|---|---|---|---|
| Derivative financial instruments – held for proprietary energy trading | | | |
| Derivative financial instruments – held for trading under IAS 39 | | | |
| Energy derivatives – assets | **854** | 44 | 249 |
| Energy derivatives – liabilities | **(842)** | (52) | (307) |
| | **12** | (8) | (58) |
| Derivatives financial instruments – held for treasury management or energy procurement | | | |
| Derivative financial instruments – held for trading under IAS 39 | | | |
| Energy derivatives – assets | **3,543** | 789 | 392 |
| Energy derivatives – liabilities | **(2,071)** | (1,100) | (551) |
| Interest rate derivatives – assets | **2** | 2 | 3 |
| Interest rate derivatives – liabilities | **(3)** | (5) | (1) |
| Foreign exchange derivatives – assets | **40** | 19 | 10 |
| Foreign exchange derivatives – liabilities | **(38)** | (80) | (3) |
| | **1,473** | (375) | (150) |
| Energy contracts designated at fair value through profit and loss | | | |
| Energy derivatives – assets | **12** | 9 | 10 |
| Energy derivatives – liabilities | **(10)** | (86) | (52) |
| | **2** | (77) | (42) |
| Derivative financial instruments in hedge accounting relationships | | | |
| Energy derivatives – assets | **1,073** | 123 | – |
| Energy derivatives – liabilities | **(3)** | (68) | (350) |
| Interest rate derivatives – assets | **2** | – | 1 |
| Interest rate derivatives – liabilities | **(10)** | (7) | (34) |
| Foreign exchange derivatives – assets | **20** | – | 7 |
| Foreign exchange derivatives – liabilities | **(3)** | (17) | (22) |
| | **1,079** | 31 | (398) |
| **Net total** | **2,566** | (429) | (648) |

The net total reconciles to the Balance Sheet as follows:

| | **30 June 2008 £m** | 31 December 2007 £m | 30 June 2007 £m |
|---|---|---|---|
| Derivative financial instruments – non-current assets | **376** | 72 | 14 |
| Derivative financial instruments – current assets | **5,170** | 914 | 658 |
| | **5,546** | 986 | 672 |
| Derivative financial instruments – current liabilities | **(2,979)** | (1,404) | (1,264) |
| Derivative financial instruments – non-current liabilities | **(1)** | (11) | (56) |
| | **(2,980)** | (1,415) | (1,320) |
| **Net total** | **2,566** | (429) | (648) |

## 13. Bank overdrafts, loans and other borrowings

| | Interest Rate % | Principal m | **30 June 2008** Current £m | **30 June 2008** Non-current £m | **30 June 2008** Total £m | 31 December 2007 Current £m | 31 December 2007 Non-current £m | 31 December 2007 Total £m |
|---|---|---|---|---|---|---|---|---|
| **Recourse borrowings** | | | | | | | | |
| Bank overdrafts and loans | | | **54** | **309** | **363** | 70 | 277 | 347 |
| Bonds (by maturity date) | | | | | | | | |
| 25 July 2008 | 3.500 | €75 | **61** | **–** | **61** | 57 | – | 57 |
| 8 September 2008 | Floating | €100 | **80** | **–** | **80** | 74 | – | 74 |
| 9 March 2009 | 4.129 | £250 | **252** | **–** | **252** | – | 253 | 253 |
| 2 November 2012 | 6.103 | £400 | **–** | **404** | **404** | – | 400 | 400 |
| 27 February 2013 | 1.045 | ¥3,000 | **–** | **15** | **15** | – | 13 | 13 |
| 24 October 2016 | 5.706 | £300 | **–** | **300** | **300** | – | 300 | 300 |
| 4 September 2026 | Floating | £150 | **–** | **153** | **153** | – | 153 | 153 |
| | | | **393** | **872** | **1,265** | 131 | 1,119 | 1,250 |
| Obligations under finance leases (including power station tolling arrangements) | | | **21** | **386** | **407** | 20 | 397 | 417 |
| | | | **468** | **1,567** | **2,035** | 221 | 1,793 | 2,014 |

