Interim results for the period ended 30 June 2016

IAIN CONN, GROUP CHIEF EXECUTIVE

"The first half of the year has been demanding for Centrica, but the response has been strong and I am encouraged by the progress we have made. We are delivering underlying performance improvement and are building a robust platform for customer-focused growth. I remain confident in our ability to deliver both attractive returns and underlying cash flow growth, as we continue to implement our strategy."

HEADLINES

Encouraging first half financial delivery despite weaker commodity prices and warm weather

- Adjusted earnings down 14% to £507 million, primarily reflecting extreme warm weather in North America and the impact of low commodity prices on E&P and Central Power Generation, partially offset by cost efficiency.
- Adjusted operating cash flow up 19% to £1,372 million, including working capital delivery in UK Business.

Efficiency programme delivery ahead of target

- Strong progress on cost targets with efficiencies of £141 million delivered in the first half of 2016. Target for 2016 in-year delivery increased to around £300 million.

Good progress in implementing the strategy

- Focus and investment in customer service resulting in improved service metrics.
- UK Home energy account losses of 3% in the first half of 2016 due to long-term contract roll-offs and increased competitive intensity. Home accounts in North America and Ireland stable.
- CMA final report provides clarity on UK regulatory framework. Focus is now on bringing new innovative products and services to market.
- ENER-G Cogen and Neas Energy acquisitions will add leading international capabilities in distributed generation and asset management. In Connected Home, over 360,000 hubs installed in UK and five new products launched.
- E&P free cash flow positive in the first half of 2016 with capex and cash production costs down.
- Portfolio re-positioning continues. GLID wind-farm sale completed and Canada E&P disposal process commenced.
- Balance sheet strengthened in line with Financial Framework. Moody's rating confirmed at Baa1, stable outlook.

2016 full year cash flow underpinned

- 2016 full year adjusted operating cash flow on track to exceed £2 billion. 2016 first half net debt down to £3.8 billion, a reduction of 23% compared to the first half of 2015, reflecting underlying cash flow growth and the net impact of the equity placing and the acquisition of ENER-G Cogen.

Dividend

- Interim dividend of 30% of last year's full year dividend in line with established practice. As previously stated, the full year dividend will be determined based on our assessment of the sustainable growth in operating cash flow.

GROUP FINANCIAL SUMMARY

Period ended 30 June	**2016**	2015	Change
Revenue	**£13.38bn**	£15.45bn	(13%)
Adjusted operating profit	**£853m**	£970m	(12%)
Adjusted effective tax rate	**28%**	29%	(1ppt)
Adjusted earnings	**£507m**	£587m	(14%)
Adjusted basic earnings per share (EPS)	**9.8p**	11.8p	(17%)
Interim dividend per share	**3.60p**	3.57p	1%
Adjusted operating cash flow	**£1,372m**	£1,149m	19%
Group net investment	**£444m**	£383m	16%
Group net debt	**£3,783m**	£4,905m	(23%)
Statutory operating profit	**£1,766m**	£1,343m	31%
Statutory profit for the year attributable to shareholders	**£1,148m**	£1,050m	9%
Net exceptional items after taxation included in statutory profit	**(£63m)**	£116m	nm
Basic earnings per share	**22.2p**	21.1p	5%

Adjusted operating profit, adjusted effective tax rate, adjusted earnings and adjusted basic earnings per share now include fair value depreciation related to our investments in Venture and Nuclear. 2015 comparatives have been restated accordingly. Unless otherwise stated, all references to operating profit or loss, taxation, cash flow, earnings and earnings per share throughout the announcement are adjusted figures, reconciled to their statutory equivalents in the Group Financial Review on pages 6 to 8.

Group Metrics

Period ended 30 June	**2016**	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.00**	1.05	(5%)
Brand Net Promoter Score (NPS) [1]			
Home			
UK & Ireland	**(1)**	(8)	7pt
North America	**29**	nm	nm
Business			
UK & Ireland	**(14)**	(18)	4pt
North America	**26**	19	7pt
Customer account holdings ('000s) (period end)			
Home	**26,435**	27,272	(3%)
Business	**1,364**	1,436	(5%)
Total customer energy consumption			
Gas (mmth)	**6,823**	7,293	(6%)
Electricity (GWh)	**71,188**	75,673	(6%)
Energy use per residential energy customer (kWh)			
UK & Ireland	**5,048**	5,101	(1%)
North America	**12,751**	13,892	(8%)
Annualised cost per Home customer (£) [2]			
UK & Ireland	**99**	97	2%
North America	**195**	186	5%
Cumulative hubs installed (Connected Home) ('000s)	**364**	214	70%
Active customer sites (DE&P)	**2,450**	983	149%
Growth revenue (Connected Home, DE&P) (£m)	**79**	52	52%
E&P total production volumes (mmboe)	**37.8**	40.7	(7%)
Adjusted operating costs (£m) [3]	**1,229**	1,314	(6%)
Adjusted operating costs as a % of gross margin	**54%**	55%	(1ppt)
Direct Group headcount (period end) [4]	**38,695**	39,210	(1%)
Adjusted operating cash flow (£m)	**1,372**	1,149	19%
Underlying adjusted operating cash flow growth [5]	**11%**	nm	nm
Group net investment (£m) [6]			
Capital expenditure (including small acquisitions)	**424**	562	(25%)
Material acquisitions (>£100 million)	**132**	-	nm
Net disposals	**(112)**	(179)	(37%)
Group net investment (£m)	**444**	383	16%
ROACE (post-tax) [7]	**nm**	nm	nm
Adjusted operating profit (£m)	**853**	970	(12%)
Adjusted earnings (£m)	**507**	587	(14%)
Adjusted earnings per share (pence)	**9.8p**	11.8p	(17%)

1. Brand NPS has been implemented consistently in the UK, Ireland and North America from 2016. Prior period comparatives are presented where available.
2. Annualised cost per Home customer calculates adjusted operating costs and controllable cost of goods as a proportion of holdings, installs and on demand jobs.
3. Adjusted operating costs exclude depreciation, smart metering expenses, dry hole costs, profit on fixed asset disposals, business performance impairments, AlertMe acquisition costs, FX movements and growth investment.
4. Direct Group headcount excludes contractors, agency and outsourced staff.
5. Underlying adjusted operating cash flow growth is calculated after adjusting 2015 for the impact of commodity price movements on E&P and Nuclear (net reduction of £166m) and excluding the impact of one-off working capital recovery in UK Business in 2016 (net reduction of £278m). The commodity price adjustment has been calculated by applying the average achieved price for the first half of 2016 to production and generation volumes for the first half of 2015. A notional tax effect was applied using the prevailing effective tax rate.
6. Capital expenditure is the net cash flow on capital expenditure and purchases of businesses (less than £100 million). Net disposals are sale of businesses, property plant and equipment and intangible assets, net of investments in joint ventures and associates.
7. ROACE (post-tax) will be calculated annually.

ENQUIRIES

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Group Overview

GOOD PROGRESS IN A CHANGING EXTERNAL ENVIRONMENT

Centrica made good progress in implementing its strategy in all parts of the Group in the first half of 2016, and also made strong progress on its cost reduction programme, which is expected to deliver £750 million of savings per annum by 2020. The first half of the year also provided additional regulatory clarity, with the Competition and Markets Authority (CMA) publishing the final report on its investigation into the UK energy market and the UK Government confirming reforms to the UK Capacity Market.

The CMA's final report was published in June and we believe that many of the remedies will further enhance the market. Centrica has contributed fully to what has been a thorough and in-depth investigation and we will work with all interested parties to deliver the best outcome for our customers.

Since the CMA started its investigation two years ago competition in the UK market has continued to intensify, with the number of residential energy suppliers growing from 25 to over 40. Our markets in North America also remain highly competitive. However, the actions we are taking in all our geographies on customer service, offer innovation and cost efficiency leave us well placed to succeed in competitive markets. We will continue our focus on developing innovative products, differentiating our offer and giving our residential and business customers more choice. In the UK, the changes to Retail Market Reform rules, in particular an increase in the number of tariffs we are able to offer, will allow us to provide more choice for our UK Home customers. This could potentially include combined energy and services offerings, having already successfully launched similar propositions for our customers in North America.

In May, the UK Government published its response to the consultation on reforms to the UK capacity market. The consultation had proposed: holding an auction for delivery in 2017/18, a year earlier than originally planned; tightening delivery incentives on those who have agreements to deliver against them and to penalise those who renege more severely; and buying more capacity and buying it earlier. Revised draft regulations reflecting these changes are now being developed and they are expected to be implemented in time for future capacity auctions. We believe the changes are constructive and will help provide additional clarity in the investment climate for thermal generation in the UK.

In June, a referendum resulted in a vote for the UK to leave the European Union. We believe the direct impacts on Centrica specifically are limited in the short term to those common impacts felt by businesses in general, such as consumer confidence, interest rates and foreign exchange. However, the result creates general uncertainty which adds to challenges for UK businesses in all sectors, with implementation plans as yet unclear. Our focus is on understanding what the result means for energy and other business regulations over time and how the changed involvement of the UK would impact the competitiveness of the European energy markets. The UK is now a major energy importer and what happens in the European energy market will ultimately impact energy consumers in the UK. We will continue to engage with the UK Government and the European Commission as we move forward.

2016 FIRST HALF PERFORMANCE

Safety and compliance remain our top priority. In safety, the total recordable injury frequency rate reduced by 5% and we experienced no Tier 1 process safety incidents during the first half of the year. However we did experience three Tier 2 process safety events and improving our performance in this area remains a key focus.

Customer service levels continue to improve, with complaints down in our energy and services businesses in the UK, Ireland and North America. In UK Home, the number of customer accounts fell by 3% over the first half. This includes a 399,000 reduction in energy supply accounts, reflecting a competitive environment, a significant roll-off of long-term contracts in the first quarter and constraints on offer innovation. However we returned to account growth in June following the launch of a new attractive fixed price product during the second quarter. We continue to deliver customer growth in Ireland, with total accounts up 3% in the first half, and North America Home energy accounts were stable.

UK Business returned to profitability in the first half, with the issues experienced following implementation of a new billing and customer relationship management system having been largely rectified by the end of 2015. North America profitability was significantly impacted by record warm weather in comparison to extreme cold weather in the first half of 2015, and continued losses from the solar business. However the outlook for the second half of the year is more positive, reflecting actions we have taken to make our solar operations more efficient and an increase in the total gas and electricity net margin under contract for the second half of the year in North America Business.

E&P production was down 7%, largely reflecting natural portfolio decline, however we expect a first contribution from the large scale Cygnus development in the fourth quarter of 2016. Nuclear generation volumes remained strong. In gas storage, the Rough asset was impacted by low seasonal gas price spreads, and reduced operating pressure following a decision in 2015 to conduct testing and verification works on its wells. Centrica Storage announced in July 2016 that it had ceased all injection and withdrawal operations following the identification of an issue with one of the wells during

Group Overview continued

testing which gave rise to potential uncertainties regarding the untested wells. It will now carry out an enhanced testing programme which is expected to last until March to April 2017, although it is examining the feasibility of returning a number of wells to service by November 2016.

Reflecting the above, and the low commodity price environment, Group adjusted operating profit fell by 12% compared to the first half of 2015, to £853 million. Group adjusted earnings fell by 14%, to £507 million, with adjusted basic earnings per share of 9.8p. Adjusted operating cash flow increased by 19% to £1,372 million, which includes the impact of working capital inflows in UK Business with billing issues now largely rectified. Estimated underlying adjusted operating cash flow growth was 11%, after adjusting 2015 for the impact of commodity price movements on E&P and Nuclear and excluding the impact of £278 million of one-off working capital recovery in UK Business in 2016.

The 2016 proposed interim dividend per share of 3.6p is broadly in line with last year and consistent with our established practice of paying 30% of the prior year's full year dividend as an interim dividend the following year. A net post-tax exceptional charge of £63 million was recognised in the first half of 2016, including a £144 million post-tax charge related to an impairment of the Rough gas storage asset.

FOCUS ON NET DEBT REDUCTION AND BALANCE SHEET STRENGTH

Reflecting the Group's focus on cash flow and capital discipline, the Group generated net cash inflow of over £450 million in the first half of the year, before taking into account the net impact of £700 million raised through an equity placing and the £149 million acquisition of ENER-G Cogen, which completed in May. In total, net cash inflow was over £1 billion in the first half and as a result, net debt ended the first half of 2016 at £3.8 billion.

The equity placing allows the acceleration of the Group's customer-facing strategy through two attractive and prioritised acquisitions – ENER-G Cogen, an established supplier and operator of combined heat and power (CHP) solutions and Neas Energy, a Danish-based energy management and trading optimisation business. The Neas transaction is expected to close in the second half of 2016, subject to European Union regulatory approvals. The equity placing also allowed the Group to further lower its level of net debt in an uncertain external environment, reducing pressure on the Group's targeted strong investment grade credit ratings of Baa1 with Moody's and BBB+ with S&P. Centrica's Baa1 rating with Moody's had been placed on Review for Downgrade in February and, upon conclusion of the review in May, Moody's confirmed the rating with a stable outlook. The Group remains rated at BBB+ (negative outlook) by S&P.

GOOD PROGRESS IN ENABLING GROWTH IN CUSTOMER-FACING BUSINESSES

We made significant progress in the first half of 2016 in the development of our focus areas for growth – energy supply, services, the connected home, distributed energy & power and energy marketing & trading.

Energy Supply & Services:

- Underpinning the platform for customer-facing growth through repositioning the organisation and capability, and the focus on customer service, offer innovation and cost efficiency.
- We have now installed 2.5 million smart meters in the UK and remain on track to have installed over 3 million by the end of 2016, helping us to improve customer engagement through more accurate bills and new offer development.
- 'Free time' tariff launched in June, offering free electricity on Saturday or Sunday to UK customers with smart meters.
- Net margin under contract in North America Business was 37% higher at the end of the first half of 2016 compared to the end of the first half of 2015.

Connected Home:

- We have now installed over 360,000 connected hubs in the UK.
- Four new Hive products launched in the first half of 2016, including the Hive Active Plug, Hive Window or Door Sensor, Hive Motion Sensor and Hive Active Light. We also launched 'Boiler IQ', our connected boiler product that remotely diagnoses faults and improves the customer experience for services contract customers.
- We plan to launch our own smart thermostat in North America around the end of 2016.

Distributed Energy & Power (DE&P):

- Strategy developed around three areas of offer – energy insights, asset optimisation and energy solutions.
- Further sales of device-level energy management solutions and analytics following the Panoramic Power acquisition in 2015 to a diverse range of customers including retailers, manufacturers, cinemas and healthcare providers.
- Total flexible distributed energy capacity under management increased by 6% over the past 12 months.
- We completed the acquisition of ENER-G Cogen, an established supplier and operator of CHP solutions. The business complements Centrica's existing capability in installing and managing distributed systems for customers in both the UK and North America.

Group Overview continued

Energy Marketing & Trading (EM&T):

- We announced the acquisition of Neas Energy, one of Europe's leading providers of energy management and revenue optimisation services for decentralised third-party owned assets. Neas has a business model that is complementary to Centrica's current EM&T business and will allow us to expand our route to market services in Europe, build our knowledge of European energy markets to benefit from trading and optimisation activity and complement asset optimisation within DE&P.
- We continue to build our capability and expand our global presence in LNG.

EFFICIENCY PROGRAMME DELIVERY AHEAD OF TARGET

We made very good progress in our cost reduction programme in the first half of 2016, from which we expect to be delivering £750 million of savings per annum by 2020. We delivered £141 million of efficiencies in the first half of the year, and after taking into account the impact of inflation and other cost reductions which are one-off in nature or due to phasing between the first and second halves of 2016, like-for-like controllable costs reduced by 9% compared to the first half of 2015. The number of roles reduced by around 2,500 over the first half, including a reduction in direct like-for-like headcount of over 1,500. These exclude additional roles created in smart metering and our growth businesses.

We are already benefiting from the implementation of a new organisational structure across the Group which will allow Centrica to serve customers more effectively as well as reducing costs as we leverage our scale and operate more efficiently. New organisational structures in our Energy Supply & Services and E&P businesses are in place, leading to productivity increases and headcount reductions, and enabling common operating approaches across all our markets. New Connected Home and Distributed Energy and Power business units have also been established.

We also streamlined sales channels and processes in both the UK and North America, and have renegotiated pension terms with our UK engineers. In addition, we have created global functions in our large support activities such as IS and Finance which were previously embedded in the business units, unlocking further efficiencies, while a central view of global procurement spend has also resulted in further savings.

For the full year, an acceleration of the efficiency programme means we now expect to deliver around £300 million of annualised savings in 2016, an improvement of approximately £100 million since our Preliminary Results announcement in February, and we are on track to achieve our targeted like-for-like reduction in direct headcount of 3,000 for the full year.