| | Interest Rate % | Principal m | 30 June 2007 Current £m | 30 June 2007 Non-current £m | 30 June 2007 Total £m |
|---|---|---|---|---|---|
| **Recourse borrowings** | | | | | |
| Bank overdrafts and loans | | | 66 | 102 | 168 |
| Bonds (by maturity date) | | | | | |
| 25 July 2008 | 3.500 | €75 | – | 52 | 52 |
| 8 September 2008 | Floating | €100 | – | 68 | 68 |
| 9 March 2009 | 4.129 | £250 | – | 251 | 251 |
| 2 November 2012 | 6.103 | £400 | – | 400 | 400 |
| 27 February 2013 | 1.045 | ¥3,000 | – | 14 | 14 |
| 24 October 2016 | 5.706 | £300 | – | 298 | 298 |
| 4 September 2026 | Floating | £150 | – | 153 | 153 |
| | | | – | 1,236 | 1,236 |
| Obligations under finance leases (including power station tolling arrangements) | | | 25 | 771 | 796 |
| | | | 91 | 2,109 | 2,200 |
| **Non-recourse borrowings** | | | | | |
| Bonds (by maturity date) (i) | | | | | |
| 28 January 2013 | 4.700 | C$275 | – | 128 | 128 |
| 28 January 2015 | 5.245 | C$225 | – | 105 | 105 |
| | | | – | 233 | 233 |
| Units of The Consumers' Waterheater Income Fund (ii) | | | – | 353 | 353 |
| | | | 91 | 2,695 | 2,786 |

(i) This debt was issued by The Consumers' Waterheater Income Fund. The Group deconsolidated the Fund with effect from 1 December 2007 as described in note 3.
(ii) Prior to the deconsolidation of the Fund with effect from 1 December 2007, units of the Fund were treated as debt in the Group Financial Statements.

## 14. Pensions

Substantially all of the Group's UK employees at 30 June 2008 were members of one of the three main schemes: the Centrica Pension Scheme, the Centrica Engineers' Pension Scheme and the Centrica Management Pension Scheme (together the approved pension schemes). The Centrica Pension Scheme (final salary section) and the Centrica Management Pension Scheme (a final salary scheme) were closed to new members from 1 April 2003. The Centrica Pension Scheme (career average salary section) was closed to new members from 1 July 2008. The Centrica Engineers' Pension Scheme (final salary section) was closed to new members from 1 April 2006, and a career average salary section was added to the scheme at that date. These schemes are defined benefit schemes, and are tax-approved funded arrangements. They are subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' 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 Centrica Unapproved Pension Scheme is an unfunded arrangement which provides benefits to certain employees whose benefits under the main schemes would otherwise be limited by the earnings cap. The Group also has a commitment to provide pension and post retirement benefits to certain employees of Direct Energy Marketing Limited (Canada) under a defined benefit scheme.

The latest full actuarial valuations were carried out at the following dates: the approved pension schemes at 31 March 2006, the Unapproved Pension Scheme at 6 April 2005 and the Direct Energy Marketing Limited defined benefit pension scheme at 14 June 2005. These have been updated to 30 June 2008 for the purposes of meeting the requirements of IAS 19. Investments have been valued, for this purpose, at market value.

In addition, the Group has a commitment to provide contributions to defined contribution schemes for certain employees in the UK and North America who are not members of one of the Group's defined benefit schemes.

| **Major assumptions used for the actuarial valuation** | **30 June 2008 %** | 31 December 2007 % | 30 June 2007 % |
|---|---|---|---|
| Rate of increase in employee earnings | **4.90** | 4.40 | 4.30 |
| Rate of increase in pensions in payment and deferred pensions | **3.90** | 3.40 | 3.30 |
| Discount rate | **6.20** | 5.80 | 5.65 |
| Inflation assumption | **3.90** | 3.40 | 3.30 |

Demographic assumptions remain unchanged from 31 December 2007.

The market value of the assets and the present value of the liabilities in the schemes at the balance sheet date are as follows:

| | **30 June 2008 £m** | 31 December 2007 £m | 30 June 2007 £m |
|---|---|---|---|
| UK equities | **1,113** | 1,549 | 1,586 |
| Non-UK equities | **1,108** | 931 | 943 |
| Fixed-interest bonds | **414** | 412 | 301 |
| Index-linked bonds | **363** | 351 | 253 |
| Property | **69** | 50 | 67 |
| Cash and other assets | **89** | 34 | 80 |
| Total fair value of plan assets | **3,156** | 3,327 | 3,230 |
| Present value of defined benefit obligation | **(3,435)** | (3,230) | (3,157) |
| Net (liability)/asset recognised in the Balance Sheet | **(279)** | 97 | 73 |
| Associated deferred tax asset/(liability) recognised in the Balance Sheet | **78** | (28) | (22) |
| Net pension (liability)/asset | **(201)** | 69 | 51 |
| Net (liability)/asset recognised in the Balance Sheet comprises: | | | |
| Surpluses | **–** | 152 | 130 |
| Deficits | **(279)** | (55) | (57) |
| | **(279)** | 97 | 73 |

Included within schemes' liabilities above are £29 million (31 December 2007: £31 million, 30 June 2007: £30 million) relating to unfunded pension arrangements. Included within non-current available-for-sale financial assets are £25 million (31 December 2007: £30 million, 30 June 2007: £30 million) of investments, held by the Law Debenture Trust on behalf of the Company, as security in respect of the Centrica Unapproved Pension Scheme.

## 14. Pensions continued

| Analysis of the amount charged to operating profit | Six months ended 30 June 2008 £m | Six months ended 30 June 2007 £m |
|---|---|---|
| Current service cost [(i)] | 51 | 70 |
| Past service credit | (3) | – |
| Net charge to operating profit | 48 | 70 |

(i) In addition to current service cost on the Group's defined benefit pension schemes the Group also charged £3 million (2007: £2 million) to operating profit in respect of defined contribution pension schemes.

| Analysis of the amount credited to notional interest | Six months ended 30 June 2008 £m | Six months ended 30 June 2007 £m |
|---|---|---|
| Expected return on pension scheme assets | 120 | 108 |
| Interest on pension scheme liabilities | (93) | (82) |
| Net credit to notional interest income | 27 | 26 |

| Analysis of the actuarial (loss)/gain recognised in the Statement of Recognised Income and Expense | Six months ended 30 June 2008 £m | Six months ended 30 June 2007 £m |
|---|---|---|
| Actual return less expected return on pension scheme assets | (402) | 70 |
| Experience gains and losses arising on the scheme liabilities | (2) | (17) |
| Changes in assumptions underlying the present value of the schemes' liabilities | (88) | 287 |
| Actuarial (loss)/gain to be recognised in the Statement of Recognised Income and Expense before adjustment for tax | (492) | 340 |
| Cumulative actuarial gains and losses recognised in reserves at 1 January | 723 | 439 |
| Cumulative actuarial gains and losses recognised in reserves at 30 June | 231 | 779 |

## 15. Called up share capital

| | 30 June 2008 £m | 31 December 2007 £m | 30 June 2007 £m |
|---|---|---|---|
| **Authorised share capital of the Company** | | | |
| 4,455,000,000 ordinary shares of $6^{14}/_{81}$p each | | | |
| (31 December and 30 June 2007: 4,455,000,000 ordinary shares of $6^{14}/_{81}$p each) | 275 | 275 | 275 |
| 100,000 cumulative redeemable preference shares of £1 each | – | – | – |
| **Allotted and fully paid share capital of the Company** | | | |
| 3,707,858,032 ordinary shares of $6^{14}/_{81}$p each | | | |
| (31 December: 3,679,980,311 ordinary shares and 30 June 2007: 3,676,262,304 ordinary shares of $6^{14}/_{81}$p each) | 229 | 227 | 227 |

The movement in allotted and fully paid share capital of the Company for the period was as follows:

| | 2008 Number | 2007 Number |
|---|---|---|
| 1 January | 3,679,980,311 | 3,662,721,068 |
| Shares issued under employee share schemes | 27,877,721 | 13,541,236 |
| **30 June** | 3,707,858,032 | 3,676,262,304 |

The closing price of one Centrica ordinary share on 30 June 2008 was 310.25 pence (31 December 2007: 358.75 pence, 30 June 2007: 388.50 pence).