REFOCUSING OUR E&P AND POWER BUSINESSES

We continue to make progress in reshaping our E&P business, although low commodity prices mean it is not straightforward to divest of non-core assets as we look to move from a business producing between 75-80mmboe of gas and oil per annum to one which produces between 40-50mmboe. Our E&P focus is on Europe and we have now commenced a process to dispose of our Canadian assets, alongside our partners Qatar Petroleum. We also continue to review options to dispose of our Trinidad and Tobago assets.

Our E&P business was free cash flow positive in the first half of the year, reflecting our focus on capital discipline and cost efficiency, and we are on track to deliver a free cash flow positive E&P business over the period 2015-16. E&P capital expenditure fell by 31% in the first half of 2016 compared to the same period last year and we remain on track to spend around £500 million in the full year. This includes expenditure on the Cygnus gas development, which will contribute materially to production during the second half of the year. Total lifting and other cash production costs also fell compared to last year and we now expect to deliver a reduction of around £200 million in the 2016 full year compared to 2014. The Group continues to explore all options to strengthen its E&P business.

In power generation, we have made further progress in the rationalisation of our thermal power fleet and we closed the Killingholme gas-fired station in March. We continue to progress with our plans to exit wind generation and completed the disposal of our 50% interest in the Glens of Foudland, Lynn and Inner Dowsing (GLID) wind farm joint venture in March, with net proceeds to Centrica of £116 million. We are also developing plans to dispose of our 50% interest in Lincs, our last remaining wind asset.

2016 OUTLOOK AND SUMMARY

Commodity prices remain at low levels despite recent increases, and this will inevitably have an impact on the earnings and cash flow from our E&P and Central Power Generation businesses in the second half of 2016, as historic hedges roll off. However, with our continued focus on capital discipline and cash generation, further progress in positioning our customer-facing business units for growth and acceleration in the delivery of our £750 million cost efficiency programme, we remain on track to deliver or exceed the 2016 targets set out at the Preliminary Results in February:

Group Overview continued

- Adjusted operating cash flow is expected to be in excess of £2 billion in 2016.
- Group capital investment, including small acquisitions of less than £100 million each, is expected to be no more than £1 billion in 2016, of which around £500 million is expected to be in spent in E&P.
- Around £300 million of efficiency savings are expected to be delivered in 2016 as part of the Group's £750 million per annum cost efficiency programme, with like-for-like operating costs expected to be lower in 2016 than in 2015.
- Like-for-like direct headcount is expected to reduce by around 3,000 in 2016.

Centrica continues to demonstrate resilience and we now have additional external clarity following the CMA's final report and details of UK Capacity Market reforms. The actions we have taken to improve the Group's financial position and implement our customer-focused strategy leave us well positioned in a changing environment. We remain confident in our ability to deliver our target of at least 3-5% growth in adjusted operating cash flow per annum at flat real commodity prices, underpinning a progressive dividend policy and delivering shareholder value through both returns and growth.

Group Financial Review

GROUP REVENUE

Group revenue decreased by 13% to £13.38 billion (2015: £15.45 billion). This was primarily due to lower gross revenue in Energy Supply & Services in both the UK and North America, reflecting the impact of lower commodity prices on energy tariffs, lower consumption due to warmer weather in North America and reduced account holdings in the UK. Gross revenue also reduced in E&P and EM&T, primarily due to the lower commodity price environment.

OPERATING PROFIT

From 1 January 2016, new reporting segments are in place. In addition, all profit and earnings figures now include fair value depreciation related to our Strategic Investments in Venture and Nuclear, which until the 2015 Preliminary Results announcement was excluded from adjusted measures. 2015 comparatives have been restated accordingly. Throughout the statement, reference is made to a number of different profit measures, which are shown below:

Period ended 30 June	Notes	**Business performance £m**	**Exceptional items and certain re-measurements £m**	**2016 Statutory result £m**	Business performance £m	Exceptional items and certain re-measurements £m	2015 Statutory result £m
Adjusted operating profit / (loss)							
Energy Supply & Services – UK & Ireland		**690**			707		
Energy Supply & Services – North America		**95**			189		
Connected Home		**(23)**			(28)		
Distributed Energy & Power (DE&P)		**(11)**			(20)		
Energy Marketing & Trading (EM&T)		**(14)**			(55)		
Total customer-facing businesses		**737**			793		
Exploration & Production (E&P)		**88**			106		
Central Power Generation		**24**			58		
Centrica Storage		**4**			13		
Total adjusted operating profit	4(c)	**853**			970		
Interest and taxation on joint ventures and associates	4(c)	**(37)**			(45)		
Group operating profit	4(c)	**816**	**950**	**1,766**	925	418	1,343
Net finance cost	7	**(141)**	**–**	**(141)**	(135)	–	(135)
Taxation	8	**(180)**	**(309)**	**(489)**	(221)	45	(176)
Profit for the year		**495**	**641**	**1,136**	569	463	1,032
Less loss attributable to non-controlling interests		**12**			18		
Adjusted earnings		**507**			587		

Total adjusted operating profit fell 12%. UK & Ireland Energy Supply & Services profit fell 2%, with the impact of lower account holdings, lower consumption and increased non-commodity costs being only partially offset by cost efficiency and increased profit from UK Business, reflecting lower costs following the resolution of billing issues experienced in 2015. North America Energy Supply & Services profit fell 50%, primarily due to the impact of the much warmer than normal weather, which lowered consumption and reduced our ability to optimise capacity contracts, and continued investment in our solar business.

Connected Home and DE&P both reported a reduced operating loss, with increased revenue more than offsetting increased costs as we continue to invest for growth. EM&T reported a £14 million operating loss, primarily reflecting the phasing of flexible gas contracts.

E&P operating profit fell 17%, with the impact of lower commodity prices largely offset by a strong focus on reducing cash costs and lower depreciation following 2015 impairments. Central Power Generation operating profit fell 59% with higher generation output from both the nuclear fleet and our large gas-fired power stations more than offset by the impact of lower baseload power prices. Centrica Storage operating profit fell 69%, against a backdrop of low spreads and reduced asset capacity and availability.

Group Financial Review continued

GROUP FINANCE CHARGE AND TAX

Net finance costs increased slightly to £141 million (2015: £135 million), reflecting a higher interest cost on bonds following the issuance of £1 billion equivalent of hybrid securities in April 2015 and lower interest income. The taxation charge reduced to £180 million (2015: £221 million) and after taking account of tax on joint ventures and associates, the adjusted tax charge was £193 million (2015: £234 million). The resultant adjusted tax rate for the Group was down slightly to 28% (2015: 29%). An effective tax rate calculation, showing UK and non-UK components, is shown below:

Period ended 30 June	**UK £m**	**Non-UK £m**	**2016 Total £m**	UK £m	Non-UK £m	2015 Total £m
Adjusted operating profit	**673**	**180**	**853**	736	234	970
Share of joint ventures/associates interest	**(24)**	**-**	**(24)**	(32)	-	(32)
Net finance cost	**(108)**	**(33)**	**(141)**	(74)	(61)	(135)
Adjusted profit before taxation	**541**	**147**	**688**	630	173	803
Taxation on profit	**92**	**88**	**180**	110	111	221
Share of joint ventures'/associates' taxation	**13**	**-**	**13**	13	-	13
Adjusted tax charge	**105**	**88**	**193**	123	111	234
Adjusted effective tax rate	**19%**	**60%**	**28%**	20%	64%	29%

GROUP EARNINGS AND DIVIDEND

Profit for the period reduced to £495 million (2015: £569 million) and after adjusting for losses attributable to non-controlling interests, adjusted earnings were £507 million (2015: £587 million). Adjusted basic earnings per share (EPS) was 9.8 pence (2015: 11.8 pence).

The statutory profit attributable to shareholders for the period was £1,148 million (2015: £1,050 million). The reconciling items between Group profit for the period from business performance and statutory profit are related to exceptional items and certain re-measurements. The increase compared to 2015 is principally due to a higher net gain from certain re-measurements of £704 million (2015: £347 million) partially offset by net exceptional charges of £63 million (2015: £116 million exceptional credit). The Group reported a statutory basic EPS of 22.2 pence (2015: 21.1 pence).

An interim dividend of 3.60 pence per share, in line with last year and consistent with our policy of paying 30% of the prior year's full year dividend as an interim dividend the following year, will be paid on 24 November 2016 to shareholders on the register on 14 October 2016.

GROUP CASH FLOW, NET DEBT AND BALANCE SHEET

Net cash flow from operating activities increased to £1,368 million (2015: £1,340 million). Adjusted operating cash flow, which is reconciled to net cash flow from operating activities in the table below, was up 19% to £1,372 million.

Period ended 30 June	**2016**	2015
Net cash flow from operating activities	**£1,368m**	£1,340m
Add back/(deduct):		
Net margin and cash collateral (inflow)/outflow (i)	**(£218m)**	(£298m)
Payments relating to exceptional charges	**£173m**	£42m
Dividends received from joint ventures and associates	**£49m**	£65m
Adjusted operating cash flow	**£1,372m**	£1,149m

(i) Net margin and cash collateral (inflow)/outflow includes the reversal of collateral amounts posted when the related derivative contract settles.

Net cash outflow from investing activities decreased slightly to £308 million (2015: £310 million), with lower disposal proceeds broadly offset by an increase in cash interest received, mainly due to £22 million of the GLID disposal proceeds being related to outstanding interest due to the Group. Net cash inflow from financing activities was £221 million (2015: £575 million net cash outflow), with the issuance of new ordinary share capital following the equity placing in May 2016 and lower net repayment of borrowings partially offset by an increase in dividends paid, reflecting a lower level of scrip take-up.

The net cash inflow in the first half of 2016 was £1,281 million (2015: £455 million) and the Group's net debt as at 30 June 2016 was £3,783 million (31 December 2015: £4,747 million), which includes cash collateral posted or received in support of wholesale energy procurement.

Group Financial Review continued

During the first half of the year net assets increased to £2,818 million (31 December 2015: £1,342 million) primarily as a result of the equity placing, a higher level of retained earnings for the period and a translation gain on foreign operations.

The Group is currently finalising the outcome of its triennial review with the Pension Trustees based on the position as at 31 March 2015, with an agreement in principle to fund a £1,203 million deficit with additional annual cash contributions of £76 million per year over the next 14 years commencing in 2017. Further details can be found in note 13.

ACQUISITIONS AND DISPOSALS

On 16 May 2016, the Group acquired 100% of ENER-G Cogen, an established supplier and operator of combined heat and power (CHP) solutions, for consideration of £149 million. On 7 March 2016, the Group completed the sale of the GLID wind farm joint venture for £116 million, including £22 million for outstanding interest due to the Group. Further details on acquisitions, details of assets purchased, disposals and disposal groups are included in notes 4(e) and 11.

EXCEPTIONAL ITEMS

A net exceptional pre-tax charge of £27 million was recognised during the period (2015: nil).

As a result of the implementation of a salary cap on pensionable pay for the Centrica Pension Plan final salary scheme, the Group recognised a past service credit of £78 million. The Group also recognised a net credit on onerous power procurement contracts of £36 million, with a reduction in onerous contract provisions relating to its UK gas-fired power station tolling contract and its US wind power procurement arrangements partially offset by an additional charge following termination of the Group's Dutch gas-fired power station tolling contract. In addition, the Group recognised a charge of £89 million relating to restructuring associated with implementing the Group's new operating model.

The Group recognised a £73 million gain on disposal following the sale of the GLID wind farm joint venture and a £51 million gain on disposal of the Skene and Buckland oil and gas assets. It also recognised a £176 million impairment on its UK Storage facility, Rough, reflecting updated assumptions on asset availability in the near term.

Taxation on these items generated a credit of £9 million. The Group also recognised a £45 million reduction in deferred tax assets related to a change in UK tax rates. Total net exceptional charges after tax totalled £63 million (2015: £116 million credit).

CERTAIN RE-MEASUREMENTS

The Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair-valued under IAS 39. The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. The operating profit in the statutory results includes a net pre-tax gain of £977 million (2015: £418 million) relating to these re-measurements. The Group recognises the realised gains and losses on these contracts in business performance when the underlying transaction occurs. The profits arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements. See note 6 for further details.

EVENTS AFTER THE BALANCE SHEET DATE

Post balance sheet events are detailed in note 16.

RISKS AND CAPITAL MANAGEMENT

The Group's principal risks and uncertainties are largely unchanged from those set out in its 2015 Annual Report. However the UK referendum vote to leave the European Union does create some additional uncertainty, which may lead to volatility in markets and potential fluctuations in foreign exchange rates, interest rates and commodity prices, all of which may impact the Group. Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note 18. Details on the Group's capital management processes are provided under sources of finance in note 12(a).

ACCOUNTING POLICIES

UK listed companies are required to comply with the European regulation to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group's specific accounting measures, including changes of accounting presentation and selected key sources of estimation uncertainty, are explained in notes 1, 2 and 3.

Business Review

UK & IRELAND

UK HOME

Period ended 30 June	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.34**	1.22	10%
Brand NPS	**(2)**	(8)	6pt
Complaints (per 100,000 customers) [1]			
Energy supply	**3,433**	5,515	(38%)
Services	**307**	516	(41%)
Customer account holdings ('000s)			
Energy supply	**14,260**	14,733	(3%)
Services [2]	**7,545**	7,847	(4%)
Total customer account holdings ('000s)	**21,805**	22,580	(3%)
Installs and on demand jobs ('000s)	**170**	178	(4%)
Total customer energy consumption			
Gas (mmth)	**2,112**	2,183	(3%)
Electricity (GWh)	**11,497**	11,746	(2%)
Energy use per residential energy customer account (kWh)	**5,066**	5,117	(1%)
Annualised cost per Home customer (£) [3]	**98**	98	0%
Adjusted operating costs as a % of gross margin	**43%**	43%	(0ppt)
Adjusted operating cash flow (£m)	**505**	231	119%
Adjusted operating profit (£m)	**635**	678	(6%)

UK BUSINESS

Period ended 30 June	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.14**	0.29	(52%)
Brand NPS	**(14)**	(18)	4pt
Complaints (per 100,000 customers) [1]	**11,458**	13,149	(13%)
Customer account holdings ('000s)	**729**	802	(9%)
Total customer energy consumption			
Gas (mmth)	**313**	374	(16%)
Electricity (GWh)	**6,619**	7,599	(13%)
Adjusted operating costs as a % of gross margin	**78%**	93%	(15ppt)
Adjusted operating cash flow (£m)	**259**	(103)	nm
Adjusted operating profit (£m)	**31**	6	417%

IRELAND

Period ended 30 June	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.61**	0.27	126%
Brand NPS	**5**	nm	nm
Complaints (per 100,000 customers) [1]	**5**	9	(44%)
Customer account holdings ('000s)	**685**	633	8%
Total customer energy consumption			
Gas (mmth)	**187**	162	15%
Electricity (GWh)	**1,500**	1,329	13%
Energy use per residential energy customer account (kWh)	**4,643**	4,695	(1%)
Annualised cost per Home customer (£) [3]	**114**	92	24%
Adjusted operating costs as a % of gross margin	**61%**	58%	3ppt
Adjusted operating cash flow (£m)	**58**	50	16%
Adjusted operating profit (£m)	**24**	23	4%

1. Year to date complaints per 100,000 customers as reported to Ofgem for UK energy supply, the FCA for UK Home services and CER for Ireland.
2. H1 2015 UK Home services customer account holdings have been restated to include 10,000 holdings following data assurance activity of our analytical system.
3. Annualised cost per Home customer calculates adjusted operating costs and controllable cost of goods sold as a proportion of holdings, installs and on demand jobs.

UK & IRELAND ENERGY SUPPLY & SERVICES

We made good progress in implementing our strategy in the first half of the year, having now combined our UK residential energy and services businesses to create UK Home, in addition to UK Business. We also generated strong momentum in our cost reduction programme, which is key to retaining a competitive position. In the first half of the year we consolidated operations into fewer sites and streamlined our sales channels and services product lines. Reflecting this, the total number of roles fell by over 2,000 in the first half. These actions, combined with a focus on discretionary expenditure, meant that total controllable costs fell by 5% compared to the first half of 2015. In addition, we have now made changes to pension terms with our employees, with the vast majority of engineers voting to accept the proposals.

UK HOME

Market conditions remain competitive for UK Home, with falling gas and power prices supporting the growth of new suppliers, historically high levels of energy supplier switching, and changing customer demand for services. Against this backdrop, our focus remains on improving customer service, developing innovative solutions and reducing costs.