## 16. Reserves

| | Share capital £m | Share premium £m | Merger reserve £m | Capital redemption reserve £m | Other reserves £m | **Total £m** | Minority interest £m | **Total equity £m** |
|---|---|---|---|---|---|---|---|---|
| | Attributable to equity holders of the Company | | | | | | | |
| 1 January 2008 | 227 | 685 | 467 | 16 | 1,928 | **3,323** | 59 | **3,382** |
| Exchange differences on translation of foreign operations | – | – | – | – | (1) | **(1)** | – | **(1)** |
| Actuarial losses on defined benefit pension schemes | – | – | – | – | (492) | **(492)** | – | **(492)** |
| Losses on revaluation of available-for-sale assets | – | – | – | – | (9) | **(9)** | – | **(9)** |
| Cash flow hedges: | | | | | | | | |
| Net fair value gains | – | – | – | – | 1,025 | **1,025** | – | **1,025** |
| Transfers to income | – | – | – | – | (20) | **(20)** | – | **(20)** |
| Tax on items taken directly to/from equity | – | – | – | – | (174) | **(174)** | – | **(174)** |
| | 227 | 685 | 467 | 16 | 2,257 | **3,652** | 59 | **3,711** |
| Profit for the period | – | – | – | – | 1,802 | **1,802** | 1 | **1,803** |
| Employee share schemes: | | | | | | | | |
| Purchase of treasury shares | – | – | – | – | (1) | **(1)** | – | **(1)** |
| Share issue | 2 | 33 | – | – | – | **35** | – | **35** |
| Exercise of awards | – | – | – | – | (4) | **(4)** | – | **(4)** |
| Value of services provided | – | – | – | – | 16 | **16** | – | **16** |
| Dividends | – | – | – | – | (356) | **(356)** | – | **(356)** |
| **30 June 2008** | **229** | **718** | **467** | **16** | **3,714** | **5,144** | 60 | **5,204** |

| | Share capital £m | Share premium £m | Merger reserve £m | Capital redemption reserve £m | Other reserves £m | Total £m | Minority interest £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|
| | Attributable to equity holders of the Company | | | | | | | |
| 1 January 2007 | 226 | 657 | 467 | 16 | 219 | 1,585 | 57 | 1,642 |
| Exchange differences on translation of foreign operations | – | – | – | – | 6 | 6 | – | 6 |
| Actuarial gains on defined benefit pension schemes | – | – | – | – | 340 | 340 | – | 340 |
| Gains on revaluation of available-for-sale assets | – | – | – | – | 1 | 1 | – | 1 |
| Cash flow hedges: | | | | | | | | |
| Net fair value losses | – | – | – | – | (90) | (90) | – | (90) |
| Transfers to income | – | – | – | – | 237 | 237 | – | 237 |
| Tax on items taken directly to/from equity | – | – | – | – | (151) | (151) | – | (151) |
| | 226 | 657 | 467 | 16 | 562 | 1,928 | 57 | 1,985 |
| Profit for the period | – | – | – | – | 1,006 | 1,006 | 1 | 1,007 |
| Employee share schemes: | | | | | | | | |
| Purchase of treasury shares | – | – | – | – | (2) | (2) | – | (2) |
| Share issue | 1 | 21 | – | – | – | 22 | – | 22 |
| Exercise of awards | – | – | – | – | (5) | (5) | – | (5) |
| Value of services provided | – | – | – | – | 13 | 13 | – | 13 |
| Dividends | – | – | – | – | (294) | (294) | – | (294) |
| 30 June 2007 | 227 | 678 | 467 | 16 | 1,280 | 2,668 | 58 | 2,726 |

## 17. Notes to the Group Cash Flow Statement

| (a) Reconciliation of Group operating profit to net cash flow from operating activities | Six months ended 30 June 2008 £m | Six months ended 30 June 2007 (restated) (i) £m |
|---|---|---|
| **Continuing operations** | | |
| Group operating profit including share of result of joint ventures and associates | **2,965** | 1,600 |
| Less share of profits of joint ventures and associates | **(8)** | (5) |
| Group operating profit before share of joint ventures and associates | **2,957** | 1,595 |
| Add back: | | |
| Amortisation and write-down of intangible assets | **44** | 54 |
| Depreciation of property, plant and equipment | **268** | 223 |
| Employee share scheme costs | **16** | 13 |
| Profit on sale of businesses | **–** | (2) |
| (Profit)/loss on sale of property, plant and equipment, and other intangible assets | **(1)** | 5 |
| Movement in provisions | **(31)** | 12 |
| Re-measurement of energy contracts (ii) | **(1,938)** | (381) |
| Operating cash flows before movements in working capital | **1,315** | 1,519 |
| (Increase)/decrease in inventories | **(67)** | 43 |
| (Increase)/decrease in receivables | **(103)** | 722 |
| Increase/(decrease) in payables | **682** | (963) |
| Cash generated from continuing operations | **1,827** | 1,321 |
| Income taxes paid | **(130)** | (66) |
| Net petroleum revenue tax (paid)/received | **(147)** | 33 |
| Net interest received | **3** | 8 |
| Payments relating to exceptional charges | **(66)** | (68) |
| **Net cash flow from continuing operating activities** | **1,487** | 1,228 |
| **Discontinued operations** | | |
| Group operating profit before share of joint ventures and associates | **–** | 22 |
| Add back: | | |
| Depreciation of property, plant and equipment | **–** | 11 |
| Operating cash flows before movements in working capital | **–** | 33 |
| Decrease in receivables | **–** | 1 |
| Increase in payables | **–** | (1) |
| **Net cash flow from discontinued operating activities** | **–** | 33 |
| **Net cash flow from operating activities** | **1,487** | 1,261 |

(i) Restated to present exploration and evaluation expenditure, previously reported in property, plant and equipment, in other intangible assets on the Balance Sheet and to present The Consumers' Waterheater Income Fund as a discontinued operation as explained in note 3.
(ii) Adds back unrealised (profits)/losses arising from re-measurement of energy contracts including those related to proprietary trading activities.

Cash and cash equivalents (which are presented as a single class of assets on the face of the Balance Sheet) comprise cash at bank and other short-term highly liquid investments with a remaining contractual maturity at acquisition of three months or less.

## 17. Notes to the Group Cash Flow Statement continued

| (b) Net recourse debt | 30 June 2008 £m | 31 December 2007 £m | 30 June 2007 £m |
|---|---|---|---|
| Current recourse borrowings (note 13) | **(468)** | (221) | (91) |
| Non-current recourse borrowings (note 13) | **(1,567)** | (1,793) | (2,109) |
| Less: | | | |
| Cash and cash equivalents | **1,662** | 1,130 | 1,130 |
| Current available-for-sale financial assets | **50** | 50 | 90 |
| Non-current available-for-sale financial assets | **49** | 39 | 38 |
| | **(274)** | (795) | (942) |

| (c) Reconciliation of net increase in cash and cash equivalents to movement in net recourse debt | Six months ended 30 June 2008 £m | Six months ended 30 June 2007 £m |
|---|---|---|
| Net increase in cash and cash equivalents | **541** | 495 |
| Add back/(deduct): | | |
| Net purchase of available-for-sale financial assets | **19** | 42 |
| Cash inflow from additional debt | **(38)** | (53) |
| Cash outflow from payment of capital element of finance leases | **10** | 9 |
| Cash outflow from repayment of other debt | **28** | 104 |
| | **560** | 597 |
| Revaluation of: | | |
| Available-for-sale financial assets | **(9)** | 1 |
| Loans and other borrowings | **13** | 18 |
| | **564** | 616 |
| Decrease in interest payable on loans and other borrowings | **(16)** | (14) |
| Acquisitions | **(19)** | – |
| Exchange adjustments | **(9)** | (2) |
| Other non-cash movements | **1** | (15) |
| **Movement in net recourse debt** | **521** | 585 |
| Net debt at 1 January | **(795)** | (1,527) |
| **Net recourse debt at end of period** | **(274)** | (942) |

## 18. Business combinations

During the period the Group acquired 100% of the outstanding common shares of Rockyview Energy Inc. (Rockyview Energy), 100% of the membership interests of Strategic Energy LLC (Strategic Energy), a subsidiary of Great Plains Energy, and 100% of the Canadian assets of TransGlobe Energy Corp. (TransGlobe Energy). Other smaller acquisitions are described in section (d).