The number of UK Home customer account holdings reduced by 3% in the first half of 2016. The number of energy supply accounts reduced by 399,000, including the impact of a significant roll-off of long-term fixed contracts in the first quarter. However we returned to account growth in June, having implemented a 5% reduction in our residential gas tariff in March and launched a new attractive fixed price product during the second quarter. The number of services accounts fell by 2%, as we continue to develop propositions to better meet a shift in customer demand from insurance to on-demand products, while our focus on cost efficiency will help to improve our price competitiveness.

Excellent customer service is a core requisite for retaining and winning new customers. Actions we have taken, including improved employee training, a pro-active re-assessment of customers' direct debit payments, the implementation of a more customer friendly 'homemove' process and improved call scripts have all helped to improve customer service levels. Complaints per 100,000 customers fell by more than a third in both energy supply and services and we saw a 6 point improvement in our Brand NPS. Although this remains marginally negative, the lead indicator of contact NPS improved while engineer NPS remains high at +70.

Smart meters will bring significant benefits to customers, including an end to estimated bills and a greater ability to monitor and reduce consumption. They will also enable us to improve customer engagement and retention. We continue to lead the industry in the installation of smart meters, having installed 2.5 million to date, and we remain on track to have installed over 3 million by the end of 2016. Utilising smart meter technology, we launched a 'Free time' tariff in June, offering free electricity to customers on either a Saturday or Sunday.

UK Home adjusted operating profit fell 6% to £635 million in the first half of 2016, which includes energy supply operating profit of £516 million, down 7%. Around half of the UK Home reduction is due to a one-off £23 million pension credit in 2015, with the other half mainly reflecting lower holdings and energy use per customer, partially offset by efficiency benefits. Adjusted operating cash flow increased significantly due to strong working capital management.

UK BUSINESS

UK Business returned to profitability in the first half of 2016, with issues associated with the migration of customer accounts and associated data on to a new billing and CRM system from multiple legacy systems having been largely rectified by the end of 2015. The new system is enabling improved bill accuracy and timeliness, both of which are significantly better than under the old systems. Customer service levels are improving, with complaints per 100,000 customers down 13% in comparison to the same period in 2015. We remain focused on reducing the level of complaints further.

Cash collection continued to be a key area of focus in the first half of 2016, and with the billing issues having been resolved total customer debt has fallen and adjusted operating cash flow in the first half of the year was £259 million compared to a cash outflow in 2015. Improving customer service and cash collection will remain key priorities in the second half of 2016, as we rebuild our reputation in the UK business market. Customer account holdings fell by 34,000, or 4%, in the first half of the year, although the rate of loss was lower than in both halves of 2015.

IRELAND

Our Irish business, Bord Gáis Energy, performed well during the first half of 2016. The business delivered strong customer service levels with complaints per 100,000 customers falling by more than 40%. We also delivered further growth in customer accounts, up 20,000 or 3% in the first half, which reflects our competitive pricing position.

Adjusted operating profit and adjusted operating cash flow were both broadly stable compared to the first half of 2015, including profit from the Whitegate gas-fired power station which delivered a solid performance in the first half.

Business Review continued

NORTH AMERICA

NORTH AMERICA HOME

Period ended 30 June	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.83**	2.05	(11%)
Brand NPS	**29**	nm	nm
Energy supply complaints (per 100,000 customers) [1]	**62**	108	(43%)
Customer account holdings (‘000s)			
Energy supply	**3,040**	3,188	(5%)
Services	**943**	904	4%
Total customer account holdings (‘000s)	**3,983**	4,092	(3%)
Installs and on demand jobs (‘000s)	**288**	303	(5%)
Total customer energy consumption			
Gas (mmth)	**1,043**	1,210	(14%)
Electricity (GWh)	**7,700**	8,675	(11%)
Energy use per residential energy customer account (kWh)	**12,751**	13,892	(8%)
Annualised cost per Home customer (£) [2]	**195**	186	5%
Adjusted operating costs as a % of gross margin	**81%**	76%	5ppt
Adjusted operating cash flow (£m)	**78**	102	(24%)
Adjusted operating profit (£m)	**33**	50	(34%)

NORTH AMERICA BUSINESS

Period ended 30 June	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.00**	0.11	(100%)
Brand NPS	**26**	19	7pt
Complaints (per 100,000 customers) [1]	**16**	27	(41%)
Customer account holdings (‘000s)	**597**	601	(1%)
Total customer energy consumption			
Gas (mmth)	**3,168**	3,364	(6%)
Electricity (GWh)	**43,872**	46,324	(5%)
Adjusted operating costs as a % of gross margin	**65%**	48%	17ppt
Adjusted operating cash flow (£m)	**121**	268	(55%)
Adjusted operating profit (£m)	**62**	139	(55%)

1. Year to date complaints per 100,000 customers as reported by various regulatory bodies.
2. Annualised cost per Home customer calculates adjusted operating costs and controllable cost of goods sold as a proportion of holdings, installs and on demand jobs.

NORTH AMERICA ENERGY SUPPLY & SERVICES

We made good progress in the first half of the year against our strategy to develop a more sustainable residential business model and to build on our market leading B2B position. However North America profitability was significantly impacted by extreme warm weather in the first half, particularly in the US North East and reflecting this, total energy consumption was down 8% for gas and 6% for power compared to 2015. Overall, North America adjusted operating profit fell by 50% compared to the first half of 2015 and adjusted operating cash flow fell by 46%. However we expect a much stronger second half performance in 2016, reflecting significantly higher net margin under contract in North America Business, growth in paid protection plans, cost efficiencies and favourable foreign exchange movements.

NORTH AMERICA HOME

North America Home adjusted operating profit fell by 34% and adjusted operating cash flow fell by 24%. This reflects the impact of an 8% reduction in energy use per residential energy customer account compared to the first half of 2015, due to the extreme warm weather. North America Home also experienced a further operating loss from its solar business, with lower than expected installation revenues and higher than expected costs. We have now taken action to make the solar business more efficient, including restructuring our operations, streamlining the sales process, simplifying the offer, and closing a number of loss-making regional offices not in core markets.

The total number of energy supply customer accounts increased by 7,000 in the first half of 2016, with organic growth in the US North East, and actions we have taken to differentiate our offer and invest in our brands gaining traction in a competitive market environment. We have entered 42 new franchise territories in the first half of the year and are targeting to provide energy in three new states by the end of the year, while in June the state of Delaware officially named Direct Energy as their preferred electricity supplier. This is the first such designation made by a US state. The number of services customer account holdings has increased by 29% over the past two years, although fell by 6% in the first half of 2016, reflecting the roll-off of a number of trial offers. However the number of more valuable paid annuity contracts grew by 7% in the first half of the year. We continue to focus on improving service levels. Complaints fell by more than 40% in the first half of 2016, and Brand NPS was measured at +29.

We continue to focus on delivering efficiencies and we are progressing with a number of initiatives that will deliver material benefits in the second half of the year. The combination of our residential energy and services activities has led to synergies from simplification, more effective and efficient sales channel use and reductions in headcount. Our cost per Home account in the first half of the year increased compared to last year, however when normalised for the impact of higher revenue solar installations, it was broadly flat. We are currently in the process of further simplifying our services activities through the divestment of two small non-core businesses.

We remain focused on continuing to improve the sustainability of the business through offer differentiation and the delivery of innovative customer propositions in addition to cost efficiency. This includes the bundling of products, with 51% of Home sales being bundled with either a protection plan or smart thermostat compared to 43% in the same period in 2015, and an increasing focus on customer interactions through digital channels. We are also leveraging our connected home business and having already sold over 200,000 smart thermostats in North America we plan to launch our own smart thermostat in North America through the Connected Home business around the end of 2016.

NORTH AMERICA BUSINESS

North America Business adjusted operating profit and adjusted operating cash flow both fell by 55%. This reflects lower gas and power consumption due to the extreme warm weather and reduced potential for optimisation profit from our natural gas pipeline and storage capacity contracts due to limited commodity price and weather volatility.

Unit margins on new C&I gas sales were broadly flat compared to the first half of 2015, while C&I electricity unit margins were slightly down but remain broadly consistent with recent average levels. As a result, the outlook is positive, with net margin under contract for the second half of the year 37% higher at the end of June than it was at the same time in 2015.

Customer satisfaction and retention remain a key focus. In the first half of 2016 we launched a number of new operational processes, including improving the timeliness of generating a quote and engaging earlier with the customer prior to contract renewal. Reflecting this, complaints fell by more than a third and Brand NPS improved from +19 in January 2016 to +26 across the first six months of the year.

We also continue to focus on innovative offerings for business customers, including working alongside the DE&P business to sell device-level energy management solutions to both new and existing customers.

Business Review continued

CONNECTED HOME

Period ended 30 June	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.00**	0.00	n/a
Brand NPS	**50**	n/a	n/a
Cumulative hubs installed ('000)	**364**	214	70%
New products launched	**5**	1	400%
Active subscriptions ('000)	**0**	0	-
Adjusted operating costs as a % of gross margin	**1,029%**	2,050%	nm
Gross revenue (£m)	**12**	8	50%
Adjusted operating cash flow (£m)	**(25)**	(31)	19%
Adjusted operating profit / (loss) (£m)	**(23)**	(28)	18%

The connected home is one of our focus areas for growth and we have now brought together our existing expertise in the UK and North America to create a new international business. Although at an early stage, the 'Internet of Things' is developing rapidly and will help us to broaden the customer relationship through the offer of a wide range of applications, insights, services and energy efficiency products. We already have strong capabilities and an end to end platform, acquired through the AlertMe acquisition in 2015, and we are well placed to compete in this space given our existing customer base in the UK, Ireland and North America. We continue to invest in infrastructure, product development and capability to support growing the business and in the first half of the year, reflecting revenue growth, Connected Home reported a reduced operating loss.

We have now installed over 360,000 connected hubs in the UK and have also sold over 200,000 smart thermostats in North America. In the first half of the year we launched four new connected home products in the Hive range: the Hive Active Plug; Hive Window and Door Sensor; Hive Motion Sensor; and Hive Active Light. We have sold over 20,000 of these new products to date. We also launched 'Boiler IQ', a subscription-based connected boiler product that remotely diagnoses faults and improves the customer experience for services contract customers. We have sold over 10,000 units of 'Boiler IQ' to date. Connected Home products are helping drive engagement and brand awareness, with Hive NPS scores 10 points higher for customers with multiple Hive products than those with only one.

In addition, our energy insight products, 'My Energy' in the UK and 'Direct Your Energy' in North America, are now available to more than 3.6 million customers.

We have a strong product pipeline planned for the second half of 2016, including plans to launch our own smart thermostat in North America around the end of the year. We also continue to work on developing additional products that will expand our offering and provide innovative solutions for our customers.

DISTRIBUTED ENERGY & POWER

Period ended 30 June	**2016**	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked) [1]	**1.32**	0.82	61%
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked) [1]	**0.00**	0.00	0%
NPS [2]	**n/a**	n/a	n/a
Flexible distributed energy capacity under management (MW)	**517**	489	6%
Active customer sites	**2,450**	983	149%
Secured revenue (order book) (£m)	**307**	77	299%
Adjusted operating costs as a % of gross margin	**152%**	(665%)	nm
Gross revenue (£m)	**67**	44	52%
Adjusted operating cash flow (£m)	**(19)**	(22)	14%
Adjusted operating profit / (loss) (£m)	**(11)**	(20)	45%

1. Total recordable injury frequency rate and process safety incident rate relate to both the Distributed Energy & Power and Central Power Generation segments due to the sharing of employees across both business units.
2. NPS methodology for Distributed Energy & Power is under development.

Distributed energy, including energy efficiency, flexible generation and new technologies, energy management and optimisation is one of our focus areas for growth. We have now established a new international business unit, Distributed Energy & Power (DE&P), bringing together existing relevant capabilities from our UK business services and power businesses and our North America business division. The DE&P reporting segment also includes our smaller gas-fired peaking plants at Barry, Brigg and Peterborough. Our DE&P capabilities provide us with a good base from which to benefit from the global trend towards distributed energy, utilising our existing customer relationships, and our strategy is built around three areas of offer – energy insights, asset optimisation and energy solutions.

In May 2016, we added to our capabilities through the acquisition of ENER-G Cogen, an established supplier and operator of combined heat and power (CHP) solutions, for £149 million. The acquisition complements and enhances Centrica's existing capability in installing and managing distributed systems, including flexible generation, for business customers in the UK and North America.

ENER-G Cogen delivers both off-the-shelf and bespoke end-to-end CHP solutions for a variety of commercial and industrial customers, from initial design through to installation, operation and maintenance. The acquisition added capacity under contract of over 500MW across 1,400 CHP units. The business operates predominantly in the UK, but also has operations in the United States, Hungary, Italy, and the Netherlands.

The acquisition of ENER-G Cogen fits alongside the 2015 acquisition of Panoramic Power and means we now have a very solid core of distributed energy expertise and experience. We saw good sales of our device level energy management solutions, developed by Panoramic Power, in the first half of the year to a range of diverse customers, including retailers, manufacturers, cinemas and healthcare providers.

Our gas-fired peaking plants, Peterborough and Barry, secured further Short Term Operating Reserve (STOR) contracts until March 2018, while Barry completed a Supplemental Balancing Reserve (SBR) contract for winter 2015/16. As part of our strategy to rationalise our power portfolio, in March we closed the Killingholme gas-fired power station, following completion of its winter 2015/16 SBR contract. Brigg has continued to operate successfully as a distributed generation asset, operating at a reduced capacity of 99MW and connecting to the local distribution network instead of the UK transmission network. This capacity is included within our total flexible distributed energy capacity under management, which was 6% higher at the end of the first half compared to the first half of 2015.

Total gross revenue increased by 52%, predominantly reflecting the ENER-G Cogen acquisition. In addition, the total secured revenue order book increased to £307 million, with around half expected to be delivered in the remainder of 2016 and 2017. However DE&P reported an operating loss in the first half of 2016, with continued low returns from the peaking plants and a focus on building our distributed energy capability. This loss was much reduced when compared with the same period last year, primarily reflecting the closure of the loss-making Killingholme plant and additional STOR and SBR revenue across our other peaking plants. We expect a more material contribution from the ENER-G Cogen acquisition in the second half of the year.

Business Review continued

ENERGY MARKETING & TRADING

Period ended 30 June	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.00**	0.00	n/a
Adjusted operating cash flow (£m)	**103**	143	(28%)
Adjusted operating profit / (loss) (£m)	**(14)**	(55)	75%

Energy Marketing & Trading (EM&T) is one of our focus areas for growth and is an area where we already have strong cross-commodity capabilities. We are continuing to expand our market presence in global LNG while we are also focused on developing our route to market services and building our trading and optimisation capabilities. It also continues to serve its core purpose of managing the commodity risk and providing wholesale market access for the Group, adding value through balancing customer gas and power demand and electricity generation.

In April, we announced that we had agreed to acquire Danish-based Neas Energy, one of Europe's leading providers of energy management and revenue optimisation services for decentralised third-party owned assets, for £170 million plus adjustments for cash and net working capital. The transaction is expected to close in the third quarter of 2016, once European Union regulatory approvals have been received. The acquisition will allow Centrica to materially accelerate its route to market strategy, providing asset owners with access to wholesale commodity markets, and will also complement optimisation activity in DE&P.

Neas operates predominantly in Denmark, the UK, Germany and Sweden, but has also established a short-term trading presence across 18 countries. It has a business model that is complementary to Centrica's current EM&T activities, providing expertise in short-term power trading and asset management in North West Europe, with Centrica's existing expertise focused on longer-term gas and power trading in the UK and Europe. The transaction also adds enhanced analytics, IT and trading capabilities. Neas serves customers who own 2,500 individual decentralised assets, including windfarms, solar plants and combined heat and power (CHP) plants, with an installed capacity of approximately 8,600MW. In addition, Neas provides risk management, supply management and consumption optimisation for wholesale electricity customers and smaller suppliers who do not have trading capabilities of their own.

In LNG, the first gas under our US export contract with Cheniere is expected to be taken in 2019. In the first half of 2016 we completed further international 'Free on Board' cargoes, with additional activity planned for the second half of the year.

EM&T also continues to have a number of flexible gas contracts, the profit from which will vary between periods based on the commodity price environment and decisions we take to optimise these contracts to maximise value. Some of these contracts are 'take or pay' which means that payments for gas are made even if delivery is deferred to future periods and therefore operating cash flow can vary materially from operating profit in a given period. In total, these contracts and associated hedges were loss-making in the first half of 2016 and overall, including a positive contribution from proprietary trading, EM&T reported an operating loss of £14 million. However the loss was materially lower than that reported last year, which was impacted by a decision to optimise a number of flexible gas contracts for value during falling prices in 2014 which had a consequential negative impact on operating profit in the first half of 2015. Like in 2015, when EM&T profitability for the full year was £66 million, the flexible gas contracts and associated hedges are expected to be profitable in the second half of the year.

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Business Review continued

EXPLORATION & PRODUCTION

Period ended 30 June	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.56**	0.78	(28%)
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)	**0.15**	0.39	(62%)
Gas production volumes (mmth)			
Europe	**1,080**	1,118	(3%)
Americas [1]	**679**	810	(16%)
Total gas production volumes (mmth) [1]	**1,759**	1,928	(9%)
Liquids production volumes (mmboe)			
Europe	**7.9**	7.5	5%
Americas [1]	**1.0**	1.5	(33%)
Total liquids production volumes (mmboe) [1]	**8.9**	9.0	(1%)
Total production volumes (mmboe)	**37.8**	40.7	(7%)
Average achieved gas sales prices (p/therm)			
Europe	**34.2**	48.8	(30%)
Americas	**9.8**	14.9	(34%)
Average achieved liquid sales prices (£/boe)			
Europe	**30.0**	40.3	(26%)
Americas	**20.1**	29.3	(31%)
Lifting and other cash production costs (£/boe)			
Europe	**12.2**	15.6	(22%)
Americas	**4.3**	8.2	(48%)
Adjusted operating cash flow (£m)	**336**	450	(25%)
Free cash flow (£m) [2]	**72**	35	106%
Adjusted operating profit (£m) [3]	**88**	106	(17%)
Adjusted operating profit after tax (£m)	**21**	23	(9%)
Net investment (£m)			
Capital expenditure (including small acquisitions)	**289**	416	(31%)
Net disposals	**(25)**	(1)	nm
Net investment (£m)	**264**	415	(36%)

1. Includes 100% share of Canadian assets owned in partnership with Qatar Petroleum.
2. Free cash flow is defined as adjusted operating cash flow less capital expenditure and net disposals.
3. E&P operating profit now includes fair value depreciation related to our investment in Venture. 2015 comparatives have been restated accordingly.

EXPLORATION & PRODUCTION

Our Exploration & Production (E&P) business delivered solid operational performance in the first half of 2016. We also continued to make progress on the transition towards a business producing between 40-50mmboe per annum and focused on Europe. We have now commenced a sales process for our Canadian assets, while we continue to explore options to exit our positions in Trinidad and Tobago.

Adjusted operating cash flow fell by 25% with the impact of lower commodity prices on the business being partially offset by lower cash production costs. Adjusted operating profit fell by 17%, which also includes the benefit of lower depreciation resulting from the impairment of assets at the end of 2015. In this environment we are maintaining a strong focus on cash flow management, and combined with the actions we have taken on capital expenditure, the business was free cash flow positive in the first half of 2016. We are on track to achieve a free cash flow positive E&P business over the period 2015-16.

Total gas and liquids production was down 7% compared to last year, to 37.8mmboe. In Europe, total production was down 2% reflecting the natural decline from our fields, despite strong performance from all our Norwegian assets. In the Americas production fell 17%, which reflects significantly reduced drilling activity and some shut-ins of producing fields for economic reasons in the very low gas price environment in Canada.

Capital expenditure in the first half of the year was £289 million and we remain on track to spend around £500 million in the full year, around 30% lower than 2015 levels and within the £400-£600 million range that we believe is necessary to sustain production between 40-50mmboe per annum. The lower capital expenditure spend also reflects the steps we have taken to scale back our exploration spend and there was no exploration drilling activity in Europe in the first half. On our committed developments, the large scale Cygnus project is forecast to contribute to production during the second half of the year, with first gas now expected in the fourth quarter of 2016, later than originally anticipated. The Maria project remains on track to produce first oil in 2018, with drilling operations scheduled to start in 2017. However a fourth production well in York failed to deliver commercial volumes owing to reservoir quality issues and the well has now been shut-in. This resulted in a pre-tax impairment of £53 million being reported in adjusted operating profit in the first half of 2016. The Group also disposed of its interest in the Skene and Buckland oil and gas assets in the first half of the year, which resulted in a £51 million exceptional gain on disposal.

Lifting and other cash production costs in the first half of 2016 were 31% lower than in the first half of 2015, which also benefits from some phasing of costs between the first and second half of 2016. We now expect to deliver around £200 million of savings in 2016 when compared to 2014, up from our previous expectation of £150 million. This includes the absorption of incremental costs from new projects such as Valemon and Cygnus. We have delivered a number of initiatives to meet this target, including supply chain improvements, collaboration with other operators to drive efficiency through innovation and reductions in headcount across all levels as we reorganise to simplify our operations. We have now moved the organisation from a regional to an asset based structure to help deliver further efficiencies.

Business Review continued

CENTRAL POWER GENERATION

Period ended 30 June	**2016**	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked) [1]	**1.32**	0.82	61%
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked) [1]	**0.00**	0.00	0%
CCGT reliability	**85%**	80%	5ppt
Power generated (GWh)			
Gas-fired	**4,717**	3,089	53%
Renewables	**309**	435	(29%)
Nuclear	**6,176**	6,069	2%
Total power generated (GWh)	**11,202**	9,593	17%
Achieved clean spark spread (£/MWh)	**7.4**	10.5	(30%)
Achieved power price – renewables (including ROCs) (£/MWh)	**112.0**	118.2	(5%)
Achieved power price – nuclear (£/MWh)	**44.9**	49.7	(10%)
Adjusted operating cash flow (£m)	**(30)**	26	nm
Adjusted operating profit (£m) [2]	**24**	58	(59%)

1. Total recordable injury frequency rate and process safety incident rate relate to both the Distributed Energy & Power and Central Power Generation (CPG) segments due to the sharing of employees across both business units.
2. CPG operating profit now includes fair value depreciation related to our investment in Nuclear. 2015 comparatives have been restated accordingly.

Central Power Generation operating profit reduced by £34 million or 59% compared to the same period in 2015, while adjusted operating cash flow reduced by £56 million. These predominantly reflect the impact of continued low power prices and spark spreads and reduced benefit from historic hedging.

Gas-fired power generation volumes were 53% higher in the first half than in the same period in 2015, despite the low market clean spark spreads. This reflects higher volume from the Spalding tolling arrangement, while volumes in the first half of 2015 were impacted by an unplanned outage at Langage.

Our share of nuclear generation volumes in the first half of the year was up 2% to 6.2TWh, reflecting continued good operational performance. This includes the impact of a return to full service of three of the four reactors that had been operating at reduced temperatures following the identification of an issue on one boiler spine at Heysham 1 in 2014. Following the completion of further work at Heysham 1 Reactor 1 load has now been raised and the unit is operating at up to 87.5%, from 75% previously.

Generation from our share of wind assets was 29% lower than the same period in 2015, due mainly to the disposal of 50% share of the 220MW GLID joint venture, in line with our strategy to dispose of our interests in wind power. The disposal generated cash proceeds to Centrica of £116 million and resulted in an exceptional gain on disposal of £73 million. Our remaining offshore wind farm, Lincs, had high availability at 96% however generation volumes were slightly down compared to the same period in 2015, reflecting lower wind speeds.

CENTRICA STORAGE

Period ended 30 June	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.48**	1.10	35%
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)	**0.53**	0.45	18%
Reservoir capacity (bcf)	**110**	95	16%
Average SBU price (in period) (pence)	**19.6**	20.4	(4%)
Gross revenue (£m)			
Standard SBUs	**40**	46	(13%)
Additional space / cushion gas / other	**42**	25	68%
Total gross revenue (£m)	**82**	71	15%
Adjusted operating cash flow (£m)	**30**	60	(50%)
Adjusted operating profit (£m)	**4**	13	(69%)

Seasonal gas price spreads remained at historic low levels through much of the first half of 2016, with a continued abundance of flexible supply across Europe. Reflecting this, it was announced in April that all SBUs for the 2016/17 storage year had been sold at 15.4p, significantly lower than the 21.1p achieved in 2015 and the lowest price achieved since Centrica acquired the asset in 2002.

Following the identification of a potential technical issue in March 2015, the maximum operating pressure of the Rough wells remained limited to 3,000 psi during the first half of the year, which limited the stock in Rough to 33-36TWh. The highest level reached in 2014 was 41.1TWh. Following a change to the Rough Undertakings, Centrica Storage was able to reduce the number of SBUs it sold for the 2016/17 storage year to 340 million, from 455 million in 2015/16, to reflect the impact of the reduced maximum operating pressure.

In June, Centrica Storage identified an additional issue on one of the Rough wells. As a consequence, it announced it had ceased all Rough injection and withdrawal operations for a 42 day period pending further testing in relation to the issue identified. In July 2016, Centrica Storage announced that tests on the affected well had identified further uncertainties in the remaining untested wells. As a result, it will continue with an enhanced testing programme, with completion expected in March to April 2017. However, in the meantime, as a prudent and safe operator, Centrica Storage cannot inject or withdraw gas from Rough. Following a feasibility study, Centrica Storage anticipates returning a number of wells to service for the Winter 2016/17 withdrawal season. A pre-tax exceptional charge of £176 million (post-tax £144 million) was recorded in the first half of 2016 resulting from updated assumptions on asset availability in the near term and future expenditure on asset integrity.

Despite the low seasonal gas price spreads and reduced capacity at Rough, gross revenue increased by 15% in the first half of 2016 compared to the first half of 2015, with 9 bcf of cushion gas sold in the first half following the receipt of consent from the Oil and Gas Authority to increase the reservoir size of Rough by approximately 4.5TWh in July 2015. However total costs increased by 34%, with additional depreciation associated with cushion gas sales, increased maintenance expenditure and costs relating to lower asset availability and managing the reservoir at lower pressure. Reflecting this, Centrica Storage operating profit fell by 69% and adjusted operating cash flow fell by 50%.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Interim Results for the six month period ended 30 June 2016 in accordance with applicable law, regulations and accounting standards. In preparing the condensed interim Financial Statements, the Directors are responsible for ensuring that they give a true and fair view of the state of affairs of the Group at the end of the period and the profit or loss of the Group for that period.

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

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

The Directors of Centrica plc are listed in the Group's 2015 Annual Report and Accounts. A list of current Directors is maintained on the Centrica plc website which can be found at www.centrica.com.

By order of the Board

Iain Conn
Group Chief Executive
28 July 2016

Jeff Bell
Group Chief Financial Officer
28 July 2016

Independent Review Report to Centrica plc

REPORT ON THE CONDENSED INTERIM FINANCIAL STATEMENTS

Our conclusion

We have reviewed Centrica plc's condensed interim Financial Statements in the Interim Results of Centrica plc for the 6 month period ended 30 June 2016. Based on our review, nothing has come to our attention that causes us to believe that the condensed interim Financial Statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The condensed interim Financial Statements comprise:

- the Group Balance Sheet as at 30 June 2016;
- the Group Income Statement and Group Statement of Comprehensive Income for the period then ended;
- the Group Cash Flow Statement for the period then ended;
- the Group Statement of Changes in Equity for the period then ended; and
- the explanatory notes to the condensed interim Financial Statements.

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

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

RESPONSIBILITIES FOR THE INTERIM FINANCIAL STATEMENTS AND THE REVIEW

Our responsibilities and those of the Directors

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

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

What a review of condensed interim Financial Statements involves

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

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

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

PricewaterhouseCoopers LLP

Chartered Accountants

London

28 July 2016

Notes

1. The maintenance and integrity of the Centrica plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the condensed interim Financial Statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Group Income Statement

Six months ended 30 June	Notes	2016 Business performance £m	2016 Exceptional items and certain re-measurements £m	2016 Results for the period £m	2015 Business performance £m	2015 Exceptional items and certain re-measurements £m	2015 Results for the period £m
Group revenue	4(b)	**13,380**	**–**	**13,380**	15,451	–	15,451
Cost of sales before exceptional items and certain re-measurements		**(11,101)**	**–**	**(11,101)**	(13,074)	–	(13,074)
Re-measurement of energy contracts	6(b)	**–**	**969**	**969**	–	413	413
Cost of sales		**(11,101)**	**969**	**(10,132)**	(13,074)	413	(12,661)
Gross profit		**2,279**	**969**	**3,248**	2,377	413	2,790
Operating costs before exceptional items		**(1,514)**	**–**	**(1,514)**	(1,525)	–	(1,525)
Exceptional items – gas storage impairment	6(a)	**–**	**(176)**	**(176)**	–	–	–
Exceptional items – other	6(a)	**–**	**149**	**149**	–	–	–
Operating costs		**(1,514)**	**(27)**	**(1,541)**	(1,525)	–	(1,525)
Share of profits of joint ventures and associates, net of interest and taxation	5	**51**	**8**	**59**	73	5	78
Group operating profit	4(c)	**816**	**950**	**1,766**	925	418	1,343
Financing costs	7	**(163)**	**–**	**(163)**	(166)	–	(166)
Investment income	7	**22**	**–**	**22**	31	–	31
Net finance cost		**(141)**	**–**	**(141)**	(135)	–	(135)
Profit before taxation		**675**	**950**	**1,625**	790	418	1,208
Taxation on profit	8	**(180)**	**(309)**	**(489)**	(221)	45	(176)
Profit for the period		**495**	**641**	**1,136**	569	463	1,032
Attributable to:							
Owners of the parent		**507**	**641**	**1,148**	587	463	1,050
Non-controlling interests		**(12)**	**–**	**(12)**	(18)	–	(18)

Earnings per ordinary share		2016 Pence	2015 Pence
Basic	9	**22.2**	21.1
Diluted	9	**22.0**	21.0

The notes on pages 28 to 52 form part of these condensed interim Financial Statements.

Group Statement of Comprehensive Income

Six months ended 30 June	**2016 £m**	2015 £m
Profit for the period	**1,136**	1,032
Other comprehensive income/(loss):		
Items that will be or have been recycled to the Group Income Statement:		
Gains/(losses) on revaluation of available-for-sale securities, net of taxation	**4**	(4)
Transfer of available-for-sale reserve gains to Income Statement	**(5)**	–
Net gains/(losses) on cash flow hedges	**142**	(45)
Transferred to income and expense on cash flow hedges	**(110)**	42
Transferred to assets and liabilities on cash flow hedges	**(1)**	–
Taxation on cash flow hedges	**(4)**	–
	27	(3)
Exchange differences on translation of foreign operations	**395**	(207)
Share of other comprehensive (loss)/income of joint ventures and associates, net of taxation	**(7)**	4
	414	(210)
Items that will not be recycled to the Group Income Statement:		
Net actuarial losses on defined benefit pension schemes	**(512)**	(254)
Exchange loss on translation of actuarial reserve	**(5)**	–
Taxation on net actuarial losses on defined benefit pension schemes	**91**	51
	(426)	(203)
Share of other comprehensive income/(loss) of joint ventures and associates, net of taxation	**8**	(17)
Other comprehensive loss, net of taxation	**(4)**	(430)
Total comprehensive income for the period	**1,132**	602
Attributable to:		
Owners of the parent	**1,115**	645
Non-controlling interests	**17**	(43)

Group Statement of Changes in Equity

	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
1 January 2016	317	1,135	482	(756)	**1,178**	164	**1,342**
Total comprehensive income/(loss)	–	–	1,148	(33)	**1,115**	17	**1,132**
Employee share schemes	–	–	6	14	**20**	–	**20**
Dividends paid to equity holders (note 10)	3	81	(454)	–	**(370)**	–	**(370)**
Issue of share capital	21	673	–	–	**694**	–	**694**
30 June 2016	**341**	**1,889**	**1,182**	**(775)**	**2,637**	**181**	**2,818**

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

The notes on pages 28 to 52 form part of these condensed interim Financial Statements.

Group Balance Sheet

	Notes	30 June 2016 £m	31 December 2015 (restated) (i) £m
Non-current assets			
Property, plant and equipment		**4,766**	4,629
Interests in joint ventures and associates		**1,834**	1,839
Other intangible assets		**2,033**	1,775
Goodwill		**2,352**	2,049
Deferred tax assets		**192**	497
Trade and other receivables		**80**	61
Derivative financial instruments		**737**	440
Retirement benefit assets	13(c)	**–**	91
Securities	12(b)	**209**	233
		12,203	11,614
Current assets			
Trade and other receivables		**4,332**	4,905
Inventories		**281**	395
Derivative financial instruments		**1,208**	936
Current tax assets		**151**	126
Securities	12(b)	**15**	11
Cash and cash equivalents (i)		**2,249**	1,158
		8,236	7,531
Assets of disposal groups classified as held for sale		**–**	13
		8,236	7,544
Total assets		**20,439**	19,158
Current liabilities			
Derivative financial instruments		**(984)**	(1,460)
Trade and other payables		**(4,566)**	(5,034)
Current tax liabilities		**(372)**	(389)
Provisions for other liabilities and charges		**(310)**	(396)
Bank overdrafts, loans and other borrowings (i)	12(c)	**(869)**	(773)
		(7,101)	(8,052)
Liabilities of disposal groups classified as held for sale		**–**	(46)
		(7,101)	(8,098)
Non-current liabilities			
Deferred tax liabilities		**(123)**	(98)
Derivative financial instruments		**(548)**	(508)
Trade and other payables		**(214)**	(70)
Provisions for other liabilities and charges		**(2,995)**	(2,839)
Retirement benefit obligations	13(c)	**(563)**	(210)
Bank overdrafts, loans and other borrowings	12(c)	**(6,077)**	(5,993)
		(10,520)	(9,718)
Total liabilities		**(17,621)**	(17,816)
Net assets		**2,818**	1,342
Share capital		**341**	317
Share premium		**1,889**	1,135
Retained earnings		**1,182**	482
Other equity		**(775)**	(756)
Total shareholders' equity		**2,637**	1,178
Non-controlling interests		**181**	164
Total shareholders' equity and non-controlling interests		**2,818**	1,342

(i) Cash and cash equivalents and current bank overdrafts, loans and other borrowings for 2015 have been restated. See note 3 for further information.

The notes on pages 28 to 52 form part of these condensed interim Financial Statements.

Group Cash Flow Statement

Six months ended 30 June	Notes	2016 £m	2015 £m
Group operating profit including share of results of joint ventures and associates		1,766	1,343
Less share of profit of joint ventures and associates, net of interest and taxation		(59)	(78)
Group operating profit before share of results of joint ventures and associates		1,707	1,265
Add back/(deduct):			
Depreciation, amortisation, write-downs and impairments		688	592
Profit on disposals		(133)	(15)
Decrease in provisions		(40)	(65)
Defined benefit pension service cost and contributions		(79)	(22)
Employee share scheme costs		26	25
Unrealised gains arising from re-measurement of energy contracts		(718)	(278)
Operating cash flows before movements in working capital		1,451	1,502
Decrease in inventories		154	193
Decrease in trade and other receivables		736	785
Decrease in trade and other payables		(659)	(954)
Operating cash flows before payments relating to taxes, interest and exceptional charges		1,682	1,526
Taxes paid		(141)	(144)
Payments relating to exceptional charges		(173)	(42)
Net cash flow from operating activities		**1,368**	1,340
Purchase of businesses, net of cash acquired	11(a)	(132)	(38)
Sale of businesses		24	–
Purchase of property, plant and equipment and intangible assets	4(e)	(424)	(524)
Sale of property, plant and equipment and intangible assets		4	2
Investments in joint ventures and associates		(13)	(12)
Dividends received from joint ventures and associates		49	65
Repayments of loans to, and disposal of investments in, joint ventures and associates		97	189
Interest received		56	17
Sale/(purchase) of securities	12(b)	31	(9)
Net cash flow from investing activities		**(308)**	(310)
Issue and surrender of ordinary share capital, including issue for share awards		694	15
Payments for own shares		(7)	–
Financing interest paid		(111)	(136)
Repayment of borrowings and finance leases	12(b)	(128)	(1,216)
Cash received from borrowings, net of linked deposit	12(b)	138	1,000
Equity dividends paid		(365)	(238)
Net cash flow from financing activities		**221**	(575)
Net increase in cash and cash equivalents		**1,281**	455
Cash and cash equivalents at 1 January		860	621
Effect of foreign exchange rate changes		25	(13)
Cash and cash equivalents including overdrafts at 30 June		**2,166**	1,063
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents		2,249	1,279
Overdrafts included within current bank overdrafts, loans and other borrowings		(83)	(216)

The notes on pages 28 to 52 form part of these condensed interim Financial Statements.

Notes to the condensed interim Financial Statements

Notes to the condensed interim Financial Statements provide additional information required by statute, accounting standards or Listing Rules to explain a particular feature of the condensed interim Financial Statements. These condensed interim Financial Statements should be read in conjunction with the information that was released in the Group's consolidated Financial Statements for the year ended 31 December 2015.

1. GENERAL INFORMATION

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

These condensed interim Financial Statements for the six months ended 30 June 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 28 July 2016. These condensed interim Financial Statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2015 were approved by the Board of Directors on 18 February 2016 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006. The financial information contained in these condensed interim Financial Statements is unaudited. The Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Changes in Equity and Group Cash Flow Statement for the interim period to 30 June 2016 and the Group Balance Sheet as at 30 June 2016 and related notes have been reviewed by the auditors and their report to the Company is set out on page 23.

2. BASIS OF PREPARATION

These condensed interim Financial Statements for the six months ended 30 June 2016 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34: 'Interim financial reporting', as adopted by the European Union.

These condensed interim Financial Statements should be read in conjunction with the Group's consolidated Financial Statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Preparation of interim statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense. Actual amounts may differ from these estimates. In preparing these condensed interim Financial Statements, the significant judgements, estimates and assumptions made by management in applying the Group's accounting policies were consistent with those applied in the Group's consolidated Financial Statements for the year ended 31 December 2015. Further details on the impairment reviews of the long-lived assets and wind farm disposals are included in note 3(c).

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

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

3. ACCOUNTING POLICIES

This section details new accounting standards, amendments and interpretations, whether these are effective in 2016 or later years, and if and how these are expected to impact the financial position and performance of the Group. In addition, this section sets out the Group's specific accounting measures applied in the preparation of the condensed interim Financial Statements. These measures enable the users of the accounts to understand the Group's underlying and statutory business performance separately.

The accounting policies applied in these condensed interim Financial Statements are consistent with those of the Group's consolidated Financial Statements for the year ended 31 December 2015, as described in those annual Financial Statements, with the exception of standards, amendments and interpretations effective as of 1 January 2016 and other restatements as described further in this note 3(c). The Group has not early adopted other standards, amendments to standards or interpretations that have been issued but are not yet effective. The nature and effect of these changes are disclosed next in sections (a) and (b).

Notes to the condensed interim Financial Statements

3. ACCOUNTING POLICIES

(a) Standards, amendments and interpretations effective or adopted in 2016

From 1 January 2016, the following standards and amendments are effective in the Group's consolidated Financial Statements. Their first time adoption does not have a material impact on the Group's consolidated Financial Statements:

- Amendment to IAS 1: 'Presentation of financial statements' related to the disclosure initiative;
- Amendment to IAS 19: 'Employee benefits' related to employees' contributions to defined benefit plans;
- 'Annual Improvement Project 2010-2012';
- Amendment to IAS 16: 'Property, plant and equipment' and IAS 38: 'Intangible assets' related to the clarification of acceptable methods of depreciation and amortisation; and
- 'Annual Improvement Project 2012-2014'.

From 1 January 2016, the amendment to IFRS 11: 'Joint arrangements' is effective and will be applied prospectively to all new relevant acquisitions. It clarifies that an acquisition of a joint operation that meets the definition of a business is accounted for in accordance with IFRS 3: 'Business combinations'. This will lead to a change to the Group's current accounting policy for this type of acquisition. As these accounting requirements apply to non-recurring transactions whose size may vary, the Group cannot quantify the impact that the amendment to this standard will have in the future.

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

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

- Amendment to IAS 7: 'Statement of cash flows' related to the disclosure initiative. Effective 1 January 2017, subject to European Union endorsement;
- IFRS 9: 'Financial instruments'. Effective from 1 January 2018, subject to European Union endorsement;
- IFRS 15: 'Revenue from contracts with customers'. Effective from 1 January 2018, subject to European Union endorsement; and
- IFRS 16: 'Leases'. Effective from 1 January 2019, subject to European Union endorsement.

The Directors do not anticipate that the application of the amendment to IAS 7 will have a material impact on the Group's consolidated Financial Statements.

In respect of IFRS 9 and IFRS 15, the Group has continued assessing their impact on the Group's consolidated Financial Statements, however, no material changes have been identified to date. Management's preliminary assessment is that IFRS 9 will not have a material impact on the Group's consolidated Financial Statements. In respect of IFRS 15, it is still not yet clear whether a change in the profile of revenue recognition will arise as a result of the application of the new standard. All business units are continuing to review their contractual arrangements to identify any further impacts of application from both a financial and accounting policy perspective.

IFRS 16: 'Leases' was issued in January 2016 and is likely to have a significant impact on the Group's future consolidated Financial Statements. A project to oversee the implementation of this standard has commenced, however, at this stage it has not been practicable to quantify the full effect that this standard will have on the Group's consolidated Financial Statements.

(c) Centrica specific accounting measures and critical accounting judgements

Use of adjusted profit, cash flow and earnings measures

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

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

- exceptional items; and
- certain re-measurements;

but including:

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

Note 4(c) contains an analysis of adjusted operating profit by segment and a reconciliation of adjusted operating profit to operating profit after exceptional items and certain re-measurements. Note 4(c) also details an analysis of adjusted operating profit after taxation by segment and a reconciliation to statutory profit for the period. Adjusted operating profit after taxation is defined as segment operating profit after taxation, before exceptional items and certain re-measurements. This includes the operating results of equity-accounted interests, net of associated taxation, before interest and associated taxation.

Adjusted operating cash flow is used by management to assess the cash generating abilities of each segment. Adjusted operating cash flow is defined as net cash flow from operating activities before:

- payments relating to exceptional activities;
- deficit reduction payments made to the UK defined benefit pension schemes via Centrica's Scottish Partnership entities; and
- movements in variation margin and cash collateral which are included in net debt;

but including:

- dividends received from joint ventures and associates.

Notes to the condensed interim Financial Statements

3. ACCOUNTING POLICIES

Note 4(f) contains a reconciliation of adjusted operating cash flow to net cash flow from operating activities.

Adjusted earnings is defined as earnings before:

- exceptional items, net of taxation; and
- certain re-measurements, net of taxation.

A reconciliation of earnings is provided in note 9.

Restatement of adjusted profit measures

At 31 December 2015, the Directors amended the definition of the adjusted operating profit and adjusted earnings measures to remove the adjustment for depreciation of fair value uplifts of property, plant and equipment (PP&E) acquired in two Strategic Investments, the 2009 acquisitions of Venture Production plc and of a 20% interest in Lake Acquisitions Limited (Nuclear). Accordingly, the 2015 interim results have been restated and the impact is summarised below. This table also quantifies the impact on current year results.

Six months ended 30 June	Notes impacted	2016 £m	2015 £m
Total adjusted operating profit before taxation	4(c)	(29)	(30)
Total adjusted operating profit after taxation	4(c)	(23)	(24)
Total share of results of joint venture and associates before interest and taxation	4(d)	(29)	(29)
Total depreciation and impairments of property, plant and equipment	4(d)	–	(1)
Share of adjusted results of joint ventures and associates	5(b)	(29)	(29)
Adjusted earnings	9	(23)	(24)
Earnings per ordinary share		Pence	Pence
Earnings – adjusted basic	9	(0.4)	(0.5)
Earnings – adjusted diluted	9	(0.4)	(0.5)

Other restatements

In March 2016, the IFRS Interpretations Committee (IFRS IC) issued an agenda decision regarding the treatment of offsetting and cash-pooling arrangements in accordance with IAS 32: 'Financial instruments: Presentation'. This provided additional guidance on when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32. Following this additional guidance, the Group has reviewed its cash-pooling arrangements and has revised its presentation of bank overdrafts on the Group Balance Sheet and now shows £83 million of bank overdrafts within current bank overdrafts, bank loans and other borrowings. Comparatives at 31 December 2015 and 30 June 2015 have been restated by £298 million and £216 million respectively. The impact on the 31 December 2014 balance sheet would have been a restatement of £154 million.

Following the conclusion of the strategic review in 2015, new reporting segments have been established reflecting the implementation of the Group's new structure. The new segmental structure and the new adjusted operating cash flow measure are consistent with the internal reporting provided to, and regularly reviewed by, the Group's Executive Committee for the purposes of evaluating segment performance and allocating resources. In accordance with IFRS 8: 'Operating segments', the segmental analysis disclosures in note 4 have been restated accordingly.

The segmental analysis of capital expenditure on intangible assets other than goodwill in note 4(e) has been restated to avoid a distortion in the newly reported segmental adjusted operating cash flow (see note 4(f)). Historically, 'British Gas Residential energy supply' (now part of UK Home) has purchased all renewable obligation certificates (ROCs) on behalf of both itself and 'British Gas Business energy supply & services' (now UK Business). When the renewable obligation was settled in August each year, the certificates were submitted on behalf of both UK Home and UK Business with internal cash settlement between the parties at that point. The segmental adjusted operating cash flow has been prepared to reflect the cash outflow for these certificates in both the UK Home and UK Business segments at the time of initial purchase rather than only impacting UK Business in August. Consequently, the segmental capital expenditure has also been amended to consistently reflect this change within both UK Home and UK Business. Accordingly, the 2015 interim results have been restated and the table below summarises these impacts together with the current year impacts:

Six months ended 30 June	Notes impacted	2016 £m	2015 £m
Capital expenditure on intangible assets other than goodwill – UK Home	4(e)	(46)	(54)
Capital expenditure on intangible assets other than goodwill – UK Business	4(e)	46	54

Notes to the condensed interim Financial Statements

3. ACCOUNTING POLICIES

Exceptional items and certain re-measurements

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

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

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

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

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

Impairment of long-lived assets

During the period, impairments of £57 million were recognised within business performance, including £53 million for a development well on the York gas field, and £5 million was recognised as an exceptional restructuring cost, see note 6(a) for further details.

The Group has assessed its remaining long-lived assets for impairment indicators. No impairment of the remaining exploration and production assets and UK power generation assets was necessary based on these assessments. A key assumption in this process is the forecast of forward commodity prices because they significantly impact asset values. A sensitivity analysis has previously been performed with respect to the price assumptions for gas, power and oil, which were varied for modelling purposes by +/- 10%. For an indication of the impact of changes in these price assumptions and further details of the sensitivity analysis, see note 7 to the Group's consolidated Financial Statements for the year ended 31 December 2015. An impairment of the Group's UK gas storage assets totalling £176 million pre-tax (£144 million post-tax) has been recognised in the period. See note 6(c) for further details.

Wind farm disposals

In prior years, the profits and losses arising on the disposal of equity interests in wind farms were recognised within the business performance column of the Group Income Statement as part of the Central Power Generation segment. These divestments were in line with the Group's established wind farm strategy to realise value, share risk and reduce our capital requirements as individual projects developed, which involved bringing in partners at an appropriate stage or full disposal.

In July 2015, the Group announced its intention to exit its 245MW portfolio of wind assets. During the current period, the Group disposed of its investment in GLID Wind Farms TopCo Limited (GLID), which owns Glens of Foudland, Lynn and Inner Dowsing wind farms, as part of this strategy (see note 11(c)). The profit on disposal of £73 million has been classified as an exceptional item in the Group Income Statement since the Directors judge the exit from the wind business to be non-recurring in nature and distinct from the Group's established wind farm strategy.

Notes to the condensed interim Financial Statements

4. SEGMENTAL ANALYSIS

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

(a) Segmental structure

The types of products and services from which each reportable segment derives its revenues are detailed below.

Segment	Description
Energy Supply & Services – UK & Ireland	
UK Home	(i) The supply of gas and electricity to residential customers in the UK; and (ii) the installation, repair and maintenance of domestic central heating, plumbing and drains, gas appliances and kitchen appliances, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in the UK.
UK Business	The supply of gas and electricity and provision of energy-related services to business customers in the UK.
Ireland	(i) The supply of gas, electricity and energy management solutions to residential, commercial and industrial customers in the Republic of Ireland; (ii) power generation in the Republic of Ireland; and (iii) the repair and maintenance of domestic central heating in the Republic of Ireland.
Energy Supply & Services – North America	
NA Home	(i) The supply of gas and electricity to residential customers in North America; and (ii) installation and maintenance of heating, ventilation and air conditioning (HVAC) equipment, water heaters, solar power generating equipment and the provision of breakdown services, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in North America.
NA Business	(i) The supply of gas, electricity and energy-related services to business customers in North America; and (ii) procurement, trading and optimisation of energy in North America.
Connected Home	The supply of energy efficiency solutions and new technologies to residential customers in all geographies in which the Group operates.
Distributed Energy & Power	The supply of energy efficiency solutions, flexible generation and new technologies to commercial and industrial customers in all geographies in which the Group operates.
Energy Marketing & Trading	Trading and optimisation of energy in the UK and Europe.
Exploration & Production	Production and processing of gas and oil and the development of new fields to maintain reserves in the UK, Europe and North America.
Central Power Generation	Generation of power from combined cycle gas turbines (CCGT), wind and nuclear assets in the UK.
Centrica Storage	Gas storage in the UK.

Notes to the condensed interim Financial Statements

4. SEGMENTAL ANALYSIS

(b) Revenue

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

Six months ended 30 June	2016 Gross segment revenue £m	2016 Less inter-segment revenue £m	2016 Group revenue £m	2015 Gross segment revenue (restated) (i) £m	2015 Less inter-segment revenue (restated) (i) £m	2015 Group revenue (restated) (i) £m
Energy Supply & Services – UK & Ireland						
UK Home	**5,066**	**(4)**	**5,062**	5,471	–	5,471
UK Business	**1,094**	**–**	**1,094**	1,321	(1)	1,320
Ireland	**402**	**–**	**402**	400	–	400
	6,562	**(4)**	**6,558**	7,192	(1)	7,191
Energy Supply & Services – North America						
NA Home	**1,242**	**–**	**1,242**	1,427	–	1,427
NA Business	**3,570**	**–**	**3,570**	4,475	–	4,475
	4,812	**–**	**4,812**	5,902	–	5,902
Connected Home	**12**	**(2)**	**10**	8	(2)	6
Distributed Energy & Power	**67**	**(1)**	**66**	44	(2)	42
Energy Marketing & Trading	**1,335**	**(24)**	**1,311**	1,774	(104)	1,670
Exploration & Production	**789**	**(449)**	**340**	1,055	(668)	387
Central Power Generation	**312**	**(93)**	**219**	340	(129)	211
Centrica Storage	**82**	**(18)**	**64**	71	(29)	42
	13,971	**(591)**	**13,380**	16,386	(935)	15,451

(i) Segmental revenue has been restated in the new reporting segments for 2015. See note 3 for further information.

Notes to the condensed interim Financial Statements

4. SEGMENTAL ANALYSIS

(c) Operating profit before and after taxation

The measure of profit used by the Group is adjusted operating profit. Adjusted operating profit is operating profit before exceptional items and certain re-measurements. This includes results of equity-accounted interests before interest and taxation.

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

Six months ended 30 June	Adjusted operating profit/(loss) before taxation 2016 £m	2015 (restated) (i) (ii) £m	Adjusted operating profit/(loss) after taxation 2016 £m	2015 (restated) (i) (ii) £m
Energy Supply & Services – UK & Ireland				
UK Home	**635**	678	**506**	543
UK Business	**31**	6	**25**	5
Ireland	**24**	23	**22**	20
	690	707	**553**	568
Energy Supply & Services – North America				
NA Home	**33**	50	**20**	26
NA Business	**62**	139	**38**	84
	95	189	**58**	110
Connected Home	**(23)**	(28)	**(16)**	(22)
Distributed Energy & Power	**(11)**	(20)	**(8)**	(17)
Energy Marketing & Trading	**(14)**	(55)	**(10)**	(44)
Exploration & Production	**88**	106	**21**	23
Central Power Generation	**24**	58	**20**	54
Centrica Storage	**4**	13	**(3)**	10
Adjusted operating profit	**853**	970	**615**	682
Share of joint ventures'/associates' interest and taxation	**(37)**	(45)		
Operating profit before exceptional items and certain re-measurements	**816**	925		
Exceptional items (note 6)	**(27)**	–		
Certain re-measurements included within gross profit (note 6)	**969**	413		
Certain re-measurements of associates' energy contracts (net of taxation) (note 6)	**8**	5		
Operating profit after exceptional items and certain re-measurements	**1,766**	1,343		

Six months ended 30 June	2016 £m	2015 (restated) (i) £m
Adjusted operating profit after taxation (iii)	**615**	682
Corporate and other taxation, and interest (net of taxation) (iv)	**(120)**	(113)
Business performance profit for the period	**495**	569
Exceptional items and certain re-measurements (net of taxation) (note 6)	**641**	463
Statutory profit for the period	**1,136**	1,032

(i) Adjusted operating profit for 2015 has been restated following the Board's decision to include the depreciation of fair value uplifts of fixed assets acquired in Strategic Investments in the definition of adjusted operating profit. See note 3 for further details.
(ii) Adjusted operating profit for 2015 has been restated in the new reporting segments. See note 3 for further details.
(iii) Segmental adjusted operating profit after taxation includes a loss of £9 million (2015: loss of £16 million) attributable to non-controlling interests.
(iv) Includes joint ventures'/associates' interest, net of associated taxation.

Notes to the condensed interim Financial Statements

4. SEGMENTAL ANALYSIS

(d) Included within adjusted operating profit

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

Six months ended 30 June	Share of results of joint ventures and associates before interest and taxation 2016 £m	2015 (restated) (i) (ii) £m	Depreciation and impairments of property, plant and equipment 2016 £m	2015 (restated) (i) (ii) £m	Amortisation, write-downs and impairments of intangibles 2016 £m	2015 (restated) (ii) £m
Energy Supply & Services – UK & Ireland						
UK Home	**(1)**	(1)	**(25)**	(25)	**(48)**	(48)
UK Business	**–**	–	**(1)**	(1)	**(5)**	(5)
Ireland	**–**	–	**(1)**	(1)	**(4)**	(3)
	(1)	(1)	**(27)**	(27)	**(57)**	(56)
Energy Supply & Services – North America						
NA Home	**–**	–	**(3)**	(2)	**(24)**	(21)
NA Business	**–**	–	**(1)**	–	**(17)**	(11)
	–	–	**(4)**	(2)	**(41)**	(32)
Connected Home	**–**	–	**–**	–	**(3)**	–
Distributed Energy & Power	**–**	–	**(1)**	–	**(2)**	(1)
Energy Marketing & Trading	**–**	–	**–**	–	**(3)**	(8)
Exploration & Production	**–**	–	**(305)**	(378)	**(7)**	(45)
Central Power Generation	**89**	119	**(13)**	(15)	**–**	–
Centrica Storage	**–**	–	**(24)**	(14)	**(1)**	(1)
Other (iii)	**–**	–	**(7)**	(6)	**(9)**	(7)
	88	118	**(381)**	(442)	**(123)**	(150)

(i) Both the share of results of joint ventures and associates and the depreciation of property, plant and equipment have been restated for 2015 following the Board's decision to include the depreciation of fair value uplifts of fixed assets acquired in Strategic Investments in the definition of adjusted operating profit. See note 3 for further details.

(ii) The share of results of joint ventures and associates, the depreciation of property, plant and equipment and the amortisation of intangibles for 2015 have been restated in the new reporting segments. See note 3 for further details.

(iii) The Other segment includes corporate functions, subsequently recharged.

Impairment of property, plant and equipment

During the period, a £54 million (2015: nil) impairment charge was recognised in the Exploration & Production segment within business performance.

Write-downs of intangible assets

During the period, £3 million (2015: £42 million) of write-downs relating to exploration and evaluation assets were recognised in the Exploration & Production segment within business performance.

Notes to the condensed interim Financial Statements

4. SEGMENTAL ANALYSIS

(e) Capital expenditure

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

Six months ended 30 June	Capital expenditure on property, plant and equipment 2016 £m	Capital expenditure on property, plant and equipment 2015 (restated) (i) £m	Capital expenditure on intangible assets other than goodwill 2016 £m	Capital expenditure on intangible assets other than goodwill 2015 (restated) (i) (ii) £m
Energy Supply & Services – UK & Ireland				
UK Home	**7**	12	**112**	108
UK Business	**–**	–	**48**	57
Ireland	**–**	1	**4**	1
	7	13	**164**	166
Energy Supply & Services – North America				
NA Home	**4**	4	**32**	6
NA Business	**3**	–	**138**	89
	7	4	**170**	95
Connected Home	**–**	–	**10**	1
Distributed Energy & Power	**1**	1	**–**	1
Energy Marketing & Trading	**1**	–	**3**	8
Exploration & Production	**281**	316	**4**	65
Central Power Generation	**2**	9	**–**	–
Centrica Storage	**10**	13	**–**	1
Other (iii)	**5**	2	**23**	8
Capital expenditure	**314**	358	**374**	345
Capitalised borrowing costs	**(31)**	(20)	**(1)**	(1)
Movements in payables and prepayments related to capital expenditure	**42**	50	**2**	10
Purchases of emissions allowances and renewable obligation certificates	**–**	–	**(276)**	(218)
Net cash outflow	**325**	388	**99**	136

(i) Capital expenditure on property, plant and equipment and the capital expenditure on intangible assets other than goodwill for 2015 have been restated in the new reporting segments. See note 3 for further details.
(ii) Capital expenditure on intangible assets other than goodwill for 2015 has been restated in relation to ROCs purchased by UK Home on behalf of UK Business. See note 3 for further details.
(iii) The Other segment relates to corporate assets.

Notes to the condensed interim Financial Statements

4. SEGMENTAL ANALYSIS

(f) Adjusted operating cash flow

Adjusted operating cash flow is used by management to assess the cash generating abilities of each segment. Adjusted operating cash flow is net cash flow from operating activities before payments relating to exceptional items, deficit payments to the UK defined benefit pension schemes, movements in variation margin and cash collateral which are included in net debt, but including dividends from joint ventures and associates. This measure is reconciled to the net cash flow from operating activities.

Six months ended 30 June	2016 £m	2015 £m
Energy Supply & Services – UK & Ireland		
UK Home	505	231
UK Business	259	(103)
Ireland	58	50
	822	178
Energy Supply & Services – North America		
NA Home	78	102
NA Business	121	268
	199	370
Connected Home	(25)	(31)
Distributed Energy & Power	(19)	(22)
Energy Marketing & Trading	103	143
Exploration & Production	336	450
Central Power Generation	(30)	26
Centrica Storage	30	60
Other (i)	(44)	(25)
Adjusted operating cash flow	1,372	1,149
Dividends received from joint ventures and associates	(49)	(65)
Payments relating to exceptional charges	(173)	(42)
Margin and cash collateral included in net debt	218	298
Net cash flow from operating activities	1,368	1,340

(i) The Other segment includes corporate functions.

Notes to the condensed interim Financial Statements

5. SHARE OF RESULTS OF JOINT VENTURES AND ASSOCIATES

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

(a) Share of results of joint ventures and associates

The Group's share of results of joint ventures and associates for the six months ended 30 June 2016 principally arises from its interests in the following entities (reported in the Central Power Generation segment):

- Wind farms – GLID Wind Farms TopCo Limited (i) and Lincs Wind Farm Limited (ii).
- Nuclear – Lake Acquisitions Limited.

Six months ended 30 June	Joint ventures Wind farms £m	Associates Nuclear £m	Other £m	**2016 Total £m**	2015 Total £m
Income	34	307	–	**341**	373
Expenses excluding certain re-measurements	(27)	(225)	(1)	**(253)**	(255)
Certain re-measurements	–	8	–	**8**	4
	7	90	(1)	**96**	122
Interest paid	(15)	(9)	–	**(24)**	(32)
Taxation excluding certain re-measurements	2	(15)	–	**(13)**	(13)
Taxation on certain re-measurements	–	–	–	**–**	1
Share of post-taxation results of joint ventures and associates	**(6)**	**66**	**(1)**	**59**	78

(i) On 7 March 2016, the Group disposed of its 50% interest in GLID Wind Farms TopCo Limited. See note 11(c) for further details.
(ii) As part of the finance arrangements entered into by Lincs Wind Farm Limited, the Group's shares are secured in favour of third parties. The securities would only be enforced in the event that Lincs Wind Farm Limited defaults on any of its obligations under the finance arrangements.

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

Six months ended 30 June	Joint ventures Wind farms £m	Associates Nuclear £m	Other £m	**2016 Total £m**	2015 (restated) (i) Total £m
Share of post-taxation results of joint ventures and associates	(6)	66	(1)	**59**	78
Certain re-measurements (net of taxation)	–	(8)	–	**(8)**	(5)
Interest paid	15	9	–	**24**	32
Taxation (excluding taxation on certain re-measurements)	(2)	15	–	**13**	13
Share of adjusted results of joint ventures and associates	**7**	**82**	**(1)**	**88**	118

(i) The share of adjusted results of joint ventures and associates for 2015 has been restated. See note 3 for further details.

Notes to the condensed interim Financial Statements

6. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

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

(a) Exceptional items

Six months ended 30 June	2016 £m	2015 £m
Pension past service credit (i)	78	–
Net release of onerous contract provisions (ii)	36	–
Restructuring costs (iii)	(89)	–
Gain on disposal of investment in joint venture (iv)	73	–
Gain on disposal of exploration and production assets (v)	51	–
Impairment of UK gas storage assets (vi)	(176)	–
Net exceptional items included within Group operating profit	**(27)**	–
Taxation on exceptional items (note 8)	9	–
Effect of change in upstream UK tax rates (note 8) (vii)	(45)	116
Net exceptional items after taxation	**(63)**	116

(i) As a result of the implementation of a reduced salary cap on pensionable pay for the Centrica Pension Plan final salary scheme, a past service credit of £80 million (net of £2 million costs of implementing the changes) has been recognised. See note 13 for further details.
(ii) The Group recognised two reductions in onerous contract provisions established in prior periods: £47 million in relation to its UK gas-fired power station tolling contract (within the Central Power Generation segment) as a consequence of both a renegotiation of the contract and changes in the UK capacity market; and £15 million in relation to its Direct Energy wind power procurement arrangement (within the NA Business segment) as a result of changes to forecast US power prices. Separately, an additional charge of £26 million was booked due to the termination of the Group's onerous Dutch gas-fired power station tolling contract (within the Energy, Marketing & Trading segment).
(iii) Following the Group's strategic review announced in 2015, the Group has incurred restructuring costs implementing the new organisational model relating principally to redundancy costs, impairment of assets on closure of businesses and consultancy costs.
(iv) On 7 March 2016, the Group disposed of its joint venture investment in GLID wind farms for £116 million. The gain on disposal is recorded within the Central Power Generation segment. See note 11(c) for further details.
(v) On 18 May 2016, the Group disposed of its interest in Skene and Buckland oil and gas assets for consideration of US $15 million (£11 million). See note 11(c) for further details.
(vi) A pre-tax impairment charge of £176 million (post-tax: £144 million) has been recorded in the current period in respect of UK gas storage assets. See note 6(c) for further details.
(vii) During the period, the petroleum revenue tax (PRT) rate was reduced from 35% to 0% with effect from 1 January 2016. These changes have been substantively enacted by the reporting date and the reduction in net deferred tax assets has been recognised immediately as an exceptional tax charge.

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

(b) Certain re-measurements

Six months ended 30 June	2016 £m	2015 £m
Certain re-measurements recognised in relation to energy contracts (note 3):		
Net gains arising on delivery of contracts	748	629
Net gains/(losses) arising on market price movements and new contracts	221	(216)
Net re-measurements included within gross profit	**969**	413
Net gains arising on re-measurement of associates' energy contracts (net of taxation) (note 5)	8	5
Net re-measurements included within Group operating profit	**977**	418
Taxation on certain re-measurements (note 8)	(273)	(71)
Net re-measurements after taxation	**704**	347

(c) Impairment of UK gas storage assets

The recoverable amount of the Group's operational storage facilities is calculated on a fair value less costs to disposal (FVLCD) basis by discounting the post-tax cash flows expected to be generated by the assets. Such estimates are based on predictions of seasonal gas price spreads, shorter-term price volatilities and the value from extracting cushion gas at the end of the field life less any related capital and operating expenditure. Where forward market prices are not available, prices are determined based on internal model inputs. Note 14(b) provides additional detail on the active period of each of the commodity markets in which the Group operates. The future post-tax cash flows are discounted using a post-tax nominal discount rate of 7.5% (2015: 7.5%) to determine FVLCD. For further details of the calculation of the discount rate and inflation rates used, see note S2 to the Group's consolidated Financial Statements for the year ended 31 December 2015.

A pre-tax impairment charge of £176 million (post-tax £144 million) has been recorded within exceptional items in the current period. This has resulted from updated assumptions on asset availability in the near term and future expenditure on asset integrity. An increase/decrease of £10 million in this annual expenditure on the asset results in an increase/decrease to the post-tax impairment charge by £68 million.

Notes to the condensed interim Financial Statements

6. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

The impairment test remains particularly sensitive to assumptions/variations in seasonal gas price spreads and to the resolution of the limitation of the maximum operating pressure of the storage asset. To illustrate the impact of price on the impairment analysis, sensitivities were performed to vary the gas spreads by +/-10%. An increase in gas spreads of 10%, assuming all other assumptions remain constant, reduces the post-tax impairment to £63 million. A reduction of 10% would give rise to an increased post-tax impairment of £226 million.

The valuation of the recoverable amount of the operational storage facilities is categorised within Level 3 of the fair value hierarchy. A change in the assumptions of the timing and extent of the return to maximum operating pressure could also significantly impact the impairment calculation and could result in a further impairment in certain adverse scenarios. Following the impairment charge recorded in the period, the current value of the Group's gas storage fixed assets is £338 million (£106 million, net of the decommissioning provision and deferred tax).

7. NET FINANCE COST

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

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

Six months ended 30 June	**2016** Financing costs £m	Investment income £m	Total £m	2015 Financing costs £m	Investment income £m	Total £m
Cost of servicing net debt						
Interest income	**–**	**21**	**21**	–	28	28
Interest cost on bonds, bank loans and overdrafts	**(148)**	**–**	**(148)**	(138)	–	(138)
Interest cost on finance leases	**(8)**	**–**	**(8)**	(7)	–	(7)
	(156)	**21**	**(135)**	(145)	28	(117)
Net gains/(losses) on revaluation (i)	**–**	**1**	**1**	(3)	–	(3)
Notional interest arising from discounting and other interest	**(39)**	**–**	**(39)**	(39)	3	(36)
	(195)	**22**	**(173)**	(187)	31	(156)
Capitalised borrowing costs (ii)	**32**	**–**	**32**	21	–	21
(Cost)/income	**(163)**	**22**	**(141)**	(166)	31	(135)

(i) Includes gains and losses on fair value hedges, movements in fair value of other derivatives primarily used to hedge foreign exchange exposure associated with intercompany loans and foreign currency gains and losses on the translation of intercompany loans.
(ii) Borrowing costs have been capitalised using an average rate of 4.51% (2015: 3.85%). Capitalised interest has attracted tax deductions totalling £10 million (2015: £4 million), with deferred tax liabilities being set up for the same amounts.

8. TAXATION

The taxation note details the different tax charges arising in the Group. This tax charge excludes taxation on the Group's share of results of joint ventures and associates. The Group's adjusted effective tax rate for the six months to 30 June 2016 was 28% (2015: 29%) and is reconciled to this note in the Group Financial Review on page 7.

Analysis of tax charge

Six months ended 30 June	**2016** Business performance £m	Exceptional items and certain re-measurements (i) £m	Results for the period £m	2015 Business performance £m	Exceptional items and certain re-measurements (i) £m	Results for the period £m
The taxation charge comprises:						
UK corporation tax	**(79)**	**(4)**	**(83)**	(100)	114	14
UK petroleum revenue tax	**(13)**	**(90)**	**(103)**	(10)	(33)	(43)
Non-UK tax	**(88)**	**(215)**	**(303)**	(111)	(36)	(147)
Total tax on profit (ii)	**(180)**	**(309)**	**(489)**	(221)	45	(176)

(i) During the period, UK petroleum revenue tax was reduced further from 35% to 0% with effect from 1 January 2016. The consequential reduction in net deferred tax assets of £45 million has been recognised within exceptional items and comprises a petroleum revenue tax charge of £90 million. A further corporate tax credit of £45 million was recognised during the period within UK corporation tax. In 2015, the UK Supplementary Charge was reduced from 32% to 20% with effect from 1 January 2015, and UK petroleum revenue tax from 50% to 35% from 1 January 2016. The consequential reduction in net deferred tax liabilities of £116 million included a petroleum revenue tax charge of £33 million.
(ii) Total tax on profit excludes taxation on the Group's share of profits of joint ventures and associates.

Notes to the condensed interim Financial Statements

9. EARNINGS PER ORDINARY SHARE

Earnings per share (EPS) is the amount of profit or loss attributable to each share. Basic EPS is the amount of profit or loss for the period divided by the weighted average number of shares in issue during the period. Diluted EPS includes the impact of outstanding share options.

Basic earnings per ordinary share has been calculated by dividing the profit attributable to equity holders of the Company for the period of £1,148 million (2015: £1,050 million) by the weighted average number of ordinary shares in issue during the period of 5,168 million (2015: 4,970 million).

The number of shares excludes 62 million ordinary shares (2015: 78 million), being the weighted average number of the Company's own shares held in the employee share trust and treasury shares purchased by the Group as part of the share repurchase programme.

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

In May 2016, 350 million new ordinary shares were issued at a price of £2 per share, raising total net proceeds of £694 million.

In addition to basic and adjusted basic earnings per ordinary share, information is presented for diluted and adjusted diluted earnings per ordinary share. Under this presentation, no adjustments are made to the reported profit for either 2016 or 2015, however, the weighted average number of shares used as the denominator is adjusted for potentially dilutive ordinary shares.

Basic to adjusted basic earnings per share reconciliation

Six months ended 30 June	**2016** £m	**2016** Pence per ordinary share	2015 (restated) (i) £m	2015 (restated) (i) Pence per ordinary share
Earnings – basic	**1,148**	**22.2**	1,050	21.1
Net exceptional items after taxation (notes 3 and 6)	**63**	**1.2**	(116)	(2.3)
Certain re-measurement gains after taxation (notes 3 and 6)	**(704)**	**(13.6)**	(347)	(7.0)
Earnings – adjusted basic (i)	**507**	**9.8**	587	11.8
Earnings – diluted	**1,148**	**22.0**	1,050	21.0
Earnings – adjusted diluted (i)	**507**	**9.7**	587	11.7

(i) Adjusted basic and adjusted diluted earnings and adjusted basic and adjusted diluted EPS have been restated. See note 3 for further details.

10. DIVIDENDS

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

	2016 £m	**2016** Pence per share	**2016** Date of payment	2015 £m	2015 Pence per share	2015 Date of payment
Prior year final dividend	**454**	**8.43**	**23 June 2016**	418	8.40	25 Jun 2015

Since 2015, the Company has offered a scrip dividend alternative to its shareholders. £84 million of the £454 million prior year final dividend was in the form of ordinary shares to shareholders opting in to the scrip dividend alternative. The market value per share at the date of payment was £2.02 per share resulting in the issue of 41 million new shares and £81 million being credited to the share premium account. Similarly, £34 million of the £180 million prior year interim dividend was taken as a scrip dividend. The market value per share at 26 November 2015 was £2.28 resulting in the issue of 15 million new shares and £33 million of share premium.

An interim dividend of 3.60 pence (2015: 3.57 pence) per ordinary share, totalling £199 million (2015: £183 million), will be paid on 24 November 2016 (26 November 2015) to shareholders on the register on 14 October 2016.

Notes to the condensed interim Financial Statements

11. ACQUISITIONS AND DISPOSALS

(a) 2016 business combinations

This section details business combinations made by the Group. The only significant transaction during the period was the acquisition of ENER-G Cogen International, a combined heat and power ('CHP') business.

ENER-G Cogen

On 16 May 2016, the Group acquired 100% of ENER-G Cogen's CHP business for consideration of £149 million. The company, which operates across Europe and North America, targets industrial and commercial customers. This business will be reported as part of the Distributed Energy & Power (DE&P) operating segment. The company is a strong fit with the DE&P business model and provides immediate capability to the division where previously the Group had been reliant on subcontracting to third parties.

The fair values are provisional unless otherwise stated. The purchase price allocation exercise requires subjective judgements. For this acquisition, the majority of the value is recognised as goodwill which is reflective of the enhanced synergies, geographical presence, the assembled workforce and international growth opportunities in the distributed energy sector. In addition, assumptions were made regarding margins on the existing order book and future margins on renewed contracts which are both captured in the customer intangible asset. £86 million of goodwill was recognised on acquisition, none of which is tax deductible.

On acquisition, when the ENER-G business was first consolidated into the Group under IFRS, certain of the acquiree's infrastructure contracts have been treated as finance leases. The acquired business previously reported under UK GAAP, under which these contracts were not considered to be leases. This represents a principal change to the accounting policies of the acquiree for the purposes of consolidation. The alignment of accounting policies is subject to further review, therefore both this and the initial fair values established for the acquired assets and liabilities remain provisional at the balance sheet date.

Provisional fair value of the identifiable acquired assets and liabilities

	£m
Balance Sheet items	
Intangible assets	28
Property, plant and equipment	28
Other non-current assets (finance lease receivables)	24
Current assets (including £11 million of cash and cash equivalents)	49
Current liabilities	(44)
Non-current liabilities	(22)
Net identifiable assets	63
Goodwill	86
Net assets acquired	149
Consideration comprises:	
Cash consideration	143
Deferred consideration	6
Total consideration	149

Income Statement items	
Revenue recognised since the acquisition date in the Group Income Statement (i)	18

(i) Revenue from business performance. Profits since the acquisition date are negligible and therefore have not been disclosed.

Acquisition-related costs have been charged to 'operating costs before exceptional items' in the Group Income Statement for an aggregated amount of £2 million.

Pro forma information

The pro forma consolidated results of the Group, assuming the acquisition had been made at the beginning of the year, would show revenue of £13,404 million (compared to reported revenue of £13,380 million) and profit after taxation before exceptional items and certain re-measurements of £497 million (compared to reported profit after taxation of £495 million). This pro forma information includes the revenue and profits/losses made by the acquired business between the beginning of the financial year and the date of acquisition, without accounting policy alignments and/or the impact of the fair value uplifts resulting from purchase accounting considerations. This pro forma aggregated information is not necessarily indicative of the results of the combined Group that would have occurred had the acquisitions actually been made at the beginning of the year presented, or indicative of the future results of the combined Group.

(b) 2015 business combinations – measurement period adjustments

During the period, there have been no material updates to the fair value of assets and liabilities recognised for businesses acquired in 2015.

Notes to the condensed interim Financial Statements

11. ACQUISITIONS AND DISPOSALS

(c) Disposals

During the period, the Group sold its interest in GLID wind farms and the Skene and Buckland fields. Skene is a gas condensate field, whilst Buckland is an oil field. This note details the consideration received, the assets and liabilities disposed of and the profit before and after tax arising on disposal.

Date of disposal	18 May 2016	7 March 2016
Business/assets disposed of by the Group	Skene and Buckland oil and gas assets	GLID wind farms
Sold to	Apache Beryl Limited and Enterprise Oil Limited	Consortium comprised of UK Green Investment Bank Offshore Wind Farm and BlackRock funds
	£m	£m
Property, plant and equipment	3	–
Interests in joint ventures	–	16
Other assets	2	–
Non-current provisions for other liabilities and charges	(45)	–
Net (liabilities)/assets disposed of	**(40)**	**16**
Consideration received	11	94
Profit on disposal before tax and release of cash flow hedge reserve	**51**	**78**
Release of share of joint venture cash flow hedge reserve on disposal	–	(5)
Profit on disposal before tax	**51**	**73**
Taxation	(21)	–
Profit on disposal after tax	**30**	**73**

On 16 November 2015, a Sale and Purchase Agreement (SPA) was entered into with Apache Beryl Limited to divest the non-operated interests in Skene and Buckland for consideration of US$15 million (£11 million). At 31 December 2015, this disposal group was classified as held-for-sale. The transaction completed with Apache Beryl Limited and Enterprise Oil Limited (a Shell related party), which exercised its pre-emption rights, on 18 May 2016. A profit on disposal after tax of £30 million was recognised as an exceptional item (see note 6).

On 7 March 2016, GLID wind farms were disposed of for sales proceeds of £116 million of which £22 million was in relation to outstanding interest due to the Group from GLID. This transaction is aligned with the Group's strategy to reduce its exposure on wind power generation assets. A profit on disposal after tax of £73 million was recognised on the sale of the Group's interest in this joint venture, and has been recognised as an exceptional item (see note 6) since this transaction is part of Centrica's exit from the wind business. Centrica will continue to purchase 100% of the power and 50% of the ROCs from the three wind farms under existing power purchase agreements (PPAs) until 2024.

All other disposals undertaken by the Group were immaterial, both individually and in aggregate. None of these disposals are material enough to be shown as discontinued operations on the face of the Group Income Statement.

Notes to the condensed interim Financial Statements

12. SOURCES OF FINANCE

(a) Capital structure

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

	30 June 2016 £m	31 December 2015 £m
Net debt	**3,783**	4,747
Equity	**2,637**	1,178
Capital	**6,420**	5,925

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

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

Under the terms of the Company's Articles of Association, the Group's borrowings are subject to certain limits. At the start of 2016, the limit in operation was the higher of £5 billion and three times its adjusted capital and reserves. As at the date of approval of the Group's consolidated Financial Statements for the year ended 31 December 2015, there was a technical breach of the Article 94, predominantly due to asset impairments and a resulting reduction in capital and reserves. A resolution was put to the Company's shareholders at the annual general meeting in April 2016, at which time an increase to the limit was approved. Borrowings are now restricted to the higher of £10 billion and three times adjusted capital and reserves and the Group is operating within this limitation.

British Gas Insurance Limited (BGIL) is required under PRA regulations to hold a minimum capital amount and has complied with this requirement in 2016 (and 2015).

12. SOURCES OF FINANCE

(b) Net debt summary

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

	Cash and cash equivalents, net of bank overdrafts (i) (ii) £m	Cash posted/ (received) as collateral (iii) £m	Current and non-current securities (iv) £m	Current and non-current borrowings, finance leases and interest accruals (ii) £m	Derivatives £m	Net debt £m
1 January 2016	860	535	244	(6,468)	82	**(4,747)**
Cash inflow from sale of securities [v]	31	–	(31)	–	–	**–**
Cash inflow from additional borrowings	138	–	–	(138)	–	**–**
Cash outflow from payment of capital element of finance leases	(23)	–	–	23	–	**–**
Cash outflow from repayment of borrowings	(105)	–	–	105	–	**–**
Remaining cash inflow and movement in cash posted/(received) under margin and collateral agreements [vi]	1,240	(218)	–	–	–	**1,022**
Revaluation	–	–	4	(89)	256	**171**
Increase in interest payable and amortisation of borrowings	–	–	–	(25)	(8)	**(33)**
Acquisition of businesses	–	–	–	(4)	–	**(4)**
Exchange adjustments	25	42	7	(267)	1	**(192)**
30 June 2016	**2,166**	**359**	**224**	**(6,863)**	**331**	**(3,783)**

	Cash and cash equivalents, net of bank overdrafts (i) (ii) £m	Cash posted/ (received) as collateral (iii) £m	Current and non-current securities (iv) £m	Current and non-current borrowings, finance leases and interest accruals (ii) £m	Derivatives £m	Net debt £m
1 January 2015	621	776	274	(6,956)	89	(5,196)
Cash outflow from purchase of securities	(9)	–	9	–	–	–
Cash inflow from additional borrowings	1,000	–	–	(1,000)	–	–
Cash outflow from payment of capital element of finance leases	(17)	–	–	17	–	–
Cash outflow from repayment of borrowings	(1,199)	–	–	1,199	–	–
Remaining cash inflow and movement in cash posted/(received) under margin and collateral agreements [vi]	680	(298)	–	–	–	382
Revaluation	–	–	(7)	34	(80)	(53)
(Increase)/decrease in interest payable and amortisation of borrowings	–	–	–	(40)	1	(39)
Acquisition of businesses	–	–	2	–	–	2
Exchange adjustments	(13)	(13)	(5)	30	–	(1)
30 June 2015	1,063	465	273	(6,716)	10	(4,905)

(i) Cash and cash equivalents includes £122 million (2015: £234 million) of restricted cash mostly held by the Group's insurance undertakings that is not readily available to be used for other purposes within the Group.

(ii) Cash and cash equivalents are net of £83 million bank overdrafts (31 December 2015: £298 million, 30 June 2015: £216 million, 31 December 2014: £154 million). This is offset by a corresponding gross up in current borrowings. See note 3 for further details.

(iii) Collateral is posted or received to support energy trading and procurement activities. It is posted when contracts with marginable counterparties are out of the money and is received when contracts are in the money. These positions reverse when contracts are settled and the collateral is returned. Of the net cash collateral posted at the period end, £16 million (2015: £34 million) is included within trade payables, £175 million (2015: £219 million) within trade receivables and £200 million (2015: £280 million) has been offset against net derivative financial assets and liabilities. The items, to which the cash posted or received as collateral under margin and collateral agreements relate are not included within net debt.

(iv) Securities balances include £129 million (2015: £127 million) of index-linked gilts which the Group uses for short-term liquidity management purposes and £95 million of available-for-sale financial assets (2015: £146 million). The Group has posted £29 million (2015: £28 million) of non-current securities as collateral against an index-linked swap maturing on 16 April 2020.

(v) Shares in Enercare Inc. were sold for consideration of C$61 million (£31 million).

(vi) Including non-cash movements relating to the reversal of collateral amounts posted when the related derivative contract settles (where these daily margin amounts posted reduce the ultimate amount payable/receivable on settlement of the related derivative contract).

Notes to the condensed interim Financial Statements

12. SOURCES OF FINANCE

(c) Borrowings, finance leases and interest accruals summary

	Coupon rate %	Principal m	**30 June 2016** Current £m	**30 June 2016** Non-current £m	**30 June 2016** Total £m	31 December 2015 (restated) (i) Current £m	31 December 2015 (restated) (i) Non-current £m	31 December 2015 (restated) (i) Total £m
Bank overdrafts			**(83)**	**–**	**(83)**	(298)	–	(298)
Bank loans			**–**	**(147)**	**(147)**	–	(222)	(222)
Bonds (by maturity date):								
24 October 2016	5.500	£300	**(304)**	**–**	**(304)**	(308)	–	(308)
14 April 2017	Floating	$200	**(151)**	**–**	**(151)**	–	(136)	(136)
19 September 2018	7.000	£400	**–**	**(433)**	**(433)**	–	(433)	(433)
1 February 2019	3.213	€100	**–**	**(84)**	**(84)**	–	(74)	(74)
25 September 2020	Floating	$80	**–**	**(60)**	**(60)**	–	(54)	(54)
22 February 2022	3.680	HK$450	**–**	**(44)**	**(44)**	–	(39)	(39)
10 March 2022	6.375	£500	**–**	**(551)**	**(551)**	–	(523)	(523)
16 October 2023	4.000	$750	**–**	**(606)**	**(606)**	–	(525)	(525)
4 September 2026	6.400	£200	**–**	**(233)**	**(233)**	–	(222)	(222)
16 April 2027	5.900	$70	**–**	**(52)**	**(52)**	–	(47)	(47)
13 March 2029	4.375	£750	**–**	**(751)**	**(751)**	–	(739)	(739)
5 January 2032 (ii)	Zero	€50	**–**	**(50)**	**(50)**	–	(38)	(38)
19 September 2033	7.000	£770	**–**	**(763)**	**(763)**	–	(763)	(763)
16 October 2043	5.375	$600	**–**	**(446)**	**(446)**	–	(401)	(401)
12 September 2044	4.250	£550	**–**	**(537)**	**(537)**	–	(537)	(537)
25 September 2045	5.250	$50	**–**	**(37)**	**(37)**	–	(33)	(33)
10 April 2075 (iii)	5.250	£450	**–**	**(466)**	**(466)**	–	(450)	(450)
10 April 2076 (iv)	3.000	€750	**–**	**(623)**	**(623)**	–	(550)	(550)
			(455)	**(5,736)**	**(6,191)**	(308)	(5,564)	(5,872)
Commercial paper			**(150)**	**–**	**(150)**	–	–	–
Obligations under finance leases			**(40)**	**(190)**	**(230)**	(43)	(207)	(250)
Other borrowings			**–**	**(4)**	**(4)**	(4)	–	(4)
Interest accruals			**(141)**	**–**	**(141)**	(120)	–	(120)
			(869)	**(6,077)**	**(6,946)**	(773)	(5,993)	(6,766)

(i) Restated for reclassification of £298 million of overdrawn bank balances from cash and cash equivalents to current bank overdrafts, bank loans and other borrowings. See note 3 for further details.
(ii) €50 million of zero coupon notes have an accrual yield of 4.200%, which will result in a €114 million repayment on maturity.
(iii) The Group has the right to repay at par on 10 April 2025 and every interest payment date thereafter.
(iv) The Group has the right to repay at par on 10 April 2021 and every interest payment date thereafter.

Notes to the condensed interim Financial Statements

13. POST RETIREMENT BENEFITS

The Group manages a number of final salary and career average defined benefit pension schemes. It also has defined contribution schemes.

(a) Summary of main post retirement benefit schemes

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

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

Independent valuations

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

The latest full actuarial valuations have been updated to 30 June 2016 for the purposes of meeting the requirements of IAS 19. Investments held in all schemes have been valued for this purpose at market value.

(b) Accounting assumptions

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

Major assumptions used for the actuarial valuation	**30 June 2016 %**	31 December 2015 %
Rate of increase in employee earnings:		
Subject to cap	**1.7**	1.7
Other	**2.7**	3.0
Rate of increase in pensions in payment	**2.7**	3.0
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	**1.6**	1.9
In line with RPI	**2.7**	3.0
Discount rate	**2.9**	3.9

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date have been based on a combination of standard actuarial mortality tables, scheme experience and other relevant data, and include an allowance for future improvements in mortality.

(c) Amounts included in the Group Balance Sheet

	30 June 2016 £m	31 December 2015 £m
Fair value of plan assets	**7,297**	6,642
Present value of defined benefit obligation	**(7,860)**	(6,761)
Net liability recognised in the Group Balance Sheet	**(563)**	(119)
Pension liability presented in the Group Balance Sheet as:		
Retirement benefit assets	**–**	91
Retirement benefit liabilities	**(563)**	(210)
Net pension liability	**(563)**	(119)

Notes to the condensed interim Financial Statements

13. POST RETIREMENT BENEFITS

(d) Past service credit and Registered Pension Schemes triennial valuation

The continued fall in gilt rates and the low yield environment has impacted the discount rate on which our pension deficit is calculated, giving rise to a higher liability, as well as increasing the cost of providing new pension benefits. The Group has taken steps to mitigate, as far as possible, these increased costs to help remain competitive and support the Group's growth.

After a period of member consultation, the following amendments to the Registered Pension Schemes were approved: an increase in member contributions, a change to the inflationary increases for future pension build up in retirement to the lower of CPI and 2.5% and a reduced pensionable salary cap for CPP and CPS only. These changes will largely offset the impact of the low yield environment.

As a result of the implementation of a salary cap on pensionable pay for the CPP final salary scheme, a past service credit of £80 million (net of £2 million costs of implementing the changes) has been recognised as an exceptional item during the period. See note 6.

The Group is also currently finalising the outcome of the UK Registered Pension Schemes triennial review, based on the position as at 31 March 2015, with the Pension Trustees. The Group is committing additional annual cash contributions of £76 million for 14 years to fund the pension deficit which, on a Technical Provisions basis, has increased from £331 million in 2012 to £1,203 million in 2015 primarily due to the lower discount rate used following falls in market yields. The funding will be provided through a new asset-backed contribution arrangement with the annual contributions commencing in 2017. The existing asset-backed contribution arrangements, paying £77 million in 2016, £55 million in 2017, £22 million per annum in 2018-2022 and £5 million per annum in 2023-2026 into the schemes, will continue unchanged. A £995 million security package over certain of the Group's assets, enforceable in the unlikely event the Group is unable to meet its obligations, has also been agreed in support of these arrangements.

A heads of terms based on the above has been agreed with the Trustees, with full legal execution expected in the second half of 2016.

14. FINANCIAL INSTRUMENTS

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

(a) Fair value hierarchy

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

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

	Level 1 £m	Level 2 £m	Level 3 £m	**30 June 2016 Total £m**	Level 1 £m	Level 2 £m	Level 3 (i) £m	31 December 2015 Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	51	1,339	5	**1,395**	17	1,172	(38)	1,151
Interest rate derivatives	–	213	–	**213**	–	129	–	129
Foreign exchange derivatives	–	337	–	**337**	–	96	–	96
Treasury gilts designated at fair value through profit or loss	129	–	–	**129**	124	–	–	124
Debt instruments	77	–	–	**77**	60	–	–	60
Equity instruments (ii)	18	–	–	**18**	27	30	3	60
Total financial assets at fair value	**275**	**1,889**	**5**	**2,169**	228	1,427	(35)	1,620
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	(59)	(1,243)	(61)	**(1,363)**	(220)	(1,449)	(114)	(1,783)
Interest rate derivatives	–	(32)	–	**(32)**	–	(28)	–	(28)
Foreign exchange derivatives	–	(137)	–	**(137)**	–	(157)	–	(157)
Total financial liabilities at fair value	**(59)**	**(1,412)**	**(61)**	**(1,532)**	(220)	(1,634)	(114)	(1,968)

(i) Included within Level 3 energy derivative assets in 2015 are liabilities of £53 million, which are presented within derivative assets on the Group Balance Sheet, as a result of being reported net with the associated Level 2 trades with the same counterparty.
(ii) Level 2 equity instruments in 2015 relate to shares in Enercare Inc.

14. FINANCIAL INSTRUMENTS

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

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

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during 2016 was 1% (Europe) and 3% (North America) per annum (31 December 2015: average discount rate of 1% (Europe) and 3% (North America) per annum).

For Level 3 energy derivatives, the main input used by the Group pertains to deriving expected future commodity prices in markets that are not active as far into the future as some of our contractual terms. This applies to certain contracts within the UK and US. Fair values are then calculated by comparing and discounting the difference between the expected contractual cash flows and these derived future prices using an average discount rate of 2% (UK) and 7% (US) per annum for 2016 (31 December 2015: average discount rate of 2% (UK) and 7% (US) per annum).

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

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

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

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

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

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

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

		Notes	30 June 2016 Carrying value £m	30 June 2016 Fair value £m	30 June 2016 Fair value hierarchy	31 December 2015 Carrying value £m	31 December 2015 Fair value £m	31 December 2015 Fair value hierarchy
Bank loans		12(c)	(147)	(247)	Level 2	(222)	(279)	Level 2
Bonds	Level 1	12(c)	(6,097)	(6,979)	Level 1	(5,795)	(6,078)	Level 1
	Level 2	12(c)	(94)	(170)	Level 2	(77)	(113)	Level 2
Obligations under finance leases		12(c)	(230)	(255)	Level 2	(250)	(272)	Level 2

15. COMMITMENTS AND CONTINGENCIES

(a) Commitments

Commitments are amounts that the Group is contractually required to pay in the future as long as the other party meets its contractual obligations. These amounts do not appear on the Group's Balance Sheet.

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

Commodity purchase contract commitments have increased by £1.6 billion since 31 December 2015 to £45 billion.

Operating lease commitments have reduced by £383 million since 31 December 2015, primarily due to the termination of the tolling agreement with Rijnmond 2 power station.

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

Notes to the condensed interim Financial Statements

15. COMMITMENTS AND CONTINGENCIES

(b) Contingent liabilities

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

16. EVENTS AFTER THE BALANCE SHEET DATE

The Group updates disclosures in light of new information being received, or a significant event occurring, in the period between 30 June 2016 and the date of this report.

(a) Rough storage facility REMIT announcement

On 15 July 2016, the Group announced further potential uncertainties in a number of the wells at the Rough storage facility. Additional testing will be conducted with estimated completion in March to April 2017. In the meantime, because of the uncertainty, no gas can be injected or withdrawn from Rough. Following a feasibility study, the business anticipates returning a number of wells to service for Winter 2016/17 withdrawal season. This uncertainty has been included in the impairment assumptions. See note 6(c) for further details.

(b) Dividends

An interim dividend of 3.60 pence (2015: 3.57 pence) per ordinary share, totalling £199 million (2015: £183 million), will be paid on 24 November 2016 (26 November 2015) to shareholders on the register on 14 October 2016.

There are no other material post balance sheet date events.

17. RELATED PARTY TRANSACTIONS

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

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

	2016				**2015**			
	Sale of goods and services (i) £m	**Purchase of goods and services (i) £m**	**Amounts owed from (ii) £m**	**Amounts owed to (ii) £m**	Sale of goods and services (i) £m	Purchase of goods and services (i) £m	Amounts owed from (iii) £m	Amounts owed to (iii) £m
Joint ventures:								
Wind farms (as defined in note 5)	**6**	**(51)**	**147**	**(70)**	7	(59)	232	(113)
Associates:								
Nuclear (as defined in note 5)	**–**	**(304)**	**–**	**(46)**	–	(319)	–	(61)
	6	**(355)**	**147**	**(116)**	7	(378)	232	(174)

(i) Six months ended 30 June.
(ii) As at 30 June.
(iii) As at 31 December.

During the period, there were no material changes to commitments in relation to joint ventures and associates. No provision for bad or doubtful debts relating to amounts owed from related parties was required in any of the periods disclosed above.

At the balance sheet date, there were back to back committed facilities with Lake Acquisition Limited's facilities to members of EDF Energy Nuclear Generation Group Limited totalling £120 million at Centrica's share, but nothing has been drawn down to date.

Additional investments have been made of £10 million in Allegheny Solar 1 LLC and £3 million in Three Rivers Solar 2 LLC, both of which are part of the SolarCity joint venture.

On 7 March 2016, the Group disposed of its joint venture interest in GLID wind farms. See note 11(c) for further details.

18. 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 and interest rate risk), credit risk and liquidity risk. These condensed interim Financial Statements do not include all financial risk management information and disclosures included in note S3 of the Group's consolidated Financial Statements for the year ended 31 December 2015.

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

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

Notes to the condensed interim Financial Statements

18. FINANCIAL RISK MANAGEMENT

(a) Commodity price risk management

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

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

The net gain of £977 million during the period (2015: £418 million) from certain re-measurements of energy contracts included within Group operating profit, largely represents the unwinding of mark-to-market positions created by gas and power purchase contracts, that were priced above the current wholesale market value of energy at the start of the period and the impact of wholesale market price movements during the period. These balance sheet mark-to-market positions are calculated with reference to forward energy prices and therefore the extent of the economic gain or loss arising over the life of these contracts is uncertain, and entirely dependent upon the level of future wholesale energy prices. Generally, subject to short-term balancing, the ultimate net charge to cost of sales will be consistent with the price of energy agreed in these contracts and the fair value adjustments will reverse as the energy is supplied over the life of the contract.

(b) Credit risk management

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

The Group continually reviews its rating thresholds for counterparty credit limits, and updates these as necessary based on a consistent set of principles. It continues to operate within its limits. The fall in global commodity prices during 2015 added financial pressure to many of our counterparties and in some cases has had a detrimental impact on their financial strength and resulting credit risk profile, however the Group has started to see a rebound in prices during the first half of 2016, which should help reduce some of the pressure.

In the US and Europe, there is a continued increase in trading over exchanges or margined contracts, this helps to reduce counterparty credit risk, but carries increased liquidity requirements. The Group actively manages the trade-off between credit and liquidity risks by optimising the use of contracts with and without margining obligations.

(c) Liquidity risk management and going concern

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

At 30 June 2016, the Group had undrawn committed credit facilities of £4,477 million (31 December 2015: £4,379 million) and £2,127 million (31 December 2015: £935 million) of unrestricted cash and cash equivalents. 177% (31 December 2015: 136%) of the Group's net debt has been raised in the long-term debt market and the average term to maturity of the long-term debt portfolio was 11.5 years (31 December 2015: 12.0 years). For the calculation of debt duration, the Group has taken the earliest dates on which it has the right to repay its hybrid asset issues as their maturity dates.

The Group's liquidity is impacted by the cash posted or received under margin and collateral agreements. The terms and conditions of these depend on the counterparty and the specific details of the transaction. With the exception of variation margin, cash is generally returned to the Group or by the Group within two days of trade settlement. Refer to note 12(b) for movement in cash posted or received as collateral.

(d) British exit from the European Union

In June, a UK referendum resulted in a vote for the country to leave the European Union and the resultant uncertainty adds to the challenges for UK businesses in all sectors. This uncertainty may lead to volatility in markets with potential fluctuations in foreign exchange rates, interest rates and commodity prices. These movements could impact, amongst other things, the translational value of the Group's overseas subsidiaries (for example North America), the fair value of derivative financial instruments and other assets, the discount rate used to value the Group's Registered Pension Schemes and the carrying value and cost of servicing the Group's debt. Sensitivity analysis associated with the Group's exposure to currency, interest rate and commodity price risk was included in note S3 of the Group's consolidated Financial Statements for the year ended 31 December 2015. Overall, management assesses the direct impacts on the Group to be minimal in the short term. The Group's focus is now on understanding what the result means for energy and other material business regulations over time and how this would impact the competitiveness of the European energy markets. The UK is a major energy importer and what happens in the European energy market will ultimately impact energy consumers in the UK.

Notes to the condensed interim Financial Statements

19. SEASONALITY OF OPERATIONS

Certain activities of the Group are affected by weather and temperature conditions. As a result of this, amounts reported for the six month period ended 30 June 2016 may not be indicative of the amounts that would be reported for a full year due to seasonal fluctuations in customer demand for gas, electricity and services, the impact of weather on demand and commodity prices, market changes in commodity prices and changes in retail tariffs.

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

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

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

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

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

Disclosures

Disclaimers

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

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

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

This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation which came into effect on 3 July 2016.

For further information

Centrica will hold its 2016 Interim Results presentation for analysts and institutional investors at 9.30am (UK) on Thursday 28 July 2016. There will be a live audio webcast of the presentation and slides at www.centrica.com/2016-interim-results-webcast.

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

+ 44 20 3059 8125

The call title is "Centrica plc 2016 Interim Results".

An archived webcast and full transcript of the presentation and the question and answer session will be available on the website on 2 August 2016.

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Financial calendar

Ex-dividend date for 2016 interim dividend	13 October 2016
Record date for 2016 interim dividend	14 October 2016
Final date to elect to participate in 2016 interim scrip dividend programme	3 November 2016
2016 interim dividend payment date	24 November 2016
Trading Update	15 December 2016
2016 Preliminary Results announcement	23 February 2017

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