The purchase method of accounting was adopted in all cases. The assets and liabilities acquired and their fair values are shown below. The fair values stated are provisional because the Directors have not yet reached a final determination on all aspects of the fair value exercise.

The residual excess over the net assets acquired on each acquisition is recognised as goodwill in the Financial Statements.

**(a) Rockyview Energy**
On 14 January 2008 the Group acquired 88.4% of the outstanding common shares of publicly traded oil and gas company Rockyview Energy for cash consideration of C$68 million (£34 million) and the remaining 11.6% of the outstanding common shares of Rockyview Energy by 19 February 2008 in a series of transactions for additional cash consideration of C$9 million (£5 million). The acquired business contributed a profit after tax of £1.2 million to the Group for the period from 14 January 2008 to 30 June 2008. The book value of the assets and liabilities has been adjusted to align with the fair values of assets and liabilities acquired. The adjustments to recognise other intangible assets and property, plant and equipment at fair value mainly relate to the acquired exploration and evaluation assets, and the producing oil and gas field assets. Other adjustments were made in respect of the recognition of decommissioning provisions at fair value and deferred tax relating to the fair value adjustments.

**(b) Strategic Energy**
On 2 June 2008 the Group acquired 100% of the membership interests of Strategic Energy, a subsidiary of Great Plains Energy, for cash consideration of US$307 million (£155 million). Strategic Energy is an electricity supplier serving non-residential customers in eleven states within the US. The acquired business contributed a loss after tax of £3.2 million to the Group for the period from 2 June 2008 to 30 June 2008. The book value of the assets and liabilities has been adjusted to align with the fair values of assets and liabilities acquired. Adjustments have been made in respect of other intangible assets, primarily to recognise contractual customer relationships and the acquired Strategic Energy brand, to trade and other payables and to trade and other receivables in order to recognise acquired customer contracts and wholesale energy contracts at fair value. Goodwill of £67 million has principally arisen in relation to expected synergies.

**(c) TransGlobe Energy**
On 1 May 2008 the Group acquired 100% of the assets of TransGlobe Energy for cash consideration of C$52 million (£26 million). TransGlobe Energy is a publicly-traded oil and gas producer based in Calgary, Canada. The acquired business contributed a profit after tax of £0.6 million to the Group for the period from 1 May 2008 to 30 June 2008. The book value of the assets and liabilities has been adjusted to align with the fair values of the assets and liabilities acquired. An adjustment has been made to recognise property, plant and equipment, which comprise mainly exploration and evaluation assets, at their fair value.

| | Rockyview Energy | | Strategic Energy | | TransGlobe Energy | | Total | |
|---|---|---|---|---|---|---|---|---|
| | IFRS carrying values pre-acquisition £m | Fair value £m | IFRS carrying values pre-acquisition £m | Fair value £m | IFRS carrying values pre-acquisition £m | Fair value £m | IFRS carrying values pre-acquisition £m | Fair value £m |
| Other intangible assets | 7 | 10 | – | 6 | – | 3 | 7 | 19 |
| Property, plant and equipment | 64 | 54 | 3 | 3 | 30 | 26 | 97 | 83 |
| Trade and other receivables | 6 | 6 | 342 | 285 | – | – | 348 | 291 |
| Cash and cash equivalents | – | – | 77 | 77 | – | – | 77 | 77 |
| Trade and other payables | (5) | (5) | (158) | (283) | – | – | (163) | (288) |
| Bank loans | (19) | (19) | – | – | – | – | (19) | (19) |
| Provisions for other liabilities and charges | (2) | (6) | – | – | (1) | (1) | (3) | (7) |
| Deferred tax liabilities | (4) | (1) | – | – | (2) | (2) | (6) | (3) |
| Net assets acquired | 47 | 39 | 264 | 88 | 27 | 26 | 338 | 153 |
| Goodwill | | – | | 67 | | – | | 67 |
| **Cash consideration** | | **39** | | **155** | | **26** | | **220** |

## 18. Business combinations continued

**(d) Other acquisitions**
The Group also acquired the assets and certain liabilities of Chilltrol Inc. on 29 February 2008 (consideration £3.9 million, goodwill £2.7 million) and the assets of Climate Control Inc. on 12 March 2008 (consideration £0.3 million, goodwill £0.2 million). Both businesses operate in the heating, ventilation and air conditioning services industry. The acquired businesses contributed a profit after tax of £0.1 million to the Group from their respective dates of acquisition up to 30 June 2008.

The proforma consolidated results of the Group, as if the 2008 acquisitions had been made at the beginning of the period, include revenues from continuing operations of £10,498 million and a profit after tax of £1,807 million. The proforma results have been calculated using the Group's accounting policies. In preparing the proforma results, revenue and costs have been included as if the businesses were acquired on 1st January 2008 and inter-company transactions had been eliminated. This information is not necessarily indicative of the results of the combined Group that would have occurred had the purchases actually been made at the beginning of the period presented, or indicative of the future results of the combined Group.

# 19. Commitments and contingencies

**(a) Commitments**

| Commitments in relation to the acquisition of property, plant and equipment | 30 June 2008 £m | 31 December 2007 £m | 30 June 2007 £m |
|---|---|---|---|
| Construction of power station at Langage | **143** | 201 | 205 |
| Construction of Lynn and Inner Dowsing wind farms | **39** | 114 | 162 |
| Redevelopment of Statfjord gas field | **81** | 83 | 59 |
| Other | **131** | 69 | 122 |
| | **394** | 467 | 548 |

| Commitments in relation to the acquisition of intangible assets | 30 June 2008 £m | 31 December 2007 £m | 30 June 2007 £m |
|---|---|---|---|
| Renewable obligation certificates | **1,036** | 1,075 | 1,089 |
| Carbon emissions certificates | **435** | 224 | 192 |
| Certified emission reduction certificates | **191** | 166 | 136 |
| Other | **68** | 49 | 50 |
| | **1,730** | 1,514 | 1,467 |

| Commitments in relation to capacity, transportation and services contracts | 30 June 2008 £m | 31 December 2007 £m | 30 June 2007 £m |
|---|---|---|---|
| Liquefied natural gas capacity | **754** | 754 | 754 |
| Transportation capacity | **685** | 445 | 445 |
| Outsourcing of services | **149** | 167 | 164 |
| Other | **185** | 110 | 57 |
| | **1,773** | 1,476 | 1,420 |

| Commitments in relation to commodity purchase contracts (i) | 30 June 2008 £m | 31 December 2007 £m | 30 June 2007 £m |
|---|---|---|---|
| Within one year | **15,600** | 8,400 | 6,400 |
| Between one and five years | **30,300** | 18,100 | 15,300 |
| After five years | **10,800** | 9,100 | 8,900 |
| | **56,700** | 35,600 | 30,600 |

(i) The increase in commitments at 30 June 2008 reflects the increase in wholesale commodity prices in the six months ended 30 June 2008.

**(b) Contingent liabilities**
There have been no changes in the nature or amount of contingent liabilities subsequent to 31 December 2007.

## 20. Related party transactions

During the period, the Group entered into the following transactions with related parties who are not members of the Group:

| Six months ended 30 June | | | 2008 | | | 2007 |
|---|---|---|---|---|---|---|
| | **Sale of goods and services £m** | **Purchase of goods and services £m** | **Other transactions £m** | Sale of goods and services £m | Purchase of goods and services £m | Other transactions £m |
| Barrow Offshore Wind Limited | **–** | **9** | **1** | – | 5 | 1 |
| Braes of Doune Wind Farm (Scotland) Limited | **–** | **8** | **–** | – | 4 | – |
| The Consumers' Waterheater Income Fund | **38** | **–** | **1** | 34 | – | 2 |
| | **38** | **17** | **2** | 34 | 9 | 3 |

Balances outstanding with related parties at the end of the period were as follows:

| | | | 30 June 2008 | | | 31 December 2007 |
|---|---|---|---|---|---|---|
| | **Amounts owed from related parties £m** | **Amounts owed to related parties £m** | **Provision for bad or doubtful debt relating to amounts owed from related parties £m** | Amounts owed from related parties £m | Amounts owed to related parties £m | Provision for bad or doubtful debt relating to amounts owed from related parties £m |
| Barrow Offshore Wind Limited | **27** | **4** | **–** | 26 | 4 | – |
| Braes of Doune Wind Farm (Scotland) Limited | **38** | **4** | **–** | 38 | 4 | – |
| The Consumers' Waterheater Income Fund | **3** | **–** | **–** | 3 | – | – |
| | **68** | **8** | **–** | 67 | 8 | – |

| | | | 30 June 2007 |
|---|---|---|---|
| | Amounts owed from related parties £m | Amounts owed to related parties £m | Provision for bad or doubtful debt relating to amounts owed from related parties £m |
| Barrow Offshore Wind Limited | 25 | 2 | – |
| Braes of Doune Wind Farm (Scotland) Limited | – | 1 | – |
| The Consumers' Waterheater Income Fund | 3 | – | – |
| | 28 | 3 | – |

Barrow Offshore Wind Limited and Braes of Doune Wind Farm (Scotland) Limited are both joint ventures of the Group.

The Consumers' Waterheater Income Fund (Fund) was deconsolidated with effect from 1 December 2007. The deconsolidation is explained in note 3. The transactions disclosed in the tables above reflect all transactions entered into with the Fund for the full period disclosed. The Fund is a related party of the Group due to the significance of the contractual arrangements in place between the Fund and the Group to the operations of the Fund.

The nature and amounts of remuneration of key management personnel have not changed significantly from that reported in the 2007 Annual Report and Accounts.

## 21. Events after the balance sheet date

Changes to UK tax law substantively enacted in July 2008 relating to relief for upstream losses will result in a re-appraisal of approximately £70 million of the Group's unrecognised deferred tax assets during the second half of the year, which may give rise to a reduction to the full year tax charge and a corresponding increase to deferred tax assets.

On 9 July 2008, the Group announced that it had reached an agreement with Marathon Oil to acquire interests in a package of gas and oil assets in the Heimdal area of the Norwegian North Sea for cash consideration of approximately US$375 million (£190 million). The agreement is subject to Norwegian government approvals. On closing, the final consideration will be adjusted downwards to reflect production since 1 January 2008.

On 23 July 2008, the Group announced that it is to increase its shareholding in Belgian generation and supply company SPE SA from 25.5 per cent, to a controlling 51 per cent, through the acquisition of GDF International SAS's 50 per cent stake in the 50/50 joint venture, Segebel SA. Completion is subject to EC merger control approval, but is expected to take place in September 2008. The Group will pay €515 million (£409 million) in cash, with additional contingent consideration of up to €105 million (£83 million).

## 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 2008 Interim Results presentation for analysts and institutional investors at 9.30am (GMT) on Thursday 31 July 2008. There will be a live webcast of the presentation and slides from 9.30am at www.centrica.com/investors.

The live broadcast of the presentation will be available by dialling in using the following numbers:

| | |
|---|---|
| From the UK | 01452 556 620 |
| From overseas | +44 1452 556 620 |

The call title is “Centrica plc – Interim Results 2008” and the conference ID is 55194325.

An archived webcast and full transcript of the presentation and the question and answer session will be available on the website on Friday 1 August 2008.

## Enquiries

| | | |
|---|---|---|
| Investors and Analysts: | Kieran McKinney | Director of Investor Relations |
| | Telephone: | 01753 494 900 |
| | email: | ir@centrica.com |
| Media: | | Media Relations |
| | Telephone: | 0845 072 8002 |
| | email: | media@centrica.com |

## Financial Calendar

| | |
|---|---|
| Ex-dividend date for 2008 interim dividend | 24 September 2008 |
| Record date for 2008 interim dividend | 26 September 2008 |
| 2008 interim dividend payment date | 12 November 2008 |
| Interim Management Statement | 13 November 2008 |
| 2008 prelim results announcement | 26 February 2009 |

## Registered Office

Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements