Centrica plc

Interim results for the period ended 30 June 2009 (unaudited)

For the period ended 30 June	2009	2008	Δ
Revenue‡	**£11.66bn**	£9.68bn	20%
Operating profit*‡	**£936m**	£989m	(5%)
Effective tax rate*‡	**39%**	58%	19 ppts
Earnings*	**£537m**	£418m	28%
Adjusted basic earnings per share*	**10.5p**	10.1p¥	4%
Interim dividend per share	**3.66p**	3.47p¥	5%

OPERATING AND FINANCIAL OVERVIEW:

- Strong UK downstream performance from British Gas; improved residential retail price competitiveness and energy accounts now ahead for the year to date
- Direct Energy impacted by low commodity prices and one-off charge downstream
- Upstream results lower due to weak wholesale commodity price environment
- Group effective tax rate* down to 39%
- Improved agreement to acquire a 20 per cent stake in British Energy for £2.3bn and disposal of 51% stake in SPE for €1,325m (£1.2bn)
- Announced disposal of remaining downstream businesses in Continental Europe
- Cash offer made for Venture Production plc, valuing business at £1.3bn
- Raising new skilled and 'green-collar' job commitment to over 3,000

"The changes we are making to the business model make Centrica more resilient to volatile commodity prices. The new business structure in British Gas will continue to improve the way we serve our customers, particularly those in economic hardship, and the value of the propositions we offer.

Tough economic conditions also present opportunities for Centrica, a business with a strong balance sheet and a good track record of investment. We will continue to target our capital at areas which provide strong returns for shareholders and address the important issues of security of supply and climate change in the UK and North America."

Sam Laidlaw, Chief Executive

STATUTORY RESULTS:

- Operating profit‡: £509m (2008: £2,850m)
- Earnings: £202m (2008: £1,804m)
- Basic earnings per ordinary share: 4.0p (2008: 43.6p¥)

The 2009 statutory results include exceptional charges of £194m before tax, and certain re-measurements which are unrealised net gains on energy procurement and sale contracts falling under the scope of IAS39 which are explained in the Group financial summary and disclosed in note 7.

* including joint ventures and associates stated net of interest and taxation, and before exceptional items and certain re-measurements
‡ from continuing operations
¥ restated to reflect the bonus element of the Rights Issue

Centrica plc
Registered in England and Wales No 3033654
Registered Office: Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD

Chairman's Statement

Performance review

Centrica produced another sound performance in the first half of 2009, as the global economy weakened further in the wake of the 2008 financial crisis. Underlying demand for gas dropped as large industry responded through temporary site closures, adding to the uncertainty in wholesale gas prices. The gap between gas and oil prices widened, with oil recovering through the period and gas continuing to fall due to the perceived global oversupply in the short term and the increasing supply from non-traditional sources in North America.

Overall, the financial results were good, as lower results in upstream gas production due to the drop in natural gas prices were offset by stronger performance downstream. The wholesale price drop also enabled British Gas to take the lead in reducing retail tariffs twice during the period, to become on average the lowest priced dual fuel provider for direct debit customers in the UK. The other downstream businesses in the UK performed very well, with record results at both British Gas Services and British Gas Business. In North America the economic backdrop provided a difficult environment for Direct Energy which was impacted by the low commodity prices and by a one-off bad debt charge in the mass markets business.

Throughout the period, we concentrated on delivering against our strategic agenda, improving the efficiency, customer service and growth potential of our downstream businesses and building a more robust Group structure through increased vertical integration. Good progress was made on bringing together the three segments of British Gas under one management structure. This will provide a better platform from which to serve our customers and grow the business.

To further balance our business, we announced an improved agreement with EDF to take a 20% equity stake in the British Energy generation fleet and the right to participate in nuclear new build. That deal also involves the sale of our Belgian business, SPE, and we now plan to exit our remaining small downstream positions elsewhere in Continental Europe. This move will allow us to focus on building on our strong positions in the UK and North America. That will include looking for opportunities to improve our vertical integration in both geographies. To that end, we have recently taken our stake in Venture Production plc to 29.9% and announced a cash offer for the remainder of the business.

Dividend

The Board of Directors is proposing an interim dividend of 3.66 pence per share to be paid in November 2009, in line with our stated policy of paying an interim dividend of 30% of the prior year full year dividend.

Board changes

Deryk King, President and Chief Executive Officer of Direct Energy retired in July, and was succeeded by Chris Weston who also joined the Board of Directors of Centrica plc on 1 July 2009. Chris was previously the Managing Director of British Gas Services.

As part of combining the divisions of British Gas into a single organisation, Phil Bentley took on responsibility for the whole UK downstream business. Phil remains a Director of Centrica plc.

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

Chairman's Statement continued

Paul Walsh, a Non-Executive Director of Centrica stepped down from the Centrica Board at the Annual General Meeting on 11 May 2009. Paul joined the Board in March 2003. The search for a replacement is underway.

Our employees

Centrica is a business which has undergone many significant changes over the last few years as it has developed and strengthened its business model. Our talented employees, who are the bedrock of our success, have remained loyal and committed during this time and I wish to thank them personally for their support and considerable endeavours in achieving our goals.

The future

We expect the future to remain challenging. Centrica is well funded and has a range of opportunities to deploy capital where it will add most value for our shareholders; gas development, nuclear new build, new gas storage, renewable power generation and in North America. Making investments of this magnitude and longevity requires strong ongoing profitability.

The economy remains weak and credit remains scarce and this will provide a difficult backdrop for all industries. Our industry will also face its own unique challenges and we will need to strike the right balance between securing the commodity required for our customers, meeting our environmental obligations and achieving satisfactory returns for our shareholders in competitive markets. I am confident however, that we will deal with these challenges with a leaner, more competitive and more robust Group structure and build on the strong performance already achieved by the management team.

Roger Carr, Chairman
30 July 2009

Earnings and operating profit numbers are stated, throughout the commentary, before exceptional items and certain re-measurements where applicable – see note 3 for definitions. The Directors believe this measure assists with better understanding the underlying performance of the Group. The equivalent amounts after exceptional items and certain re-measurements are reconciled at Group level in the Group Income Statement. Exceptional items and certain re-measurements are described in note 7. Adjusted earnings and adjusted basic earnings per share are reconciled to their statutory equivalents in note 11.

All current financial results listed are for the six month period ended 30 June 2009. All references to 'the prior period', 'the prior year', '2008' and 'last year' mean the six month period ended 30 June 2008 unless otherwise specified.

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

Chief Executive's Review

2009 performance

Centrica once again delivered a good financial performance in the first half of 2009 in an environment that was no less challenging than 2008. The macroeconomic backdrop was one of a global downturn which provided further uncertainty for UK wholesale gas prices as large scale industrial demand fell away rapidly. Managing both the price volatility and demand uncertainty presented a significant challenge for all energy retailers in the UK.

In the period the performance of the UK downstream business was particularly strong. British Gas Residential reported operating margins towards the upper end of our long term target range, while responding rapidly to a short term easing in gas and power prices by being the first company to reduce retail tariffs. In February we lowered retail gas prices by 10% and followed this with a further reduction in retail electricity prices of 10% in May, making British Gas the price leader in the UK. We have also continued to improve our customer service with a further reduction in telephone answering times and with 1.4 million customers now serving their own accounts online. Complaint rates continued to fall and are now well below the industry average. As a result of our pricing and improved service levels, in the second quarter we added both energy and services accounts. And today energy account numbers are ahead of the position at the start of the year.

Across the rest of British Gas, British Gas Business and British Gas Services both produced record results in a difficult trading environment. Revenue, profit* and customer numbers were all ahead of last year for both businesses. British Gas Business benefited from higher average customer numbers following the E4B and BizzEnergy deals towards the end of 2008. Whilst sales volumes for British Gas Services were down, particularly for the installations business, retention rates remained high and cost control enabled us to expand margins.

Production volumes for Centrica Energy's upstream gas business were lower, as at times it was more economic to buy from the market as wholesale gas prices fell. Average achieved prices were held higher than market prices through forward selling. The UK power generation business had a much stronger period of reliability resulting in a stronger year-on-year result, but absolute returns here were held back by a period of low spark spreads. Losses continued in the legacy industrial and commercial gas supply contracts but at reduced levels due to lower prompt wholesale gas prices which reduced demand.

Centrica Storage had an exceptional operational period. We were reminded of the importance to the UK of this type of asset as the field experienced its greatest ever continuous withdrawal period during the very cold weather, followed by a record injection season as gas prices fell.

The Direct Energy result was disappointing, with upstream and wholesale impacted by low commodity prices, and the mass markets business being hit by an additional one-off bad debt charge. However, encouragingly we did add to our residential customer base and had a strong result in the commercial and industrial supply business following the successful integration of Strategic Energy.

Strategic progress and outlook

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

Chief Executive's Review continued

We continued to make good progress in 2009 in delivering an increasingly robust business structure. The transformation of each of the areas within British Gas progressed well enough for us to announce that we are now bringing it all back together into a single organisation. The management team is now in place and we have the operating structure to drive improvements in customer service, sales targeting and cost reduction. The early results are encouraging with an immediate increase in the cross-selling between services and energy and recent growth in both customer bases and in joint product holdings, where a customer holds both an energy and a services product. However, with this overlap still only at two million households out of a total of the 12 million that we supply, there remains a big value opportunity here. Through the second half of the year we expect to launch innovative bundled product offerings across the energy and services range to meet the needs of our segmented customer base. We also expect this improved operating structure to enable us to remove around £100 million from the controllable cost base of British Gas by 2010.

Upstream in the UK we made good progress in addressing the priority of increasing our level of vertical integration to reduce our exposure to short-term movements in wholesale gas prices. In May we announced an improved agreement with EDF to buy a stake in the UK nuclear power station fleet of British Energy and the right to participate in the new build opportunity. Where the previous Memorandum of Understanding outlined a £3.1 billion offer for 25% of the business, we concluded our agreement at £2.3 billion for 20%, which will be settled through the sale of our 51% of SPE, the Belgian energy business, and £1.1 billion in cash.

This deal is now going through regulatory approvals and we expect further news in August. In gas we continued our development programme in the North Sea, successfully producing from the second well at the Grove field and drilling and testing the third well. In the same area we completed the development of the Seven Seas field and currently anticipate producing gas from the new field before the end of the year. We also continued to expand our geographic reach, as in early July we signed an agreement to take a 29% share in a Trinidadian offshore exploration Block 2(ab). Our discussions continue with national oil companies regarding new sources of pipeline gas and Liquefied Natural Gas (LNG) to supply our customers.

In July we announced a £1.3 billion cash offer for Venture Production plc, a North Sea gas and oil production and development company, having already acquired the stakes of three large shareholders and we now hold a 29.9% stake in the company. This is in line with our priority of increasing the degree of vertical integration. A successful conclusion here would increase our energy hedge, our measure of integration, by almost 15 percentage points to almost 60%.

In renewables we welcome the UK Government's recent decision to increase the subsidy regime for offshore wind farms to provide two Renewable Obligation Certificates (ROC) per megawatt hour (MWh) which improves the long term economics of this type of clean generation. This, along with improved terms from our suppliers and contractors, will allow us to make a decision over the next few months on the construction of our largest offshore wind farm to date, the Lincs wind farm, which will have a capacity of 250 megawatts (MW) and cost around £1 billion to build.

In February we announced the acquisition of a 70% stake in the Baird gas field in the southern North Sea, with the intention of converting it into a gas storage field. Centrica's share of the cost of bringing this project to completion is estimated at £1.2 billion. This gas storage opportunity builds on the two projects we announced in 2008, offshore at Bains and onshore at Caythorpe. These three projects

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Chief Executive's Review continued

could add around 85 billion cubic feet (bcf) of gas storage in the UK, around two thirds the size of our existing Rough storage field. We are moving forward with the early engineering studies and expect to be able to make final investment decisions in 2010.

In North America Deryk King has retired and Chris Weston moved from British Gas Services to succeed him from 1 July as President and Chief Executive Officer of Direct Energy. Chris also joined the Board of Centrica plc. The weak economic environment in North America has produced challenges and opportunities. Short term the financial results are being impacted by low commodity prices. However we are beginning to see upstream assets and blocks of downstream customers come to the market at prices which we believe can add value for Centrica shareholders and help us to deliver on our strategy of making the business in North America increasingly integrated and robust and providing further avenues for growth. Direct Energy is also well positioned to benefit from the growing support for environmental action and the investment in green initiatives by the Obama administration.

In Europe, with the sale of SPE, we will be left with two small downstream positions, in The Netherlands and Spain. We have initiated a process to exit these positions, while retaining our presence in the wholesale market in Germany, as part of our overall structure for securing gas supplies for the UK. This withdrawal from Continental Europe firmly positions Centrica in its chosen markets in the UK and North America. Focussing on these two areas will allow us to concentrate our management and financial resources on markets where we already have strong positions and where we see good growth prospects.

In summary, we have continued to deliver against the agenda we set out in 2007. We have made strong structural progress in improving the performance of the business which is driving organic growth both in the UK and North America. We have also significantly restructured the Group to be a much better balanced producer and generator of the energy which we supply. With the British Energy deal and the potential acquisition of Venture Production plc we have made significant strides in reducing the Group exposure to volatile gas prices. A successful sale of SPE and resolution of our remaining European positions will also allow us to position Centrica clearly in our chosen markets and provide the focus required to grow from here. We also continue to invest in our highly skilled workforce, and in addition to the 1,500 new skilled and green collar jobs we announced in February we are also planning to create further roles to take this number to over 3,000 over the next couple of years, directly linked to the roll out of SMART meters to our customers' homes and to the provision of energy efficiency advice to these customers.

2009 outlook

Low commodity prices continue to shift profit* from the upstream to the downstream. Although the net effect of this shift, coupled with the lower first half result in Direct Energy, will be to reduce Group operating profit*, this is expected to be offset by a lower effective tax rate*, now forecast to be below 40%, leaving 2009 forecast earnings* for the Group's existing business broadly in line with expectations. The key variables for the remainder of the year are consumption levels, which will be influenced by the weather, and commodity prices. In addition, the final outturn will depend, in part, on the timing and completion of acquisitions and disposals.

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

Chief Executive's Review continued

The economic environment is showing little sign of rapid improvement. The resultant drop in wholesale gas prices does benefit British Gas and its energy customers, but obviously has a negative impact upstream. We will remain cognisant of and sensitive to the needs of our customers in these difficult times. We will continue to improve the way we serve customers and the value of the propositions we offer to them.

The changes we have made and continue to make to the business model will make Centrica stronger as commodity prices remain volatile. With the industry facing massive capital requirements in the UK and North America to meet the challenges of security of supply and climate change there is no shortage of opportunities. Within our own business organic opportunities exist in gas development, renewables, new nuclear, gas storage and thermal generation. With our strong funding position, and a good track record of investment, both organic and acquisitive, we are well placed to create value and profitable growth for shareholders.

Sam Laidlaw, Chief Executive
30 July 2009

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

Group Financial Review

Group revenue from continuing operations was up 20% at £11.66 billion (2008: £9.68 billion). There were increases downstream in British Gas due primarily to higher retail tariffs and Direct Energy due to favourable currency movements and the acquisition of Strategic Energy in June 2008.

Group operating profit* from continuing operations was down 5% at £936 million (2008: £989 million). Increases in British Gas due to lower wholesale input prices were more than offset by decreases in gas production and development due to lower volumes and selling prices.

Group profit* on a continuing basis was up 30% to £538 million (2008: £415 million). This increase in earnings* resulted primarily from a lower Group effective tax rate* of 39%, compared to 58% in 2008, due to the change in profit mix away from the more highly taxed gas production contribution, partially offset by higher net interest payments, at £61 million (2008: net interest income of £4 million).

The statutory profit for the period was £218 million (2008: £1,805 million). The reconciling items between adjusted Group profit* and the statutory profit are related to exceptional items and certain re-measurements as explained below.

Group operating cash flow before movements in working capital from continuing operations was down from £1,311 million in 2008 to £1,051 million. After working capital adjustments, operational interest, tax and cash flows associated with exceptional charges, this stood at £707 million (2008: £1,571 million). This decrease in operating cash flow is primarily due to a small outflow of cash collateral associated with margining agreements, compared with a large inflow in 2008, an increase in interest and taxes paid and the termination of an energy sales contract during the period.

The net cash outflow from investing activities increased to £1,602 million (2008: £548 million), due primarily to the acquisition of 50% of Segebel SA, described below, and the investment in Venture Production plc during the period.

There was a net cash inflow from financing activities of £860 million (2008: outflow of £398 million). This net cash inflow resulted primarily from the bond issues detailed in note 14.

The Group's net debt level at 30 June 2009 was £1,889 million (31 December 2008: £511 million, 30 June 2008: £274 million) with the increase reflecting the level of investment in the business.

During the period net assets increased to £4,653 million from £4,395 million as at 31 December 2008 (30 June 2008: £5,206 million). The increase was primarily due to the acquisition of 50% of Segebel SA and the resultant fair value adjustments, partially offset by the negative non-cash movements in the mark-to-market value of derivatives and actuarial losses on the Group's defined benefit pension plans.

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Exceptional items and certain re-measurements

In our business we enter into a portfolio of forward energy contracts which include buying substantial quantities of commodity to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair-valued under IAS 39. Fair valuing means that we apply the prevailing forward market prices to these contracts. The Group has shown the fair value adjustments separately as certain re-measurements as they are unrealised and non-cash in nature. The profits arising from the physical purchase and sale of commodities during the period, which reflect the prices in the underlying contracts, are not impacted by these re-measurements.

The statutory results include charges to operating profit relating to these re-measurements of £233 million (2008: net credit of £1,861 million), primarily from marking-to-market some contracts relating to our energy procurement activities. As gas and power were delivered under these contracts, net out-of-the-money mark-to-market positions were unwound generating a net credit to the Income Statement in the period of £688 million (2008: net charge of £41 million). As forward prices decreased in the first half of the year the portfolio of contracts fair valued under IAS 39 reported a net charge on revaluation of £1,039 million (2008: credit of £1,912 million). The termination of an out-of-the money energy sales contract, described below, resulted in a credit within certain remeasurements of £135 million. The remaining charge of £17 million (2008: £10 million) reflects positions relating to cross-border capacity and storage contracts.

The net loss of £233 million on the re-measurement of energy contracts largely represents unrealised mark-to-market loss created by gas and power purchase contracts which are priced above the current wholesale market value of energy. This loss is calculated with reference to forward energy prices and therefore the extent of the overall economic profit or loss arising over the life of these contracts is uncertain and is entirely dependent upon the level of future wholesale energy prices.

During the period the Group terminated an energy sales contract resulting in the recognition of a termination charge of £139 million in exceptional items reflecting pricing below forward wholesale energy prices. The Group also recognised a provision for onerous wind farm power purchase agreements in North America of £55 million. Details of exceptional items are provided in note 7 to the interim Financial Statements.

Business combinations, discontinued operations and capital expenditure

In January 2009, the Group acquired 50% of the issued share capital of Segebel SA for cash consideration of £544 million (including deferred consideration of £62 million), bringing the Group's total ownership interest in Segebel SA to 100%. Segebel SA holds a controlling stake of 51% in SPE SA, a Belgian energy company. Details of this acquisition are provided in note 20 to the interim Financial Statements.

In May 2009, the Group announced that it had reached a definitive agreement with EDF whereby the Group will acquire a 20% interest in Lake Acquisitions Limited, owner of British Energy, for £2.3 billion and dispose of its interest in Segebel SA for €1,325 million (£1.2 billion). These transactions are expected to complete in the second half of the year but are inter-conditional and subject to regulatory approval.

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Group Financial Review continued

The Group has also initiated a process to sell its businesses in The Netherlands, Oxxio, and Spain, Centrica Energia. Together with Segebel SA, these businesses have been accounted for as discontinued operations. Details of discontinued operations are provided in note 10 to the interim Financial Statements.

During the period, the Group acquired a 23.6% stake in the listed gas and oil company, Venture Production plc at a cost of approximately £250 million. This stake is included within securities as a current asset investment.

Details of capital expenditure are provided in note 6(e) to the interim Financial Statements.

Principal risks and uncertainties

The Group's risk management process remains unchanged from 31 December 2008 and is described in detail in the Directors' Report of the Group's 2008 Annual Report and Accounts on pages 31-34. A description of the impact of the volatility in wholesale commodity prices and economic recession on financial risk management is provided in note 4 to the Interim Financial Statements.

A description of the Group's principal risks and uncertainties for the remainder of the year is provided in the 2009 outlook section of the Chief Executive's Review on pages 6 and 7 of these interim results.

Related party transactions

Related party transactions are described in note 22 to the interim Financial Statements.

Events after the balance sheet date

Since 30 June 2009 the Group has increased its stake in Venture Production plc from 23.6% to approximately 29.9%. On 10 July 2009 the Group announced the terms of a cash offer to acquire the issued and to be issued share capital of Venture Production plc that the Group does not already own for approximately £900 million, valuing the whole of Venture Production plc at approximately £1.3 billion.

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Operating Review

BRITISH GAS

As announced at the time of the 2008 full year results on 26 February 2009, the businesses under the British Gas brand have been reunited under a single management team, in order to maximise the opportunities presented. The broader customer relationship this facilitates will improve customer retention, drive greater cross-selling through better targeting of customers' needs, and remove duplication and cost from the single organisation.

The management team for the combined business is now in place, and support functions across British Gas have been brought together. We have now clearly segmented our customer base, utilising one view of customer value and we are on track to deliver efficiencies as a result of the integration. We expect to reduce the controllable operating cost base of the combined British Gas by £100 million by 2010.

We are seeing good early results in our account sales as a result of bringing together the businesses. Sales of energy products through services channels were up around 50% year-on-year. Following our electricity price reduction in May, the proportion of the total sales of services products through our energy channels almost doubled, in part due to the targeted sales campaign of our Home Electrical Care (HEC) product. We will run similar campaigns which link products during the second half of the year. As a result of this increased integration in the first half of 2009 we increased the overall number of British Gas customer accounts by 119,000, and importantly grew the number of 'joint product' households, where customers hold both an energy and a services product, by 76,000.

Our people remain integral to the success of British Gas. Staff attrition and absence both improved considerably by 45% and 26% respectively, compared to the same period in 2008. We were also pleased to be recognised in the Sunday Times 'Best Big Companies to work for', where British Gas ranked in the top 20 for the first time and in the Financial Times 'UK's 50 Best Workplaces'.

Revenue for the combined British Gas rose by 16% to £6,873 million (2008: £5,931 million) and operating profit* was up by 56% to £476 million (2008: £306 million).

British Gas Residential

A falling commodity price environment, coupled with higher than expected demand due to colder than normal temperatures in the high consumption months of January and February, resulted in a strong first half of the year for British Gas Residential.

As a result of the fall in the wholesale price of both gas and power, we were able to announce two price reductions in the first half of the year, a 10% reduction in the standard gas tariff from February, and a 10% reduction in the standard electricity tariff from May. These decreases made British Gas the cheapest supplier of electricity in every region of the UK on average, and the cheapest supplier on average of dual fuel for direct debit customers. This improved competitive position helped us to grow the energy customer base following the second price decrease on 7 May and sales in this period were more than 30% higher than in the first four months of the year. At the end of June we were serving just over 15.5 million customer accounts, and we continued to increase the number of customers on supply through July.

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

Operating Review continued

We are continuing to improve our service levels. Due to improved billing processes we received 15% fewer calls than over the second half of 2008, and the number of customers abandoning their calls before getting through to an agent was down by 75%. Our complaint rate has reduced by 16% since the start of the year and is now substantially lower than the industry average. An increasing number of customers are using our website to manage their account. In total 1.4 million customers holding 2.1 million accounts now use the internet as their main method of contact with us, and we have seen a doubling in the volume of meter reads submitted and payments made online over the last 12 months, both to around 30,000 a week.

British Gas also continues to demonstrate industry leadership in SMART metering. We welcomed the Government's announcement in May about its plans for a full national roll-out, particularly its preference for a supplier-led central communications model, which we believe will lead to a more rapid roll out of the technology. We recently announced that we were bringing in-house the metering activity that is currently carried out by a third party. We believe this will also help to facilitate the roll-out of SMART meters and place British Gas at the forefront of the new technology. We also continue to lead the industry in helping vulnerable households manage the cost of their energy bills, and we now have 500,000 customer accounts on our social tariff; by far the largest in Great Britain and more than all of our major competitors in the UK combined.

Revenue in the period was up 15% to £4,380 million (2008: £3,823 million) as lower average consumption per customer, despite the colder than normal weather in January and February, was more than offset by the effect of price changes in 2008.

Operating profit* was up 80% to £299 million (2008: £166 million), an operating margin of 6.8%, towards the top of the range we target for average through cycle margins, as the increase in revenue more than offset increases in commodity costs and bad debt charges. Total commodity costs increased as the benefit of lower wholesale prices was delayed due to hedging and forward purchasing of gas and power.

British Gas Business

Despite the challenging environment that all businesses faced in the first half of the year, British Gas Business continued to perform strongly. The successful addition of 64,000 customers at the end of 2008 consolidated our position as the number one energy provider in the Small and Medium Enterprise (SME) market. In addition the announced acquisition of Energy and Building Management Solutions Limited further strengthened our presence in the UK's expanding commercial energy-related services market, enabling us to offer a range of energy management and bundled product propositions.

We have maintained our industry leading position in the installation of SMART meters for businesses, having now installed 45,000. This has had a significant positive impact on our billing accuracy and customer satisfaction levels have increased materially as a result. We expect to install a further 20,000 meters by the year end following strong customer demand.

Revenue increased by 25% to £1,805 million (2008: £1,444 million), reflecting an increase in total customer supply points and a higher average contractual sales price as a result of the higher commodity price environment experienced during 2008. Partially offsetting this, consumption per site

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Operating Review continued

was down 17% and 3% respectively in gas and power, reflecting a change in portfolio mix and lower demand primarily as a result of recessionary pressures. Overall the total number of supply points increased slightly over the period to 1.05 million (31 December 2008: 1.04 million), supported by high levels of retention.

Overall operating profit* increased by 18% to £65 million (2008: £55 million), and by 30% when the benefit of the favourable electricity procurement contract is excluded from the 2008 result. This increase was driven by higher revenue and underlying cost efficiencies across the business. Overall operating costs did increase, reflecting higher levels of bad debt due primarily to the higher revenues. However the prudent measures taken to manage debt through increased credit vetting procedures and revised payment terms enabled us to keep the impact here relatively small and to further reduce our total operating costs as a percentage of gross margin to 69% (2008: 72%).

British Gas Services

British Gas Services delivered a strong financial and operational performance in the first half of the year. Service levels across the business continued to improve even though the UK suffered its coldest winter for 15 years, prompting a record number of calls to our contact centres. The grade of service remained high with 90% of calls answered within 60 seconds, and improvements made in scheduling and deploying engineers reduced broken appointments by 50% compared to the prior year. We also experienced a 53% reduction in lost time accidents over the same period. These improvements enabled the launch of a call-ahead service for customers to inform them when an engineer is due to arrive; initial customer response here has been very positive. As a result of these initiatives, customer satisfaction, measured through a net promoter score, rose to a new high of 54%.

Revenue increased to £688 million (2008: £664 million) as we grew the number of customer product relationships to 8.2 million (2008: 7.8 million), with the strongest sales growth in the newer products of Home Electrical Care, Kitchen Appliance Care and Plumbing and Drains Care. Customer retention remained high and we achieved strong contract sales from upgrade work.

The total number of central heating installations carried out was down 7% to 50,000 installations, reflecting the challenging economic conditions. However improvements made to productivity and cost control resulted in strong operating profit* growth here.

Operating profit* increased by 32% to £112 million (2008: £85 million), reflecting an increased contribution from the higher margin secondary care products, gross margin improvement and our continued focus on cost efficiencies across the business. As a result operating costs as a percentage of gross margin fell to 66% (2008: 72%).

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

Operating Review continued

British Gas

For the period ended 30 June	H1 2009	H1 2008	Δ%	FY 2008
British Gas Residential				
Customer numbers (period end):				
Gas ('000)	**9,382**	9,763	(3.9)	9,508
Electricity ('000)	**6,137**	6,004	2.2	6,062
Total ('000)	**15,519**	15,767	(1.6)	15,570
Estimated market share (%):				
Gas	**43.5**	44.8	(1.3) ppts	43.5
Electricity	**23.6**	22.1	1.5 ppts	22.2
Average consumption:				
Gas (therms)	**295**	313	(6)	547
Electricity (kWh)	**1,960**	1,993	(1.7)	3,957
Total consumption:				
Gas (mmth)	**2,788**	3,119	(11)	5,345
Electricity (GWh)	**11,915**	12,041	(1.0)	23,880
Revenue (£m):				
Gas	**3,043**	2,605	17	5,211
Electricity	**1,337**	1,218	10	2,558
Total	**4,380**	3,823	15	7,769
Transmission and metering costs (£m):				
Gas	**627**	647	(3.1)	1,232
Electricity	**304**	295	3.1	595
Total	**931**	942	(1.2)	1,827
Operating profit (£m)*	**299**	166	80	379
Operating margin (%)	**6.8**	4.3	2.5 ppts	4.9

For the period ended 30 June	H1 2009	H1 2008	Δ%	FY 2008
British Gas Business				
Customer supply points (period end):				
Gas ('000)	**408**	406	0.5	415
Electricity ('000)	**639**	551	16	624
Total ('000)	**1,047**	957	9	1,039
Average consumption:				
Gas (therms)	**1,839**	2,229	(17)	3,833
Electricity (kWh)	**16,328**	16,795	(2.8)	33,771
Total consumption:				
Gas (mmth)	**756**	918	(18)	1,585
Electricity (GWh)	**10,267**	9,169	12	19,051
Revenue (£m):				
Gas	**716**	675	6	1,288
Electricity	**1,089**	769	42	1,775
Total	**1,805**	1,444	25	3,063
Transmission and metering costs (£m):				
Gas	**107**	104	2.9	210
Electricity	**210**	161	30	345
Total	**317**	265	20	555
Operating profit (£m)*	**65**	55	18	143
Operating margin (%)	**3.6**	3.8	(0.2) ppts	4.7

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

Operating Review continued

For the period ended 30 June	H1 2009	H1 2008	Δ%	FY 2008
British Gas Services				
Customer product holdings (period end):				
Central heating service contracts ('000)	**4,555**	4,511	1.0	4,571
Kitchen appliances care (no. of customers) ('000)	**422**	409	3.2	413
Plumbing and drains care ('000)	**1,671**	1,589	5	1,630
Home electrical care ('000)	**1,363**	1,246	9	1,305
Other contracts ('000)	**203**	0	nm	133
Total holdings ('000)	**8,214**	7,755	6	8,052
Central heating installations ('000)	**50**	54	(7)	111
Revenue (£m):				
Central heating service contracts	**387**	360	8	736
Central heating installations	**159**	174	(9)	351
Other	**142**	130	9	262
Total	**688**	664	3.6	1,349
Engineering staff employed	**9,339**	9,231	1.2	9,500
Operating profit (£m)*	**112**	85	32	195
Operating margin (%)	**16.3**	12.8	3.5 ppts	14.5

For the period ended 30 June	H1 2009	H1 2008	Δ%	FY 2008
British Gas				
Total customer accounts ('000)	**24,780**	24,479	1.2	24,661
Revenue (£m):	**6,873**	5,931	16	12,181
Operating cost (excluding bad debt) (£m)	**653**	672	(2.8)	1,260
Operating profit (£m)*	**476**	306	56	717

CENTRICA ENERGY

The first half of the year was very challenging for our UK upstream business as wholesale month ahead gas and power prices fell by more than 50%. Despite this reduction in commodity prices ongoing activities to optimise the portfolio and a strong operational performance across the asset base enabled us to deliver a good result. Overall the operating profit* for the division was £332 million (2008: £504 million).

Gas production and development

Operating profit* in the gas production business was £346 million (2008: £638 million), reflecting the reduction in wholesale gas prices experienced in the first half of the year. Gas production volumes were down 34% to 939 million therms (mmth) (2008: 1,413 mmth). Lower production levels at our fully owned Morecambe field were due primarily to value-maximising optimisation decisions, taken at times of low gas prices, to shut in production at South Morecambe and to meet existing contractual positions through short term market purchases. The average sales price achieved across the portfolio increased by 5% to 55.7 pence per therm (p/th) (2008: 52.9 p/th) despite falling wholesale gas prices. This was achieved by selling forward a proportion of gas production volumes when wholesale gas prices were materially higher. Total volume related production costs remained broadly unchanged despite significantly lower production volumes as the lower production came primarily from Morecambe, which has a relatively low unit variable cost of production. The increase in other production costs was driven by recent acquisitions.

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

Operating Review continued

We made good progress in our gas development programme. At the Grove field commercial gas was delivered from the second well of the four well programme and we successfully drilled and tested the third well. The performance of the fourth well, although successful in finding hydrocarbons, fell short of expectations and it was consequently abandoned. Overall total flow rates from the remaining three wells have been greater than expected, driven by enhancements to the well perforation strategy. This development is expected to complete on schedule during the final quarter of 2009 following installation of the connecting infrastructure this summer. We have completed the Seven Seas development well and the new pipeline infrastructure has been installed which will allow the gas to be exported through the West Sole Alpha platform. Further work to complete the tie in of the export pipeline and new control systems is ongoing and modifications to the platform should enable first gas to be achieved this winter. Our Norwegian Heimdal area assets performed strongly in the period, with production volumes exceeding our investment case due to better than expected progress on offshore remedial works.

In January we announced the acquisition of a 67% interest in the undeveloped York gas field in the Southern North Sea, adding to the 23% acquired as part of Centrica's Rough gas storage acquisition in 2002. After further capital investment of around £220 million we expect to recognise 107 bcf of reserves, of which 79 bcf are directly attributable to this enlarged equity stake.

As part of our focused exploration programme we are currently interpreting seismic data from the Morecambe Bay area and intend to commence drilling there by the end of 2009. We will also participate in the drilling of the Norwegian Mon prospect, having acquired a 15% interest in the licence in July 2009. In July we also signed a production sharing agreement with the Trinidadian Government on Block 2(ab). Following farm-downs of equity we will hold a non-operated equity stake of 29.25% in the block.

In March we acquired a 23.6% stake in Venture Production plc for a cash consideration of approximately £250 million. On the 10 July 2009 Centrica plc, through its wholly-owned subsidiary, Centrica Resources (UK) Limited, increased its stake to 29.0% and made a cash offer which values the whole company at £1.3 billion. We subsequently increased our shareholding to 29.9%.

Power generation

The operational performance of our combined cycle gas turbine (CCGT) fleet was strong, with reliability at 96% (2008: 94%). However, lower market clean spark spreads and increased planned maintenance outages resulted in reduced running patterns and lower generated volumes. The average load factor across the CCGT fleet reduced to 57% (2008: 65%) and in total volumes including the wind fleet fell to 10.0 terawatt hours (TWh) (2008: 11.5TWh).

The power generation segment reported an operating profit* of £41 million in the first half of 2009 (2008: operating loss* £5 million). The 2008 comparable result was negatively impacted by a forward sales contract, which expired in March 2009, and an outage at the South Humber Bank power station which required us to buy back power in the market at higher prices. 2009 also benefited from higher profitability from the wind fleet following the commissioning of the Lynn and Inner Dowsing wind farms at the end of 2008.

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

Operating Review
continued

Our 885MW Langage CCGT project remains on target to commence commercial operations by the end of 2009.

In April, following a review of the UK ROC banding, the Government announced an increase to 2 ROCs per MWh for new offshore wind developments in the UK for a restricted period. This announcement improves the economics of new offshore wind and our proposed 250 MW offshore wind project off the Lincolnshire coast should qualify for the enhanced ROC regime following this announced change. On completion of the negotiations with suppliers and contractors a final investment decision for this project will be made during the second half of 2009.

On 11 May we announced an agreement to acquire a 20% equity stake in British Energy, the operator of eight existing nuclear power stations. The acquisition is currently undergoing the competition authority approval process. Completion of the acquisition would increase our power cover ratio to around 85%, improving our generation fuel mix and maintaining the low carbon intensity of the fleet. The agreement also gives us the right to participate in UK nuclear new build up to the level of its equity stake.

Industrial and commercial

This segment reported an operating loss* of £89 million (2008: £156 million operating loss*). The average sales price achieved increased by 28% to 49.1p/th (2008: 38.5p/th) as a result of the legacy index-linked pricing mechanisms within these contracts which priced in at a higher rate. The reduction in wholesale gas prices, particularly in the second quarter, resulted in customers reducing their demand under these contracts to 617mmth (2008: 1,343mmth). This reduction in demand, combined with a hedged position going into the year, meant that these contracts were unable to benefit fully from the fall in wholesale prices. However the termination of one of the more loss-making sales contracts in February did improve the overall result.

Our LNG delivery activity moved on considerably during the first half 2009, as the UK has become an increasingly attractive destination for LNG cargoes in the global economic downturn. During this period we took delivery of 7 cargoes into the Isle of Grain terminal from a variety of destinations for a total of 229 mmth, including cargoes from Qatar, Trinidad, Norway and Australia. Currently we have contracted a further 14 cargoes up to the end of winter 2009/10 and have concluded agreements with 7 counterparties, with LNG sourced from 6 countries.

Accord trading

Accord delivered a strong operating profit* of £34 million (2008: £27 million), during a period when wholesale energy prices fell materially.

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

Operating Review continued

Centrica Energy

For the period ended 30 June	H1 2009	H1 2008	Δ%	FY 2008
Gas production				
Gas production volumes (mmth)				
Morecambe	**553**	1,020	(46)	1,716
Other	**386**	393	(1.8)	702
Total	**939**	1,413	(34)	2,418
Average gas sales price (p/therm)	**55.7**	52.9	5.3	59.1
Oil and condensate production volumes (Mboe)	**3.2**	3.3	(3.0)	6.5
Average oil and condensate sales price (£/boe)	**29.7**	43.5	(32)	45.0
Gross Revenue (£m)	**655**	925	(29)	1,784
External revenue (£m)	**195**	237	(18)	466
Operating costs (£m)				
Volume related production costs	**182**	181	0.6	325
Other production costs	**127**	106	20	295
Total	**309**	287	8	620
Operating profit (£m)*	**346**	638	(46)	1,164
Power generation				
Power generated (GWh)	**10,037**	11,536	(13)	23,366
Operating profit / (loss) (£m)*	**41**	(5)	nm	7
Industrial and commercial				
External sales volumes (mmth)	**617**	1,343	(54)	2,493
Average sales price (p/therm)	**49.1**	38.5	28	41.6
External revenue (£m)	**312**	525	(41)	1,036
Operating (loss) / profit (£m)*	**(89)**	(156)	nm	(329)
Accord				
Operating profit (£m)*	**34**	27	26	37
Centrica Energy operating profit (£m)*	**332**	504	(34)	879

CENTRICA STORAGE

Centrica Storage delivered an exceptional operational performance in the first half of the year. The colder weather and the supply concerns caused by the dispute between Russia and the Ukraine resulted in Rough experiencing its longest ever continuous period of maximum withdrawals, with 52 days at full rate. From April we experienced sustained injection which, combined with enhanced injection capability, resulted in the reservoir being 88% full by the end of June. This is a record stock level for Rough at this point in the year. Despite this heavy usage, the field experienced production and injection reliability of 99%, a level of performance enabled by our continued investment in the field and a strong maintenance regime.

The health and safety record of the Rough storage facility remains exceptional with 0.14 lost time incidents per 100,000 man hours worked. Centrica Storage Limited was also rated top quartile in the 2008 Annual Review with the Health and Safety Executive.

Revenue in the period was down 11% to £124 million (2008: £139 million) primarily due to a lower average Standard Bundled Unit (SBU) storage price of 41.5p (2008: 48.5 p) being realised due to the relatively low price secured for the 2008/09 storage year. We announced in April that we had sold all

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

Operating Review continued

SBUs for the 2009/10 storage year at an average price of 46.8p (2008/09 38.8p), and as a result SBU revenue in the second half of the year will be above that achieved in the same period in 2008. This will be partially offset by non-recurrence of the sale of cushion gas in the second half of 2008. In the first half, operating profit* was down 22% at £73 million (2008: £93 million) as a result of the lower SBU price.

On our recently announced projects, at Caythorpe front-end engineering design has commenced and the site has been cleared, we have received planning permission for the onshore facility to support the Bains field, and we concluded the purchase of 70% of the Baird gas storage development from Perenco in February. Although all of these are still at an early stage they are on track to become operational within the previously announced timescales, subject to final investment decisions. HM Revenue and Customs' clarification in April of the rules regarding capital allowances for the purchase of cushion gas required in new gas storage facilities will improve the economics of these projects.

Centrica Storage

For the period ended 30 June	H1 2009	H1 2008	Δ%	FY 2008
Average SBU price (in period) (pence)	41.5	48.5	(14)	43.8
Gross Revenue (£m)				
Standard SBUs	94	110	(15)	199
Extra space	9	9	0	20
Optimisation	8	(2)	nm	1
Cushion Gas sales	0	3	nm	26
Other	13	19	(32)	34
Total	124	139	(11)	280
External revenue (£m)	95	120	(21)	221
Cost of gas (£m)	11	11	0	22
Operating profit (£m)*	73	93	(22)	195

DIRECT ENERGY

The challenging market conditions in North America continued in the first half of 2009. The US economy remained in recession and the slowdown in Canada became more acute with the result that wholesale commodity prices became increasingly depressed. Against this backdrop, Direct Energy's underlying performance was good. However, a one-off charge of £45 million in mass markets meant that the downstream business was not able to offset the decline in upstream and wholesale due to the low commodity prices.

Revenue in Direct Energy was £3,351 million (2008: £2,452 million), up 37% in sterling terms, mainly due to exchange rate movements. In constant currency, revenue was up 12%, primarily driven by a materially higher contribution from the commercial and industrial business following the acquisition of Strategic Energy in June 2008. Operating profit* was down 27% to £66 million (2008: £91 million).

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

Operating Review continued

Mass markets energy

In mass markets energy overall we grew the customer base over the first half of 2009. Our US North East business in particular experienced strong growth with more focused customer acquisition activity and we now have grown our customer base by around 150,000 in the last 12 months. In Canada we scaled back our customer acquisition activity, particularly on fixed-price long-term contract deals, where the capital support required is significant. As a consequence customer numbers here were broadly flat.

In contrast customer numbers in Texas fell, with our competitors passing through wholesale price reductions quicker than we did, as a portion of our power requirements for 2009 had been bought forward at higher prices in 2008 restricting our pricing flexibility. The results also include a one-off charge to write off £45 million of final debt in Texas following a change in methodology for bad debt provisioning. Debt collection rates have been impacted by the poor economic conditions and the resulting increase in mortgage foreclosures. The provisioning methodology was changed following a balance sheet review and reflects recent lower debt collection rates.

Revenue in the first six months was up 6% to £1,454 million (2008: £1,371 million), but was down 11% on a constant currency basis. Operating profit* was down by 25% to £46 million (2008: £61 million), and by 43% on a constant currency basis.

Commercial and industrial energy

Electricity volumes were up 68% and gas volumes were up 10%, primarily as a result of the acquisition of Strategic Energy in June 2008. With this acquisition we have significantly grown the scale of our C&I business in North America and as well as growing volume we have extracted additional cost synergies from this acquisition which now exceed our original expectations of US$15 million per annum.

As a result of the increase in supplied volume, revenue was up 84% to £1,311 million (2008: £712 million), and on a constant currency basis was up 47%. Operating profit* was also up by 150% at £20 million (2008: £8 million) due to the effect of the higher revenue and was up 67% on a constant currency basis as the synergies from the Strategic Energy acquisition and a concentration on growing margins to recover the increased cost of credit support helped the result.

Home and business services

Market conditions for our services business continued to be extremely challenging, particularly in the US where the continuing decline in new housing construction is showing no signs of an early recovery. To minimise the impact of this slowdown we have concentrated on reducing the cost base of the business by rationalising and repositioning the business to focus on the energy efficiency opportunities presented by the Obama administration.

On the contract side, we grew our Canadian customer relationships by 29,000 over the first six months and also reduced costs. As a result profitability* for this business was higher in the first half of 2009 than in the prior year.

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

Operating Review continued

Revenue was up 20% at £201 million (2008: £168 million) and was flat on a constant currency basis. Operating profit* was unchanged at £3 million as the deterioration in the US business was offset by the improvement in the Canadian business, and a favourable currency movement.

Upstream and wholesale energy

The recession and the subsequent impact on wholesale commodity prices resulted in a marked reduction in profitability* from the gas production business, where only part of the production was sold forward at the higher prices prevailing in 2008. The low price environment has presented some opportunities, and we increased our reserves base in the first half of the year by around 50 bcfe (billion cubic feet) through some small scale acquisitions. This did mean that, in common with most producers in Alberta, our ongoing drilling programme has been temporarily curtailed as it becomes less economic. As a result overall volumes were only slightly up despite the full half year benefit of the acquisitions of TransGlobe and Rockyview made in 2008. The average selling price was 20% lower than in the same period in 2008.

The wholesale business also suffered in the first half of the year as a result of recessionary-driven demand destruction, which resulted in some loss-making power auction positions, whilst the lower levels of volatility in the wholesale gas and power markets have created fewer trading opportunities, decreasing profitability* here as well.

The power generation business performed well operationally, with low power prices in Texas early in the year allowing a more thorough maintenance period prior to the high load summer season, leading to better reliability of our CCGT fleet through the remainder of the first half. However the low power price put pressure on heat rates and impacted profitability*. We also took a one-off exceptional charge of £55 million on our wind farm tolling agreements in west Texas with current forward prices being significantly below our contract cost, due to the combination of lower general wholesale prices and the local impact of transmission congestion over the next few years.

The upstream and wholesale line of business delivered an operating loss* of £3 million (2008: profit* of £19 million).

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

Operating Review continued

Direct Energy

For the period ended 30 June	H1 2009	H1 2008	Δ%	FY 2008
Mass markets				
Customer numbers (period end) ('000)	**3,115**	3,034	2.7	3,092
Revenue (£m)	**1,454**	1,371	6	2,652
Operating profit (£m)*	**46**	61	(25)	137
Operating margin (%)	**3.2**	4.4	(1.2) ppts	5.2
Commercial and industrial energy				
Commercial and industrial gas sales (mmth)	**400**	362	10	603
Commercial and industrial electricity sales (GWh)	**15,488**	9,228	68	27,411
Revenue (£m)	**1,311**	712	84	2,015
Operating profit (£m)*	**20**	8	150	11
Operating margin (%)	**1.5**	1.1	0.4 ppts	0.5
Home and business services				
Customer numbers (period end) ('000)	**2,167**	2,112	2.6	2,140
Revenue (£m)	**201**	168	20	375
Operating profit (£m)*	**3**	3	0	16
Operating margin (%)	**1.5**	1.8	(0.3) ppts	4.3
Upstream and wholesale energy				
Gas production volumes (mmth)	**186**	183	1.6	365
Power generated (GWh)	**2,207**	2,346	(6)	4,688
Revenue (£m)	**385**	201	92	782
Operating profit (£m)*	**(3)**	19	nm	51
Direct Energy revenue (£m)	**3,351**	2,452	37	5,824
Direct Energy operating profit (£m)*	**66**	91	(27)	215
Operating margin (%)	**2.0**	3.7	(1.7) ppts	3.7

Direct Energy with comparator year of 2008 restated to remove effect of foreign exchange movements

For the period ended 30 June	H1 2009	H1 2008^	Δ%
Revenue			
Mass markets	**1,454**	1,633	(11)
Commercial and industrial energy	**1,311**	891	47
Home and business services	**201**	201	0
Upstream and wholesale energy	**385**	259	49
Direct Energy revenue	**3,351**	2,984	12
Operating profit*			
Mass markets	**46**	81	(43)
Commercial and industrial energy	**20**	12	67
Home and business services	**3**	4	(25)
Upstream and wholesale energy	**(3)**	23	nm
Direct Energy operating profit*	**66**	120	(45)

^ restated at 2009 weighted average exchange rate

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

Operating Review continued

BRITISH GAS NEW ENERGY

British Gas New Energy further expanded its range of microgeneration technologies during the first half of 2009 with the acquisition of a 19% stake in Econergy, a leading company in the field of biomass heating. The deal includes the right to acquire the remaining share capital of the business over the next four years. The other technologies we invested in last year have continued to make progress. Ceres Power Holdings plc achieved all of the deliverables under the Alpha phase in the development of their fuel cell domestic boiler programme, triggering a £2 million payment. Solar Technologies has recently begun solar thermal installations as well as expanding the existing photovoltaic installation business, and revenues have risen considerably since acquisition. The Government's announced intention to introduce a feed-in tariff in 2010 should strengthen the microgeneration market considerably.

British Gas New Energy is also developing a capability to provide energy efficiency and advice through the development of an assessor workforce. We now have 20 consultants employed and carried out 14,000 insulation surveys in the first half of the year. We continue to deliver British Gas' obligations cost efficiently under CERT through a number of diverse methods and drive British Gas' leadership in delivering energy efficiency to its customer base. The 'Green Streets' campaign ended in March 2009, with streets saving an average of 25% of energy consumption over the one year period, and through our educational 'Generation Green' programme we are encouraging and rewarding greener behaviour from schoolchildren.

From 1 January 2010 British Gas New Energy will become part of the combined British Gas, ensuring that the brand as a whole can leverage the unique green position that British Gas New Energy has established.

DISCONTINUED OPERATIONS

EUROPEAN ENERGY

Our European businesses in Belgium, The Netherlands and Spain are reported as discontinued operations. Combined, these businesses reported a profit*, after interest and tax, of £22 million (2008: £4 million). This includes the fully consolidated result from SPE from 20 January 2009 when the Group's interest in this business increased from 25.5% to 51%. In 2008, SPE was accounted for as an associate.

In Belgium, SPE performed well, benefiting from improved margins downstream due to falling commodity prices, offset by a lower than expected contribution from the Pax Electric 2 arrangements. In The Netherlands, Oxxio continued to face margin pressure competing against vertically integrated incumbent operators and also suffered losses unwinding procurement contracts that were not required as demand was lower than forecast. In Spain, Centrica Energia had another strong performance in the first half.

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

Statement of Directors' Responsibility

The Directors are responsible for preparing the interim financial report for the six month period ended 30 June 2009 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 income 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 financial report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

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

The Directors of Centrica plc are listed in the Group's 2008 Annual Report and Accounts, with the exception of the following changes: Paul Walsh resigned from the Board on 11 May 2009 and Chris Weston joined the Board as an Executive Director on 1 July 2009. A list of current Directors is maintained on the Centrica plc web site which can be found at www.centrica.com.

By order of the Board

Sam Laidlaw
30 July 2009
CHIEF EXECUTIVE

Nick Luff
30 July 2009
GROUP FINANCE DIRECTOR

Independent Review Report to Centrica plc

Introduction

We have been engaged by the Company to review the condensed interim Financial Statements in the interim financial report for the six months ended 30 June 2009, which comprises the Group Income Statement, Group Statement of Comprehensive Income, Group Balance Sheet, Group Statement of Changes in Equity, Group Cash Flow Statement and related notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the condensed interim Financial Statements.

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Review conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim Financial Statements in the interim report for the six months ended 30 June 2009 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
1 Embankment Place
London
WC2N 6RH
30 July 2009

Notes

(a) The maintenance and integrity of the Centrica plc web site is the responsibility of the Directors; the work carried out by PricewaterhouseCoopers LLP does not involve consideration of these matters and, accordingly, PricewaterhouseCoopers LLP accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the web site.
(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Condensed interim Financial Statements

Group Income Statement

Six months ended 30 June	Notes	2009 Results for the period before exceptional items and certain re-measurements (i) £m	2009 Exceptional items and certain re-measurements (i) £m	2009 Results for the period £m	2008 (restated) (ii), (iii), (iv), (v) Results for the period before exceptional items and certain re-measurements (i) £m	2008 (restated) Exceptional items and certain re-measurements (i) £m	2008 (restated) Results for the period £m
Continuing operations							
Group revenue (ii)	6	**11,657**	**–**	**11,657**	9,677	–	9,677
Cost of sales before exceptional items and certain re-measurements (ii)		**(9,412)**	**–**	**(9,412)**	(7,594)	–	(7,594)
Exceptional items	7	**–**	**(194)**	**(194)**	–	–	–
Re-measurement of energy contracts (i)	7	**–**	**(233)**	**(233)**	–	1,861	1,861
Cost of sales (ii)		**(9,412)**	**(427)**	**(9,839)**	(7,594)	1,861	(5,733)
Gross profit		**2,245**	**(427)**	**1,818**	2,083	1,861	3,944
Operating costs		**(1,312)**	**–**	**(1,312)**	(1,096)	–	(1,096)
Share of profits in joint ventures and associates, net of interest and taxation		**3**	**–**	**3**	2	–	2
Group operating profit	6	**936**	**(427)**	**509**	989	1,861	2,850
Interest income	8	**309**	**–**	**309**	144	–	144
Interest expense (iii)	8	**(370)**	**–**	**(370)**	(140)	–	(140)
Net interest (expense)/income	8	**(61)**	**–**	**(61)**	4	–	4
Profit from continuing operations before taxation		**875**	**(427)**	**448**	993	1,861	2,854
Taxation on profit from continuing operations	9	**(337)**	**122**	**(215)**	(578)	(558)	(1,136)
Profit from continuing operations after taxation		**538**	**(305)**	**233**	415	1,303	1,718
Discontinued operations	10	**22**	**(37)**	**(15)**	4	83	87
Profit for the period		**560**	**(342)**	**218**	419	1,386	1,805
Attributable to:							
Equity holders of the parent		**537**	**(335)**	**202**	418	1,386	1,804
Minority interests		**23**	**(7)**	**16**	1	–	1
		560	**(342)**	**218**	419	1,386	1,805
		Pence		**Pence**	Pence		Pence
Earnings per ordinary share (iii),(iv),(v)							
From continuing and discontinued operations:							
Basic	11			**4.0**			43.6
Adjusted basic	11	10.5			10.1		
Diluted	11			**3.9**			43.0
From continuing operations:							
Basic	11			**4.5**			41.5
Adjusted basic	11	10.5			10.0		
Diluted	11			**4.5**			40.9
Interim dividend to be paid per ordinary share (v)	12			**3.66**			3.47
Prior year final dividend paid per ordinary share (v)	12			**8.73**			8.59

(i) Certain re-measurements (notes 3 and 7) included within operating profit comprise re-measurement arising on energy procurement activities and re-measurement of proprietary trades in relation to cross-border transportation or capacity contracts. Certain re-measurements included within profit from discontinued operations comprise re-measurement arising on energy procurement activities of discontinued operations (note 10). All other re-measurements are included within results before exceptional items and certain re-measurements.
(ii) Group revenue and cost of sales have been restated to report gas sales revenue of Centrica Storage net of cost of sales to better reflect the nature of the transactions, as explained in the Group's Annual Report and Accounts 2008.
(iii) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) as explained in note 3.
(iv) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation as explained in note 10.
(v) Earnings per ordinary share and dividend per ordinary share figures have been restated to reflect the bonus element of the Rights Issue in December 2008. Details of the Rights Issue are provided in the Group's Annual Report and Accounts 2008.

The notes on pages 31 to 53 form part of these condensed interim Financial Statements.

Condensed interim Financial Statements

Group Statement of Comprehensive Income

Six months ended 30 June	Notes	2009 £m	2008 £m
Profit for the period		**218**	1,805
Other comprehensive income:			
Gains/(losses) on revaluation of available-for-sale securities	16	**39**	(9)
Taxation on revaluation of available-for-sale securities	16	**(9)**	1
		30	(8)
Unrealised (losses)/gains on cash flow hedges	16	**(327)**	1,025
Transferred to income and expense on cash flow hedges	16	**162**	(20)
Transferred to assets and liabilities on cash flow hedges	16	**(7)**	–
Exchange adjustments	16	**14**	(2)
Taxation on cash flow hedges	16	**43**	(311)
		(115)	692
Exchange differences on translation of foreign operations	16	**36**	1
Taxation on related exchange differences	16	**(23)**	–
		13	1
Actuarial losses on defined benefit pension schemes	19	**(182)**	(492)
Taxation on actuarial losses on defined benefit pension schemes	19	**51**	136
		(131)	(356)
Other comprehensive income, net of taxation		**(203)**	329
Total comprehensive income for the period		**15**	2,134
Total comprehensive income for the period is attributable to:			
Equity holders of the parent		**(1)**	2,133
Minority interests		**16**	1
		15	2,134

The notes on pages 31 to 53 form part of these condensed interim Financial Statements.

Group Balance Sheet

	Notes	30 June 2009 £m	31 December 2008 (restated) (i), (ii) £m	30 June 2008 (restated) (i), (ii) £m
Non-current assets				
Goodwill		**1,348**	1,510	1,135
Other intangible assets		**585**	671	497
Property, plant and equipment (i)		**4,631**	4,689	4,101
Interests in joint ventures and associates		**98**	330	305
Deferred tax assets		**286**	311	13
Trade and other receivables		**23**	34	95
Derivative financial instruments (ii)	13	**440**	869	2,566
Securities		**152**	35	49
Retirement benefit assets	19	**5**	73	–
		7,568	8,522	8,761
Current assets				
Inventories		**371**	412	307
Current tax assets		**46**	39	46
Trade and other receivables		**3,893**	5,335	3,731
Derivative financial instruments (ii)	13	**839**	1,156	3,153
Securities		**359**	63	50
Cash and cash equivalents		**2,659**	2,939	1,662
		8,167	9,944	8,949
Assets of disposal groups classified as held-for-sale	10	**2,983**	–	–
Total assets		**18,718**	18,466	17,710
Current liabilities				
Trade and other payables		**(2,722)**	(4,364)	(4,261)
Current tax liabilities		**(414)**	(365)	(551)
Bank overdrafts, loans and other borrowings	14	**(180)**	(330)	(468)
Derivative financial instruments (ii)	13	**(2,116)**	(2,670)	(1,666)
Provisions for other liabilities and charges		**(34)**	(29)	(132)
		(5,466)	(7,758)	(7,078)
Net current assets		**2,701**	2,186	1,871
Non-current liabilities				
Trade and other payables		**(62)**	(67)	(69)
Bank loans and other borrowings	14	**(4,591)**	(3,218)	(1,567)
Derivative financial instruments (ii)	13	**(1,230)**	(1,529)	(1,487)
Deferred tax liabilities		**(221)**	(448)	(1,380)
Retirement benefit obligations	19	**(182)**	(186)	(279)
Provisions for other liabilities and charges		**(921)**	(865)	(644)
		(7,207)	(6,313)	(5,426)
Liabilities of disposal groups classified as held-for-sale	10	**(1,392)**	–	–
Net assets		**4,653**	4,395	5,206
Equity				
Called up share capital	15	**316**	315	229
Share premium account		**761**	729	718
Retained earnings (i)		**2,543**	2,782	2,787
Accumulated other comprehensive (loss)/income	16	**(243)**	(40)	875
Other equity	17	**656**	549	537
Shareholders' equity		**4,033**	4,335	5,146
Minority interests in equity		**620**	60	60
Total minority interests and shareholders' equity		**4,653**	4,395	5,206

(i) Restated to capitalise borrowing costs on the adoption of IAS 23 (Amendment) as explained in note 3.
(ii) Restated to classify the non-current portions of derivative financial instruments from current assets and liabilities to non-current assets and liabilities as explained in note 3.

The notes on pages 31 to 53 form part of these condensed interim Financial Statements.

Condensed interim Financial Statements

Group Statement of Changes in Equity

Six months ended 30 June 2009	Share capital (note15) £m	Share premium £m	Retained earnings £m	Accumulated other comprehensive income (note 16) £m	Other equity (note 17) £m	**Total £m**	Minority interests £m	**Total equity £m**
	Attributable to equity holders of the parent							
1 January 2009	315	729	2,782	(40)	549	**4,335**	60	**4,395**
Profit for the period	–	–	202	–	–	**202**	16	**218**
Other comprehensive income	–	–	–	(203)	–	**(203)**	–	**(203)**
	315	729	2,984	(243)	549	**4,334**	76	**4,410**
Employee share schemes	1	32	6	–	(10)	**29**	–	**29**
Arising on consolidation of Segebel S.A.	–	–	–	–	128	**128**	601	**729**
Exchange adjustments	–	–	–	–	(11)	**(11)**	(46)	**(57)**
Dividends paid by subsidiaries	–	–	–	–	–	**–**	(11)	**(11)**
Dividends	–	–	(447)	–	–	**(447)**	–	**(447)**
30 June 2009	**316**	**761**	**2,543**	**(243)**	**656**	**4,033**	620	**4,653**

Six months ended 30 June 2008	Share capital £m	Share premium £m	Retained earnings £m	Accumulated other comprehensive income £m	Other equity £m	Total £m	Minority interests £m	Total equity £m
	Attributable to equity holders of the parent							
1 January 2008	227	685	1,323	546	542	3,323	59	3,382
Profit for the period	–	–	1,804	–	–	1,804	1	1,805
Other comprehensive income	–	–	–	329	–	329	–	329
	227	685	3,127	875	542	5,456	60	5,516
Employee share schemes	2	33	16	–	(5)	46	–	46
Dividends	–	–	(356)	–	–	(356)	–	(356)
30 June 2008	229	718	2,787	875	537	5,146	60	5,206

The notes on pages 31 to 53 form part of these condensed interim Financial Statements.

Group Cash Flow Statement

Six months ended 30 June	Notes	2009 £m	2008 (restated) (i),(ii) £m
Operating cash flow before movements in working capital	18	**1,051**	1,311
Decrease/(increase) in inventories		**35**	(67)
Decrease/(increase) in trade and other receivables		**1,068**	(60)
(Decrease)/increase in trade and other payables		**(942)**	727
Cash generated from continuing operations		**1,212**	1,911
Income taxes paid		**(199)**	(130)
Net petroleum revenue tax paid		**(165)**	(147)
Interest received		**10**	10
Interest paid		**(3)**	(7)
Payments relating to exceptional charges		**(148)**	(66)
Net cash flow from continuing operating activities		**707**	1,571
Net cash flow from discontinued operating activities		**(2)**	(84)
Net cash flow from operating activities		**705**	1,487
Purchase of businesses net of cash and cash equivalents acquired	20	**(410)**	(147)
Sale of businesses net of cash and cash equivalents disposed of		**2**	–
Purchase of intangible assets	6	**(284)**	(64)
Disposal of intangible assets		**22**	–
Purchase of property, plant and equipment (i)	6	**(335)**	(333)
Disposal of property, plant and equipment		**1**	12
Investments in joint ventures and associates		**(4)**	(1)
Repayments of loans to joint ventures and associates		**9**	1
Interest received		**20**	11
Net purchase of securities		**(375)**	(19)
Net cash flow from continuing investing activities		**(1,354)**	(540)
Net cash flow from discontinued investing activities		**(248)**	(8)
Net cash flow from investing activities		**(1,602)**	(548)
Issue of ordinary share capital		**15**	30
Purchase of treasury shares		**(3)**	–
Interest paid in respect of bank loans and overdrafts (i)		**(42)**	(23)
Cash inflow from additional debt		**1,537**	38
Cash outflow from payment of capital element of finance leases		**(11)**	(10)
Cash outflow from repayment of other debt		**(266)**	(28)
Net cash flow from increase in debt		**1,260**	–
Realised net foreign exchange loss on cash settlement of net investment hedges		**(25)**	(24)
Realised net foreign exchange loss on cash settlement of other derivative contracts		**(66)**	(25)
Equity dividends paid	12	**(447)**	(356)
Net cash flow from continuing financing activities		**692**	(398)
Net cash flow from discontinued financing activities		**168**	–
Net cash flow from financing activities		**860**	(398)
Net (decrease)/increase in cash and cash equivalents		**(37)**	541
Cash and cash equivalents at 1 January		**2,904**	1,100
Effect of foreign exchange rate changes		**(36)**	1
Cash and cash equivalents at 30 June		**2,831**	1,642
Included in the following lines of the Balance Sheet:			
Cash and cash equivalents		**2,659**	1,662
Bank overdrafts		**(31)**	(20)
Assets of disposal groups classified as held-for-sale	10	**203**	–
		2,831	1,642

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) as explained in note 3.
(ii) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation as explained in note 10.

The notes on pages 31 to 53 form part of these condensed interim Financial Statements.

Notes to the condensed interim Financial Statements

1. GENERAL INFORMATION

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

These condensed interim Financial Statements for the six months ended 30 June 2009 were authorised for issue in accordance with a resolution of the Board of Directors on 30 July 2009. 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 2008 were approved by the Board of Directors on 26 February 2009 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 237 of the Companies Act 1985. The financial information contained in this report is unaudited. The Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the interim period to 30 June 2009, and the Balance Sheet as at 30 June 2009 and related notes have been reviewed by the auditors and their report to the Company is set out on page 25.

2. BASIS OF PREPARATION

These condensed interim Financial Statements for the six months ended 30 June 2009 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, Interim Financial Reporting, as adopted by the European Union. These condensed interim Financial Statements should be read in conjunction with the annual Financial Statements for the year ended 31 December 2008, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

3. ACCOUNTING POLICIES

The accounting policies applied in these condensed interim Financial Statements are consistent with those of the annual Financial Statements for the year ended 31 December 2008, as described in those annual Financial Statements, with the exception of standards, amendments and interpretations effective in 2009. Taxes on income in the interim period are accrued using tax rates that would be applicable to expected total annual earnings for each relevant source of income.

(a) Standards, amendments and interpretations effective in 2009

At the date of authorisation of these condensed interim Financial Statements, the following standards and amendments to existing standards were effective for the current period:

- IAS 23 (Amendment), Borrowing Costs, effective from 1 January 2009. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing such borrowing costs was removed. The Group adopted IAS 23 (Amendment) retrospectively and applied a commencement date of 1 January 2008 for qualifying projects subject to borrowing cost capitalisation, resulting in a decrease in net interest expense of £11 million and an increase in property, plant and equipment of £11 million for the six month period ended 30 June 2009 and a decrease in net interest expense of £2 million and an increase in property, plant and equipment of £2 million (31 December 2008: £9 million) for the six month period ended 30 June 2008;
- IFRS 8, Operating Segments, effective from 1 January 2009. This standard replaces IAS 14, Segment Reporting and requires segmental information reported to be based on that which the Group's Executive Committee uses internally for the purposes of evaluating the performance of the Group's operating segments and making decisions about resource allocation between operating segments. The Group adopted IFRS 8 with effect from 1 January 2009. The adoption of IFRS 8 has not resulted in a change to the Group's reportable segments. Analysis of exceptional items and certain re-measurements is no longer provided on a reported segment basis as this information is not used by the Group's Executive Committee for evaluating the performance of operating segments or allocating resources;
- 'Improvements to IFRSs' contains amendments to various existing standards, most being effective from 1 January 2009. One of these improvements envisions that not all derivative financial instruments be classified as current. The Group has classified those derivatives held the purpose of Energy Procurement and Treasury Management as current or non-current based on expected settlement. Where the derivative is held for proprietary energy trading, it remains classified as current. The Group adopted this improvement with effect from 1 January 2009, prior to which all derivatives held for trading under IAS 39 were classified as current, irrespective of settlement date. This change in accounting has resulted in recognition of non-current derivative financial assets of £440 million, current derivative financial assets of £839 million, current derivative financial liabilities of £2,116 million and non-current derivative financial liabilities of £1,230 million at 30 June 2009. The impact on prior periods has been to report an increase in non-current derivative financial assets of £2,190 million (31 December 2008: £674 million), a decrease in current derivative financial assets of £2,017 million (31 December 2008: £564 million), a decrease in current derivative financial liabilities of £1,313 million (31 December 2008: £1,262 million) and an increase in non-current derivative financial liabilities of £1,486 million (31 December 2008: £1,372 million). The adoption of the remaining 'Improvements to IFRSs' did not result in any changes to the Group's accounting policies; and

3. ACCOUNTING POLICIES CONTINUED

- IAS 1 (Revised), Presentation of Financial Statements, effective from 1 January 2009. The revised standard prohibits the presentation of items of income and expense in the statement of changes in equity, requiring non-shareholder changes in equity to be presented separately from shareholder changes in equity. All non-shareholder changes in equity are required to be presented in a performance statement. IAS 1 (Revised) permits a choice as to whether to present a single performance statement (being a Statement of Comprehensive Income) or two statements (being an Income Statement and a Statement of Comprehensive Income). The Group has elected to present two statements: an Income Statement and a Statement of Comprehensive Income. Other changes introduced by the revised standard include an option to change the titles of the Balance Sheet and Cash Flow Statement to the Statement of Financial Position and the Statement of Cash Flows, respectively, as well as a requirement to give the Statement of Changes in Equity equal prominence to the other Primary Statements. These condensed interim Financial Statements have been prepared under the revised disclosure requirements.

The following amendments to existing standards and interpretations were also effective for the current period, but the adoption of these amendments to existing standards and interpretations did not have a material impact on the Financial Statements of the Group:

- IAS 32 (Amendment), Financial Instruments: Presentation and IAS 1 (Amendment), Presentation of Financial Statements – Puttable financial instruments and obligations arising on liquidation;
- IFRS 1 (Amendment), First-time adoption of IFRS, and IAS 27 (Amendment), Consolidated and Separate Financial Statements;
- IFRS 2 (Amendment), Share Based Payment – Vesting Conditions and Cancellations;
- IFRIC 13, Customer Loyalty Programmes;
- IFRIC 15, Agreements for the Construction of Real Estate; and
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation.

The following amendments to existing standards and interpretations are also effective for annual periods beginning on or after 1 January 2009 (or earlier) but have not yet received EU endorsement. As such, they have not been adopted by the Group within these condensed interim Financial Statements.

- IFRIC 9 (Amendment), Re-assessment of Embedded Derivatives, and IAS 39 (Amendment), Financial Instruments: Recognition and Measurement. The adoption of these amendments is not expected to have a material impact on the Group's Financial Statements;
- IFRS 7 (Amendment), Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments. The impact of adopting this amendment is currently being assessed; and
- IAS 39 (Amendment), Financial Instruments: Recognition and Measurement – Reclassification of Financial Assets.

(b) Standards, amendments and interpretations that are not yet effective and that have not been early adopted by the Group
At the date of authorisation of these condensed interim Financial Statements, the following standards, amendments to existing standards and interpretations issued by the IASB and the IFRIC, which have not been applied in these condensed interim Financial Statements, were in issue but not yet effective:

- IFRS 3 (Revised), Business Combinations, effective for annual periods beginning on or after 1 July 2009;
- Improvements to IFRSs (2009), effective for annual periods beginning on or after 1 July 2009 (or later); and
- IFRS 2 (Amendment), Share Based Payment – Group Cash-settled Share-based Payment Transactions, effective for annual periods commencing on or after 1 January 2010.

The impact of adopting these standards and amendments to existing standards is currently being assessed.

Additionally, the adoption of the following standards, amendments to existing standards and interpretations, which were also in issue at the date of authorisation of these interim condensed Financial Statements but not yet effective, is not expected to result in a change to the Group's accounting policies:

- IAS 27 (Revised), Consolidated and Separate Financial Statements, effective for annual periods beginning on or after 1 July 2009;
- IFRIC 17, Distributions of Non-cash Assets to Owners, effective for annual periods beginning on or after 1 July 2009 subject to EU endorsement;
- IFRIC 18, Transfers of Assets from Customers, applicable prospectively to transfers of assets from customers received on or after 1 July 2009, subject to EU endorsement;
- IAS 39 (Amendment), Financial Instruments: Recognition and Measurement – Eligible Hedged Items, effective for annual periods beginning on or after 1 July 2009 subject to EU endorsement; and
- IFRS 1 (Revised), First-time Adoption of IFRS, effective for annual periods beginning on or after 1 July 2009.

3. ACCOUNTING POLICIES CONTINUED

(c) Income Statement presentation

The Group's Income Statement and segmental note separately identify the effects of re-measurement of certain financial instruments, and items which are exceptional, in order to provide readers with a clear and consistent presentation of the Group's underlying performance, as described below.

Certain re-measurements

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

Many of the energy procurement contracts are held for the purpose of receipt or delivery of commodities in accordance with the Group's purchase, sale or usage requirements and are therefore out of scope of IAS 39. However, a number of contracts are considered to be derivative financial instruments and are required to be fair valued under IAS 39, primarily because their terms include the ability to trade elements of the contracted volumes on a net-settled basis.

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

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

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

These arrangements are managed separately from proprietary energy trading activities where trades are entered into speculatively for the purpose of making profits in their own right. These proprietary trades are included in the results before certain re-measurements.

Exceptional items

As permitted by IAS 1, Presentation of Financial Statements, certain items are presented separately. The items that the Group separately presents as exceptional are items which are of a non-recurring nature and, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance. Items which may be considered exceptional in nature include disposals of businesses, business restructurings, the renegotiation of significant contracts, asset write-downs and provisions for onerous contracts.

4. FINANCIAL RISK MANAGEMENT

During the first six months of 2009, there continued to be significant volatility in commodity prices and many of the markets in which the Group operates continued to experience difficult economic conditions. As a result of these external market factors, the Group continued to encounter significant levels of commodity price risk, credit risk and liquidity risk. The Group continues to manage these risks in accordance with its financial risk management processes and did not incur any additional significant cash costs as a result of the heightened commodity, credit or liquidity risk experienced, although increased provisions for bad debts were recorded during the period to reflect the impact of the global recession on the ability of the Group's downstream customers to pay their debts.

Financial risk management is overseen by the Group Financial Risk Management Committee (FRMC) 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 policies, as approved by the FRMC and the Board. Treasury risk management, including management of currency risk, interest rate risk, equity price 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 credit risks associated with commodity trading and treasury positions are managed in accordance with the Group's counterparty credit policy. Downstream credit risk management is carried out in accordance with individual business unit credit policies.

4. FINANCIAL RISK MANAGEMENT CONTINUED

Commodity price risk management

The decrease in commodity prices in the six months ended 30 June 2009 resulted in mark-to-market losses on certain energy procurement contracts where the purchase price had been locked in by contract. The net loss from continuing operations of £233 million (2008: gain of £1,861 million) on the re-measurement of energy contracts largely represents unrealised mark-to-market losses created by gas and power purchase contracts which are priced above the current wholesale market value of energy. This loss is calculated with reference to forward energy prices and therefore the extent of the economic loss arising over the life of these contracts is uncertain and is 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.

Credit risk management

As a result of the economic recession, the Group is continuing to encounter a high level of credit risk. The Group has put additional resource on managing credit risk in its downstream businesses to mitigate this increased risk. Nevertheless, credit losses from both residential and business customers increased in the UK, and there was a significant increase in charges for bad debts in the Direct Energy mass markets business, in part due to a more conservative provisioning approach.

The Group’s cash balances are invested in accordance with the Board approved financing and treasury policy. This policy sets the maximum limits of exposure to each counterparty according to credit rating and no cash is invested with any counterparty with a rating lower than A- with Standard and Poor’s Rating Services or A3 with Moody’s Investor Services Inc. Group Treasury also monitors market developments with its counterparties and takes this into consideration when choosing where to invest the Group’s cash.

Liquidity risk management and going concern

The Group’s liquidity position has continued to be strong during the first six months of 2009. Cash flows have been volatile as significant movements in commodity prices have seen large movements in the amount of cash required to fund working capital and margin cash balances. At 30 June 2009, the Group was holding £nil (31 December 2008: £43 million, 30 June 2008: £1,093 million) of cash as collateral against counterparty balances, and had pledged £623 million (31 December 2008: £669 million, 30 June 2008: £25 million) of cash as collateral, principally under margin calls to cover exposure to mark-to-market positions on derivative contracts. This position results from a net cash outflow during the six months ended 30 June 2009 of £82 million (2008: £1,063 million inflow) and exchange adjustments of £70 million (2008: £3 million), with £15 million pledged by discontinued operations. Generally, cash paid or received as collateral is interest-bearing and is free from any restriction over its use by the holder. To mitigate the risk from working capital and margin requirements the Group holds cash on deposit and maintains significant committed facilities.

The Group closely monitors, and has a number of treasury policies to manage its 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 ratings 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 of at least £1,200 million less available surplus cash resources, to raise at least 75% of its net debt (excluding non-recourse debt) over £200 million 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 2009, the Group held £2,659 million (31 December 2008: £2,939 million, 30 June 2008: £1,662 million) of cash and cash equivalents and had undrawn committed bank borrowing facilities of £1,250 million plus $375 million (31 December 2008: £1,350 million, 30 June 2008: £1,300 million), plus a committed letter of credit facility for Canadian $200 million (31 December 2008: C$200 million, 30 June 2008: C$nil) made available to the Direct Energy business in North America of which Canadian $83 million was drawn at 30 June 2009 (31 December 2008: C$146 million, 30 June 2008: C$nil). Of the Group’s committed facilities at 30 June 2009, £150 million mature on 1 July 2010, the remainder all mature on 1 April 2012. 272% (31 December 2008: 367%, 30 June 2008: 176%) of the Group’s net debt over £200 million had been raised in the long-term debt market and the average term to maturity of the long-term debt portfolio was 10.0 years (31 December 2008: 9.3 years, 30 June 2008: 7.1 years).

The high level of available cash resources and undrawn committed bank borrowing facilities has enabled the Directors to conclude that the Group has sufficient headroom to continue as a going concern, after taking into account the cash required for the British Energy transaction described below and the potential acquisition of the remaining interest in Venture Production plc, if successful, described in note 24.

The Group’s liquidity position at 30 June 2009 was significantly improved by the £2,164 million of proceeds on the Rights Issue which completed in December 2008. The Rights Issue was undertaken in the expectation of acquiring a stake in Lake Acquisitions Limited (Lake), the owner of the British Energy Group, from Electricité de France S.A. (EdF). On 11 May 2009, the Group announced that it had reached a definitive agreement with EdF whereby the Group will acquire a 20% interest in Lake for £2.3 billion and will dispose of its 100% interest in Segebel S.A. (Segebel) for €1,325 million (£1.2 billion), resulting in a net cash outflow of approximately £1.1 billion, leaving a portion of the Rights Issue proceeds for other acquisition opportunities, for general corporate purposes or for returns to shareholders. These transactions are expected to complete in the second half of the year but are inter-conditional and subject to regulatory approval.

Notes to the condensed interim Financial Statements

5. CAPITAL MANAGEMENT

At 30 June 2009, the Group's long-term credit rating was A3 stable outlook for Moody's Investor Services Inc. (31 December 2008: A3 stable outlook, 30 June 2008: A3 stable outlook) and A- stable outlook for Standard & Poor's Rating Services (31 December 2008: A negative outlook, 30 June 2008: A negative outlook). As expected Standard & Poor's Rating Services downgraded the Group's long-term credit rating to reflect the increased financial risk associated with the announcement that the Group had reached a definitive agreement with Electricité de France S.A. to acquire a 20% interest in Lake as described above.

The Group monitors capital, using a medium term view of three to five years, on the basis of a number of financial ratios generally used by industry and by the rating agencies. This includes monitoring gearing ratios, interest cover and cash flow to debt ratios. The Group is not subject to externally imposed capital requirements but as is common for most companies the level of debt that can be raised is restricted by the Company's Articles of Association. Net debt is limited to the greater of £5 billion and a gearing ratio of three times adjusted capital and reserves. This restriction can be amended or removed by the shareholders of the Company passing an ordinary resolution. The Group's capital structure is managed against the various financial ratios as required to maintain strong credit ratings.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, repurchase shares, issue debt or repay debt.

6. SEGMENTAL ANALYSIS

Six months ended 30 June			2009			2008 (restated) (iii),(iv)
(a) Revenue	Gross segment revenue £m	Less inter-segment revenue (i),(ii) £m	Group revenue £m	Gross segment revenue £m	Less inter-segment revenue (i),(ii) £m	Group revenue £m
Continuing operations:						
British Gas Residential	4,380	–	4,380	3,823	–	3,823
British Gas Business	1,805	–	1,805	1,444	–	1,444
British Gas Services	688	–	688	664	–	664
British Gas	6,873	–	6,873	5,931	–	5,931
Gas production and development (i)	655	(460)	195	925	(688)	237
Power generation (i)	600	(151)	449	583	(305)	278
Industrial and commercial (i)	548	(236)	312	790	(265)	525
Accord energy trading (ii)	44	(6)	38	31	(6)	25
Centrica Energy	1,847	(853)	994	2,329	(1,264)	1,065
Centrica Storage (i),(iii)	124	(29)	95	139	(19)	120
Direct Energy	3,351	–	3,351	2,452	–	2,452
Other operations (iv)	344	–	344	109	–	109
	12,539	(882)	11,657	10,960	(1,283)	9,677
Discontinued operations:						
European Energy (note 10) (iv)	1,353	–	1,353	263	–	263

(i) Inter-segment revenue reflects the level of revenue generated on sales to other Group segments on an arm's length basis.
(ii) The external revenue presented for Accord energy trading comprises both realised (settled) and unrealised (fair value changes) from trading in physical and financial energy contracts. Inter-segment revenue arising in Accord represents the recharge of brokerage fees to other Group segments.
(iii) Gross segment revenue, inter-segment revenue and Group revenue have been restated to report gas sales revenue of Centrica Storage net of cost of sales to better reflect the nature of the transactions as explained in the Group's Annual Report and Accounts 2008.
(iv) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation as explained in note 10. The revenues of the Group's operations in Germany are reported within the Other operations segment.

6. SEGMENTAL ANALYSIS CONTINUED

Six months ended 30 June

(b) Operating profit

	2009 £m	2008 (restated) (i) £m
Continuing operations:		
British Gas Residential	299	166
British Gas Business	65	55
British Gas Services	112	85
British Gas	476	306
Gas production and development	346	638
Power generation	41	(5)
Industrial and commercial	(89)	(156)
Accord energy trading	34	27
Centrica Energy	332	504
Centrica Storage	73	93
Direct Energy	66	91
Other operations (i)	(11)	(5)
Operating profit before exceptional items and certain re-measurements	936	989
Exceptional items (note 7)	(194)	–
Certain re-measurements (note 7)	(233)	1,861
	509	2,850
Discontinued operations:		
European Energy before exceptional items and certain re-measurements (note 10) (i)	50	3

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation as explained in note 10. The operating profit of the Group's operations in Germany is reported within the Other operations segment.

Notes to the condensed interim Financial Statements

6. SEGMENTAL ANALYSIS CONTINUED

(c) Assets and liabilities	Segment assets (restated) (i),(ii) 30 June 2009 £m	31 December 2008 £m	30 June 2008 £m	Segment liabilities (restated) (i) 30 June 2009 £m	31 December 2008 £m	30 June 2008 £m
British Gas Residential (i)	**1,397**	1,457	1,106	**(765)**	(1,263)	(649)
British Gas Business (i)	**1,006**	1,111	906	**(424)**	(561)	(314)
British Gas Services	**246**	239	245	**(150)**	(149)	(161)
British Gas	**2,649**	2,807	2,257	**(1,339)**	(1,973)	(1,124)
Gas production and development (i), (ii)	**1,905**	1,932	1,565	**(704)**	(716)	(525)
Power generation (i)	**2,098**	2,211	2,138	**(156)**	(136)	(243)
Industrial and commercial (i)	**147**	237	232	**(282)**	(131)	(682)
Accord energy trading (i)	**567**	1,074	1,214	**(175)**	(869)	(1,892)
Centrica Energy	**4,717**	5,454	5,149	**(1,317)**	(1,852)	(3,342)
Centrica Storage (i)	**673**	635	524	**(186)**	(211)	(182)
Direct Energy (i)	**2,960**	3,741	2,777	**(752)**	(1,037)	(1,157)
Other operations (i),(iii)	**210**	1,003	661	**(209)**	(814)	(373)
	11,209	13,640	11,368	**(3,803)**	(5,887)	(6,178)
Deferred tax assets/(liabilities)	**286**	311	13	**(221)**	(448)	(1,380)
Derivative financial instruments held for energy procurement (i)	**1,161**	1,710	4,822	**(3,346)**	(3,880)	(2,280)
Current tax assets/(liabilities)	**46**	39	46	**(414)**	(365)	(551)
Short-term deposits and securities	**3,109**	2,950	1,677	**–**	–	–
Assets/(liabilities) of disposal groups held-for-sale (iii)	**2,983**	–	–	**(1,392)**	–	–
Bank overdrafts and loans	**–**	–	–	**(4,771)**	(3,548)	(2,035)
Retirement benefit assets/(obligations)	**5**	73	–	**(182)**	(186)	(279)
Other	**5**	4	9	**(22)**	(18)	(26)
Non-operating assets/(liabilities)	**7,595**	5,087	6,567	**(10,348)**	(8,445)	(6,551)
	18,804	18,727	17,935	**(14,151)**	(14,332)	(12,729)
Less inter-segment (receivables)/payables	**(86)**	(261)	(225)	**86**	261	225
	18,718	18,466	17,710	**(14,065)**	(14,071)	(12,504)

(i) Restated to exclude segmental analysis of derivative assets and liabilities associated with certain re-measurements as explained in note 3.
(ii) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) as explained in note 3.
(iii) Assets and liabilities of disposal groups classified as held-for-sale are being held by discontinued operations as explained in note 10. Prior period balances for discontinued operations are reported in the Other operations segment. Discontinued operations previously formed part of the European Energy segment.

Notes to the condensed interim Financial Statements

6. SEGMENTAL ANALYSIS CONTINUED

(d) Net segment assets and average capital employed

	Net segment assets			Average capital employed		
	30 June 2009 £m	31 December 2008 £m	30 June 2008 £m	**Six months ended 30 June 2009 £m**	Year ended 31 December 2008 £m	Six months ended 30 June 2008 £m
British Gas Residential	**632**	194	457	**745**	318	473
British Gas Business	**582**	550	592	**633**	506	507
British Gas Services	**96**	90	84	**80**	75	83
British Gas	**1,310**	834	1,133	**1,458**	899	1,063
Gas production and development	**1,201**	1,216	1,040	**835**	731	726
Power generation	**1,942**	2,075	1,895	**1,705**	1,545	1,458
Industrial and commercial	**(135)**	106	(450)	**(14)**	(165)	(164)
Accord energy trading	**392**	205	(678)	**176**	(254)	(292)
Centrica Energy	**3,400**	3,602	1,807	**2,702**	1,857	1,728
Centrica Storage	**487**	424	342	**351**	344	329
Direct Energy	**2,208**	2,704	1,620	**2,644**	1,910	1,630
Other operations (i)	**1**	189	288	**(13)**	298	278
	7,406	7,753	5,190	**7,142**	5,308	5,028
Deferred tax assets/(liabilities)	**65**	(137)	(1,367)			
Net derivative financial instruments held for energy procurement	**(2,185)**	(2,170)	2,542			
Current tax liabilities	**(368)**	(326)	(505)			
Short-term deposits and securities	**3,109**	2,950	1,677			
Net assets of disposal groups held-for-sale (i)	**1,591**	–	–			
Bank overdrafts and loans	**(4,771)**	(3,548)	(2,035)			
Retirement benefit obligations	**(177)**	(113)	(279)			
Other	**(17)**	(14)	(17)			
Non-operating (liabilities)/assets	**(2,753)**	(3,358)	16			
	4,653	4,395	5,206			

(i) Net assets of disposal groups classified as held-for-sale are being held by discontinued operations as explained in note 10. Prior period balances for discontinued operations are reported in the Other operations segment. Discontinued operations previously formed part of the European Energy segment.

Capital employed represents the investment required to operate each of the Group's segments. Capital employed is used by the Group to calculate the return on capital employed for each of the Group's segments as part of the Group's managing for value concept. Additional value is created when the return on capital employed exceeds the cost of capital. Net segment assets of the Group can be reconciled to the Group's capital employed as follows:

	Six months ended 30 June 2009 £m	Year ended 31 December 2008 £m	Six months ended 30 June 2008 £m
Net segment assets at end of period	**7,406**	7,753	5,190
Add back/(deduct):			
Derivative financial instruments held for proprietary energy trading or treasury management	**(118)**	4	(24)
Assets under construction	**(940)**	(825)	(734)
Cash at bank, in transit and in hand	**(61)**	(87)	(84)
Effect of averaging month-end balances	**855**	(1,537)	680
Average capital employed for period	**7,142**	5,308	5,028

Notes to the condensed interim Financial Statements

6. SEGMENTAL ANALYSIS CONTINUED

(e) Capital expenditure

Six months ended 30 June	Capital expenditure on property, plant and equipment 2009 £m	Capital expenditure on property, plant and equipment 2008 (restated) (ii),(iii) £m	Capital expenditure on intangible assets other than goodwill (i) 2009 £m	Capital expenditure on intangible assets other than goodwill (i) 2008 (restated) (iii) £m
Continuing operations:				
British Gas Residential	–	–	8	5
British Gas Business	–	1	2	–
British Gas Services	12	5	3	–
British Gas	12	6	13	5
Gas production and development (ii)	129	71	33	9
Power generation	73	213	34	30
Industrial and commercial	5	–	36	8
Accord energy trading	–	–	–	–
Centrica Energy	207	284	103	47
Centrica Storage	28	8	–	–
Direct Energy	68	31	13	10
Other operations (iii)	–	1	6	2
Additions	315	330	135	64
Decrease in prepayments related to capital expenditure	(2)	(27)	–	–
Unrealised gains on cash flow hedges transferred from reserves	3	–	–	–
Decrease in trade payables related to capital expenditure	19	30	149	–
Net cash outflow	335	333	284	64

(i) See note 20 for additions to goodwill.
(ii) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) as explained in note 3.
(iii) Restated to exclude the European Energy segment, with the exception of the Group's operations in Germany, from continuing operations as explained in note 10. The capital expenditure of the Group's operations in Germany are reported within the Other operations segment.

7. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

(a) Exceptional items for the six months ended 30 June (note 3)

	2009 £m	2008 £m
Continuing operations:		
Termination of energy sales contract (i)	(139)	–
Provision for Direct Energy wind power purchase agreements (ii)	(55)	–
Exceptional items included within Group operating profit	(194)	–
Taxation on exceptional items	60	–
Net exceptional items after taxation	(134)	–

(b) Certain re-measurements for the six months ended 30 June (note 3)

	2009 £m	2008 £m
Certain re-measurements recognised in relation to energy contracts		
Net gains/(losses) arising on delivery of contracts	688	(41)
Net (losses)/gains arising on market price movements and new contracts	(1,039)	1,912
Net losses arising on positions in relation to cross-border transportation or capacity contracts	(17)	(10)
Reversal of certain re-measurements in relation to the termination of energy sales contracts (i)	135	–
Net re-measurement included within Group operating profit	(233)	1,861
Taxation on certain re-measurements	62	(558)
Net re-measurement after taxation from continuing operations	(171)	1,303
Discontinued operations:		
Fair value (losses)/gains on energy contracts of discontinued operations (note 10)	(37)	83

(i) During the six months ended 30 June 2009, an exceptional charge of £139 million was recognised in relation to the termination of an out-of-the-money energy sales contract in the Industrial and commercial segment of Centrica Energy with a negative fair value of £135 million that was reversed on termination.
(ii) During the six months ended 30 June 2009, an exceptional charge of £55 million was recognised in relation to wind power purchase agreements in Direct Energy to reflect the fair value of the obligation to purchase power above its net realisable value.

8. NET INTEREST

Six months ended 30 June	2009 Interest expense £m	2009 Interest income £m	2009 Total £m	2008 (restated) (i) Interest expense £m	2008 (restated) (i) Interest income £m	2008 (restated) (i) Total £m
Continuing operations						
Cost of servicing net debt						
Interest income	–	35	35	–	43	43
Interest expense on bank loans and overdrafts	(123)	–	(123)	(51)	–	(51)
Interest expense on finance leases	(11)	–	(11)	(12)	–	(12)
	(134)	35	(99)	(63)	43	(20)
(Losses)/gains on revaluation						
(Losses)/gains on fair value hedges	(35)	36	1	(12)	12	–
Fair value (losses)/gains on other derivatives	(5)	218	213	(36)	51	15
Net foreign exchange translation of monetary assets and liabilities	(198)	–	(198)	(14)	–	(14)
	(238)	254	16	(62)	63	1
Other interest						
Notional interest arising on discounted items	(9)	13	4	(8)	29	21
Interest on cash collateral balances	–	4	4	(9)	1	(8)
Interest on supplier early payment arrangements	–	3	3	–	8	8
	(9)	20	11	(17)	38	21
	(381)	309	(72)	(142)	144	2
Capitalised borrowing costs (i), (ii)	11	–	11	2	–	2
Interest (expense)/income	(370)	309	(61)	(140)	144	4

(i) Restated to capitalise borrowing costs on adoption of IAS 23 (Amendment) as explained in note 3.
(ii) Borrowing costs on qualifying assets have been capitalised using an average rate of 5.78% (2008: 6.20%).

9. TAXATION

Six months ended 30 June	2009 Results for the period before exceptional items and certain re-measurements £m	2009 Exceptional items and certain re-measurements £m	2009 Results for the period £m	2008 Results for the period before exceptional items and certain re-measurements £m	2008 Exceptional items and certain re-measurements £m	2008 Results for the period £m
The tax charge comprises:						
UK corporation tax (including adjustments in respect of prior years)	245	(75)	170	290	366	656
UK petroleum revenue tax	70	–	70	267	–	267
Foreign tax (including adjustments in respect of prior years)	22	(47)	(25)	21	192	213
Total tax on profit from continuing operations (i)	337	(122)	215	578	558	1,136

(i) Total tax on profit from continuing operations excludes taxation on the Group's share of profits in joint ventures and associates.

The Group's effective tax rate on a continuing basis before exceptional items and certain re-measurements decreased to 39% for the six months ended 30 June 2009 (2008: 58%) mainly as a result of the change in profit mix towards greater downstream contributions.

10. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS

(a) Discontinued operations

On 11 May 2009, the Group announced that it had reached a definitive agreement with Electricité de France S.A. (EDF) whereby the Group will acquire a 20% interest in Lake Acquisitions Limited, owner of British Energy, for £2.3 billion and will dispose of its 100% interest in Segebel S.A. (Segebel) for €1,325 million (£1.2 billion). The Group acquired its controlling interest in Segebel in January 2009, as described in note 20. These transactions are expected to complete in the second half of the year but are inter-conditional and subject to regulatory approval.

10. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS CONTINUED

In addition, as part of the Group's wider strategic review of the European Energy segment management has approved and initiated a plan to sell Oxxio B.V. (Oxxio) in The Netherlands and Centrica Energia S.L. (Centrica Energia) in Spain within 12 months from the balance sheet date. Segebel, Oxxio and Centrica Energia comprise the substantial majority of the European Energy segment. The remainder of the European Energy segment, being the Group's operations in Germany, will remain as part of the Group and are reported within the Other operations segment. The operations of Segebel in Belgium, Oxxio in The Netherlands and Centrica Energia in Spain represented the Group's complete operations in those geographical areas. As a result, the European Energy segment, with the exception of the Group's operations in Germany, has been treated as a discontinued operation for the six months ended 30 June 2009. A single amount is shown on the face of the Income Statement comprising the after-tax result of the discontinued operation. An analysis of the results of the European Energy segment presented as discontinued operations in the Group Income Statement is as follows:

			2009			2008
Six months ended 30 June	Results for the period before exceptional items and certain re-measurements (i) £m	Exceptional items and certain re-measurements (i) £m	Results for the period £m	Results for the period before exceptional items and certain re-measurements (i) £m	Exceptional items and certain re-measurements (i) £m	Results for the period £m
Revenue	1,353	–	1,353	263	–	263
Cost of sales before exceptional items and certain re-measurements	(1,176)	–	(1,176)	(244)	–	(244)
Re-measurement of energy contracts (i)	–	(46)	(46)	–	112	112
Cost of sales	(1,176)	(46)	(1,222)	(244)	112	(132)
Gross profit	177	(46)	131	19	112	131
Operating costs	(129)	–	(129)	(22)	–	(22)
Share of profits/(losses) in joint ventures and associates, net of interest and taxation	2	(4)	(2)	6	–	6
Operating profit	50	(50)	–	3	112	115
Net interest expense	(7)	–	(7)	–	–	–
Profit/(loss) before taxation	43	(50)	(7)	3	112	115
Taxation on profit	(21)	13	(8)	1	(29)	(28)
Profit/(loss) after taxation from discontinued operations	22	(37)	(15)	4	83	87
Attributable to:						
Equity holders of the parent	–	(30)	(30)	4	83	87
Minority interests	22	(7)	15	–	–	–
	22	(37)	(15)	4	83	87

(i) Certain re-measurements (notes 3 and 7) included within profit from discontinued operations comprise re-measurement arising on energy procurement activities of discontinued operations. All other re-measurements are included within results before exceptional items and certain re-measurements.

10. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS CONTINUED

(b) Disposal groups classified as held-for-sale

The assets and liabilities related to the discontinued operations of the European Energy segment have been presented as held-for-sale on the face of the Balance Sheet and presented separately from the assets and liabilities of the Group's continuing operations following the announcement on 11 May 2009 to sell Segebel and the plan to sell Oxxio in The Netherlands and Centrica Energia in Spain, all described in part (a) above. Details of assets and liabilities related to the discontinued operations of the European Energy segment and presented as held-for-sale at 30 June 2009 are as follows:

	£m
Goodwill	307
Other intangible assets	480
Property, plant and equipment	1,084
Deferred tax assets	67
Trade and other receivables: non-current	204
Derivative financial instruments: non-current	55
Retirement benefit assets	–
Inventories	16
Trade and other receivables: current	490
Derivative financial instruments: current	77
Cash and cash equivalents	203
Assets of disposal groups held-for-sale	**2,983**
Trade and other payables: current	(349)
Bank overdrafts, loans and other borrowings: current	(23)
Derivative financial instruments: current	(196)
Provisions for other liabilities and charges: current	–
Trade and other payables: non-current	(40)
Bank loans and other borrowings: non-current	(248)
Derivative financial instruments: non-current	(95)
Deferred tax liabilities	(329)
Retirement benefit obligations	(16)
Provisions for other liabilities and charges: non-current	(96)
Liabilities of disposal groups held-for-sale	**(1,392)**
Net assets of disposal groups held-for-sale	**1,591**
Shareholders' equity	**1,032**
Minority interests in disposal groups held-for-sale	559
Total minority interests and shareholders' equity	**1,591**

11. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share has been calculated by dividing the profit attributable to equity holders of the parent for the period by the weighted average number of ordinary shares in issue during the period of 5,113 million (2008: 4,140 million). The weighted average number of ordinary shares outstanding for the 2008 period has been adjusted to reflect the bonus element of the Rights Issue in December 2008. Details of the Rights Issue are provided in the Group's Annual Report and Accounts 2008. The reconciliation of basic to adjusted basic earnings per ordinary share is as follows:

Six months ended 30 June	2009		2008 (restated) (i)	
(a) Continuing and discontinued operations	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings – basic	202	4.0	1,804	43.6
Net exceptional items after tax (notes 3 and 7)	134	2.6	–	–
Certain re-measurement losses and (gains) after tax (notes 3 and 7)	201	3.9	(1,386)	(33.5)
Earnings – adjusted basic	537	10.5	418	10.1
Earnings – diluted	202	3.9	1,804	43.0
Earnings – adjusted diluted	537	10.4	418	10.0

Six months ended 30 June	2009		2008 (restated) (i)	
(b) Continuing operations	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings – basic	232	4.5	1,717	41.5
Net exceptional items after tax (notes 3 and 7)	134	2.6	–	–
Certain re-measurement losses and (gains) after tax (notes 3 and 7)	171	3.4	(1,303)	(31.5)
Earnings – adjusted basic	537	10.5	414	10.0
Earnings – diluted	232	4.5	1,717	40.9
Earnings – adjusted diluted	537	10.4	414	9.9

Six months ended 30 June	2009		2008 (restated) (i)	
(c) Discontinued operations	£m	Pence per ordinary share	£m	Pence per ordinary share
(Loss)/earnings – basic	(30)	(0.5)	87	2.1
(Loss)/earnings – diluted	(30)	(0.6)	87	2.1

(i) Restated to capitalise borrowing costs as explained in note 3, to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation as explained in note 10 and to reflect the bonus element of the Rights Issue in December 2008. Details of the Rights Issue are provided in the Group's Annual Report and Accounts 2008.

Certain re-measurements (notes 3 and 7) included within operating profit comprise re-measurement arising on energy procurement activities and re-measurement of proprietary trades in relation to cross-border transportation or capacity contracts. All other re-measurements are included within results before exceptional items and certain re-measurements.

12. DIVIDENDS

The prior year final dividend of 8.73 pence (2008: 8.59 pence) per ordinary share was paid on 10 June 2009 (2008: 11 June) totalling £447 million (2008: £356 million).

An interim dividend of 3.66 pence (2008: 3.47 pence) per ordinary share totalling £188 million (2008: £144 million) will be paid on 11 November 2009 (2008: 12 November).

Notes to the condensed interim Financial Statements

13. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments entered into for the purpose of energy procurement are, for the most part, entered into on behalf of the Group's upstream and downstream businesses by Accord Energy Trading in the UK and the Group's equivalent trading business in North America. The Group's proprietary energy trading businesses act as broker for the Group's energy procurement activities and will effectively transact on their behalf at market prices, thereby creating both an internal and external position. The Group's proprietary energy trading businesses manage the net commodity price risk exposure associated with these internal and external positions on a net basis together with physical and financial commodity purchase and sales contracts taken on with the intent of benefiting in the short-term from changes in market prices or differences between buying and selling prices within volumetric and VaR limits established by the Group Financial Risk Management Committee and approved by the Board. As a result, the proprietary trading positions of Accord Energy Trading and the North American trading businesses are reported in the table below on a net basis, with the remaining gross asset and liability position being reported as being held for the purpose of energy procurement.

	30 June 2009 £m	31 December 2008 (restated) (i) £m	30 June 2008 (restated) (i) £m
Derivative financial instruments – held for proprietary energy trading			
Energy derivatives – assets	**103**	119	854
Energy derivatives – liabilities	**(1)**	(6)	(842)
	102	113	12
Derivative financial instruments – held for the purposes of treasury management or energy procurement			
Derivative financial instruments – held for trading under IAS 39			
Energy derivatives – assets	**841**	1,409	3,664
Energy derivatives – liabilities	**(2,709)**	(3,338)	(2,192)
Interest rate derivatives – assets	**4**	2	2
Interest rate derivatives – liabilities	**(5)**	(19)	(3)
Foreign exchange derivatives – assets	**165**	200	40
Foreign exchange derivatives – liabilities	**(44)**	(295)	(38)
	(1,748)	(2,041)	1,473
Energy contracts designated at fair value through profit and loss			
Energy derivatives – assets	**–**	109	64
Energy derivatives – liabilities	**(98)**	(95)	(62)
	(98)	14	2
Derivative financial instruments in hedge accounting relationships			
Energy derivatives – assets	**–**	24	1,073
Energy derivatives – liabilities	**(454)**	(365)	(3)
Interest rate derivatives – assets	**78**	62	2
Interest rate derivatives – liabilities	**(11)**	(4)	(10)
Foreign exchange derivatives – assets	**88**	100	20
Foreign exchange derivatives – liabilities	**(24)**	(77)	(3)
	(323)	(260)	1,079
Net total	**(2,067)**	(2,174)	2,566

The net total reconciles to the Balance Sheet as follows:

	30 June 2009 £m	31 December 2008 (restated) (i) £m	30 June 2008 (restated) (i) £m
Derivative financial instruments – non-current assets	**440**	869	2,566
Derivative financial instruments – current assets	**839**	1,156	3,153
	1,279	2,025	5,719
Derivative financial instruments – current liabilities	**(2,116)**	(2,670)	(1,666)
Derivative financial instruments – non-current liabilities	**(1,230)**	(1,529)	(1,487)
	(3,346)	(4,199)	(3,153)
Net total	**(2,067)**	(2,174)	2,566

(i) Restated to classify the non-current portions of derivative financial instruments from current assets and liabilities to non-current assets and liabilities.

Notes to the condensed interim Financial Statements

14. BANK OVERDRAFTS, LOANS AND OTHER BORROWINGS

	Interest rate %	Principal m	30 June 2009 Current £m	30 June 2009 Non-current £m	30 June 2009 Total £m	31 December 2008 Current £m	31 December 2008 Non-current £m	31 December 2008 Total £m
Bank overdrafts and loans			38	651	689	52	429	481
Bonds (by maturity date)								
9 March 2009	4.129	£250	–	–	–	253	–	253
9 September 2009 (i)	1.000	£100	100	–	100	–	–	–
2 November 2012	6.103	£400	–	426	426	–	416	416
27 February 2013	1.045	¥3,000	–	20	20	–	23	23
9 December 2013	7.307	€750	–	671	671	–	718	718
10 December 2014 (ii)	5.274	£350	–	352	352	–	–	–
24 October 2016	5.706	£300	–	317	317	–	316	316
19 September 2018 (iii)	7.100	£400	–	438	438	–	340	340
10 March 2022 (iv)	7.197	£400	–	401	401	–	–	–
4 September 2026 (v)	6.400	£150	–	148	148	–	153	153
19 September 2033 (vi)	7.250	£770	–	803	803	–	447	447
			100	3,576	3,676	253	2,413	2,666
Commercial paper			20	–	20	4	–	4
Obligations under finance leases			22	364	386	21	376	397
			180	4,591	4,771	330	3,218	3,548

	Interest rate %	Principal m	30 June 2008 Current £m	30 June 2008 Non-current £m	30 June 2008 Total £m
Bank overdrafts and loans			54	309	363
Bonds (by maturity date)					
25 July 2008	3.500	€75	61	–	61
8 September 2008	Floating	€100	80	–	80
9 March 2009	4.129	£250	252	–	252
2 November 2012	6.103	£400	–	404	404
27 February 2013	1.045	¥3,000	–	15	15
24 October 2016	5.706	£300	–	300	300
4 September 2026 (v)	Floating	£150	–	153	153
			393	872	1,265
Obligations under finance leases			21	386	407
			468	1,567	2,035

(i) Issued for £100 million on 9 March 2009.
(ii) Issued for £250 million on 10 March 2009 and increased by £50 million on 24 March 2009 and by an additional £50 million on 17 April 2009.
(iii) Principal amount was increased by £100 million on 29 January 2009.
(iv) Issued on 10 March 2009.
(v) Fixed at 6.40%. Previously floating but capped at 6.854%.
(vi) Principal amount was increased by £150 million on 20 February 2009, by £70 million on 1 April 2009 and by £100 million on 8 June 2009.

Notes to the condensed interim Financial Statements

15. CALLED UP SHARE CAPITAL

	30 June 2009 £m	31 December 2008 £m	30June 2008 £m
Authorised share capital of the Company			
9,000,000,000 ordinary shares of $6^{14}/_{81}$p each (31 December 2008: 7,000,000,000, 30 June 2008 4,455,000,000 ordinary shares of $6^{14}/_{81}$p each)	**556**	432	275
100,000 cumulative redeemable preference shares of £1 each	**–**	–	–
Allotted and fully paid share capital of the Company			
5,123,878,004 ordinary shares of $6^{14}/_{81}$p each (31 December 2008: 5,107,658,569, 30 June 2008: 3,707,858,032 ordinary shares of $6^{14}/_{81}$p each)	**316**	315	229

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

Six months ended 30 June	2009 Number	2008 Number
1 January [(i)]	**5,107,658,569**	3,679,980,311
Issued under employee share schemes	**16,219,435**	27,877,721
30 June	**5,123,878,004**	3,707,858,032

(i) Increase from 30 June 2008 to 1 January 2009 primarily reflects the Rights Issue in December 2008 as explained in the Group's Annual Report and Accounts 2008.

The closing price of a Centrica ordinary share on 30 June 2009 was 223.00 pence (31 December 2008: 266.00 pence, 30 June 2008: 276.19 pence after adjusting for the bonus element of the Rights Issue for both periods).

16. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Available-for-sale revaluation reserve £m	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Actuarial gains and losses reserve £m	Total £m
1 January 2009	(15)	(219)	(24)	218	**(40)**
Exchange differences on translation of foreign operations	–	14	36	–	**50**
Actuarial losses on retirement benefit obligations (note 19)	–	–	–	(182)	**(182)**
Net gains on revaluation of available-for-sale securities	39	–	–	–	**39**
Cash flow hedges:					
Net fair value losses	–	(327)	–	–	**(327)**
Transferred to income and expense	–	162	–	–	**162**
Transferred to assets and liabilities	–	(7)	–	–	**(7)**
Tax on above items	(9)	43	(23)	51	**62**
30 June 2009	**15**	**(334)**	**(11)**	**87**	**(243)**

	Available-for-sale revaluation reserve £m	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Actuarial gains and losses reserve £m	Total £m
1 January 2008	3	51	(14)	506	546
Exchange differences on translation of foreign operations	–	(2)	1	–	(1)
Actuarial losses on retirement benefit obligations	–	–	–	(492)	(492)
Net losses on revaluation of available-for-sale securities	(9)	–	–	–	(9)
Cash flow hedges:					
Net fair value gains	–	1,025	–	–	1,025
Transfers to income and expense	–	(20)	–	–	(20)
Tax on above items	1	(311)	–	136	(174)
30 June 2008	(5)	743	(13)	150	875

17. OTHER EQUITY

	Revaluation reserve £m	Treasury shares £m	Share-based payments reserve £m	Merger reserve £m	Capital redemption reserve £m	**Total £m**
1 January 2009	10	(10)	66	467	16	**549**
Employee share schemes:						
Increase in treasury shares	–	(4)	–	–	–	**(4)**
Exercise of awards	–	1	(24)	–	–	**(23)**
Value of services provided	–	–	17	–	–	**17**
Consolidation of Segebel S.A. (note 20)	128	–	–	–	–	**128**
Exchange adjustments	(10)	–	(1)	–	–	**(11)**
30 June 2009	**128**	**(13)**	**58**	**467**	**16**	**656**

	Revaluation reserve £m	Treasury shares £m	Share-based payments reserve £m	Merger reserve £m	Capital redemption reserve £m	Total £m
1 January 2008	10	(2)	51	467	16	542
Employee share schemes:						
Increase in treasury shares	–	(1)	–	–	–	(1)
Exercise of awards	–	1	(21)	–	–	(20)
Value of services provided	–	–	16	–	–	16
30 June 2008	10	(2)	46	467	16	537

18. NOTES TO THE GROUP CASH FLOW STATEMENT

(a) Reconciliation of Group operating profit to operating cash flow before movements in working capital for the six months ended 30 June

	2009 £m	2008 (restated) (i) £m
Continuing operations		
Group operating profit including share of result of joint ventures and associates	**509**	2,850
Less: Share of profits of joint ventures and associates	**(3)**	(2)
Group operating profit before share of profits of joint ventures and associates	**506**	2,848
Add back/(deduct):		
Amortisation and write-down of intangible assets	**46**	38
Depreciation of property, plant and equipment	**275**	266
Employee share scheme costs	**17**	16
Profit on sale of businesses	**(4)**	–
Profit on sale of property, plant and equipment and other intangible assets	**–**	(1)
Movement in provisions	**(46)**	(31)
Re-measurement of energy contracts (ii)	**256**	(1,825)
Unrealised foreign exchange gains on operating cash and cash equivalents	**1**	–
Operating cash flow before movements in working capital	**1,051**	1,311

(i) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation as explained in note 10.
(ii) Adds back/(deducts) unrealised losses/(profits) arising from re-measurement of energy contracts, including those related to proprietary trading activities.

Notes to the condensed interim Financial Statements

18. NOTES TO THE GROUP CASH FLOW STATEMENT CONTINUED

(b) Net debt	30 June 2009 £m	31 December 2008 £m	30 June 2008 £m
Current borrowings (note 14)	(180)	(330)	(468)
Non-current borrowings (note 14)	(4,591)	(3,218)	(1,567)
Less:			
Cash and cash equivalents	2,659	2,939	1,662
Securities – current (i)	71	63	50
Securities – non-current	152	35	49
	(1,889)	(511)	(274)

(i) Excludes carrying value of investment in Venture Production plc of £288 million because the Group does not anticipate using the securities held to manage its liquidity position.

Six months ended 30 June

(c) Reconciliation of net increase in cash and cash equivalents to movement in net debt	2009 £m	2008 £m
Net (decrease)/increase in cash and cash equivalents	(37)	541
Assets of disposal groups classified as held-for-sale	(203)	–
	(240)	541
Add back/(deduct):		
Net purchase of securities	375	19
Purchase of investment in Venture Production plc not included in net debt	(258)	–
Cash inflow from additional debt	(1,537)	(38)
Cash outflow from payment of capital element of finance leases	11	10
Cash outflow from repayment of other debt	266	28
	(1,383)	560
Revaluation of:		
Available-for-sale financial securities (i)	9	(9)
Loans and other borrowings	32	13
	(1,342)	564
Increase in interest payable on loans and other borrowings	(99)	(16)
Acquisitions	–	(19)
Exchange adjustments	64	(9)
Other non-cash movements	(1)	1
Movement in net debt	(1,378)	521
Net debt at 1 January	(511)	(795)
Net debt at end of period	(1,889)	(274)

(i) Excludes revaluation of investment in Venture Production plc of £30 million because the carrying value of the investment is not included in net debt.

19. RETIREMENT BENEFIT OBLIGATIONS

A substantial majority of the Group's UK employees at 30 June 2009 were members of one of the three main schemes: the Centrica Pension Scheme, the Centrica Engineers' Pension Scheme and the Centrica Pension Plan (formerly known as the Centrica Management Pension Scheme) (together the approved pension schemes). Further information on the approved pension schemes and other pension schemes is provided in the Group's Annual Report and Accounts 2008. The latest full actuarial valuations were carried out at the following dates: the approved pension schemes at 31 March 2006, the Unapproved Pension Scheme at 6 April 2008 and the Direct Energy Marketing Limited pension plan at 14 June 2008. These have been updated to 30 June 2009 for the purposes of meeting the requirements of IAS 19.

On 1 January 2009, the active members of the Centrica Pension Scheme were transferred to the Centrica Pension Plan and the liabilities and assets were accordingly transferred with effect from this date. There was no tax effect arising on the transfer.

The Company has agreed with the trustees of the Centrica Pension Scheme and the Centrica Pension Plan that it will provide collateral equal to the 31 December IAS 19 deficits two months after the relevant financial year or make additional contributions. At 31 December 2008, the IAS 19 net deficit on these two schemes totalled £94 million. The agreements provide that a charge over assets or letters of credit from a bank with a minimum credit rating of AA will be acceptable collateral for the trustees. The Company has provided a charge over certain assets in this regard.

Notes to the condensed interim Financial Statements

19. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Major assumptions used for the actuarial valuation	30 June 2009 %	31 December 2008 %	30 June 2008 %
Rate of increase in employee earnings	**4.60**	4.30	4.90
Rate of increase in pensions in payment and deferred pensions	**3.60**	3.30	3.90
Discount rate	**6.90**	6.70	6.20
Inflation assumption	**3.60**	3.30	3.90

Demographic assumptions remain unchanged from 31 December 2008.

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

	30 June 2009 £m	31 December 2008 £m	30 June 2008 £m
UK equities	**911**	884	1,113
Non-UK equities	**937**	996	1,108
Fixed-interest bonds	**479**	404	414
Index-linked bonds	**339**	258	363
Property	**48**	55	69
Cash and other assets	**60**	45	89
Total fair value of plan assets	**2,774**	2,642	3,156
Present value of defined benefit obligation	**(2,951)**	(2,755)	(3,435)
Net liability recognised in the Balance Sheet	**(177)**	(113)	(279)
Associated deferred tax asset recognised in the Balance Sheet	**51**	30	78
Net pension liability	**(126)**	(83)	(201)
Net liability recognised in the Balance Sheet comprises:			
Surpluses	**5**	73	–
Deficits	**(182)**	(186)	(279)
	(177)	(113)	(279)

Included within the schemes' liabilities above are £25 million (31 December 2008: £24 million, 30 June 2008: £29 million) relating to unfunded pension arrangements. Included within non-current securities are £33 million (31 December 2008: £26 million, 30 June 2008: £25 million) of investments, held by the Law Debenture Trust on behalf of the Company, as security in respect of the Centrica Unapproved Pension Scheme.

Analysis of the amount charged to operating profit for the six months ended 30 June	2009 £m	2008 £m
Current service cost	**38**	51
Past service credit	**–**	(3)
Loss on curtailment	**3**	–
Net charge to operating profit	**41**	48

Analysis of the amount credited to notional interest for the six months ended 30 June	2009 £m	2008 £m
Expected return on pension scheme assets	**104**	120
Interest on pension scheme liabilities	**(93)**	(93)
Net credit to notional interest income	**11**	27

Analysis of the actuarial loss recognised in the Statement of Comprehensive Income for the six months ended 30 June	2009 £m	2008 £m
Actual return less expected return on pension scheme assets	**(82)**	(402)
Experience losses arising on the scheme liabilities	**(75)**	(2)
Changes in assumptions underlying the present value of the schemes' liabilities	**(25)**	(88)
Actuarial loss to be recognised in the Statement of Comprehensive Income before adjustment for tax	**(182)**	(492)
Cumulative actuarial gains before tax recognised in equity at 1 January	**324**	723
Cumulative actuarial gains before tax recognised in equity at 30 June	**142**	231

20. BUSINESS COMBINATIONS

During the period the Group acquired 50% of the issued share capital of Segebel S.A. (Segebel). Other smaller acquisitions are described in section (b).

The purchase method of accounting was adopted in all cases. The assets and liabilities acquired and their fair values are shown below. The residual excess of cash consideration over the net assets acquired on each acquisition is recognised as goodwill in the interim Financial Statements. The fair values disclosed are provisional because the Directors have not yet reached a final determination on all aspects of the fair value exercise.

(a) Segebel

On 20 January 2009, the Group acquired 50% of the issued share capital of Segebel for total consideration of €591 million (£544 million), including deferred consideration of €70 million (£62 million) and transaction costs of €6 million (£6 million), bringing the Group's total ownership interest in Segebel to 100%. The transaction results in the Group acquiring a controlling interest in Segebel, and it has therefore been consolidated as a subsidiary from the date of acquisition. Segebel holds a controlling stake of 51% in SPE S.A. (SPE), a Belgian energy company. As such, this transaction also results in the Group obtaining a controlling interest in SPE. The acquired business contributed a profit after tax of £28 million for the period from 20 January 2009 to 30 June 2009, as included within discontinued operations in the Group Income Statement.

The provisional fair values of the consolidated assets and liabilities of Segebel, including 100% of the assets and liabilities of SPE, as at the acquisition date are disclosed below. In order to calculate goodwill arising from the acquisition, the minority interests in SPE (49%) are eliminated from the consolidated net assets in order to present the net assets attributable to Segebel, of which the Group has acquired 50%.

The book values of the assets and liabilities have been adjusted to align with the fair values of the assets and liabilities acquired. Adjustments have been made in respect of other intangible assets, primarily to recognise a nuclear power purchase agreement and contractual customer relationships at fair value, to property, plant and equipment in order to recognise power generation assets at their fair value, to trade and other receivables in order to recognise in-the-money 'own use' energy procurement contracts at fair value, to trade and other payables in order to recognise out-of-the-money 'own use' energy procurement contracts at fair value and to deferred tax in order to recognise amounts arising on the fair value adjustments made.

A number of revisions to the fair values disclosed in the 2008 Annual Report and Accounts were made. The key factors that led to these fair value revisions are described below. In addition to the revisions described below, other smaller revisions reduced the fair value of net assets of SPE by £5 million. The revisions resulted in an overall reduction in the fair value of net assets of SPE at the date of acquisition of £22 million.

	Key factors	Increase/ (decrease) in fair value of net assets of SPE at acquisition date £m
Other intangible assets	Updated assumptions and estimates within the intangible assets valuation models for customer relationships and a power purchase agreement.	(77)
Property, plant and equipment	Updated assumptions and expectations in respect of key inputs used in the valuation models for power generation assets.	(13)
Trade and other receivables	Updated assumptions and expectations in respect of key inputs used in the valuation models for in-the-money 'own use' energy procurement contracts.	8
Trade and other payables	Updated assumptions and expectations in respect of key inputs used in the valuation models for out-of-the-money 'own use' energy procurement contracts.	96
Derivative financial instruments	Updated assumptions and expectations in respect of key inputs used in the valuation models for acquired energy procurement contracts.	(45)
Net deferred tax liabilities	Changes in the fair value adjustments, resulting in a change in deferred tax liabilities arising as part of the business combination.	14

Goodwill of £226 million arises principally in relation to incremental benefits expected to arise from the Pax Electrica II arrangements, as well as the recognition of deferred tax on the fair value adjustments.

Notes to the condensed interim Financial Statements

20. BUSINESS COMBINATIONS CONTINUED

	IFRS carrying values pre-acquisition £m	Fair value £m
Other intangible assets	201	499
Property, plant and equipment	342	927
Trade and other receivables: non-current	43	195
Inventories	25	29
Trade and other receivables: current	435	520
Cash and cash equivalents	134	134
Trade and other payables: current	(365)	(403)
Bank overdrafts, loans and other borrowings: current	(14)	(16)
Net derivative financial instruments: current	(65)	(75)
Trade and other payables: non-current	–	(44)
Bank loans and other borrowings: non-current	(88)	(88)
Net derivative financial instruments: non-current	(35)	(35)
Deferred tax assets/(liabilities)	22	(315)
Retirement benefit obligations	(17)	(17)
Provisions for other liabilities and charges: non-current	(78)	(84)
Net assets (100%)	540	1,227
Minority interests in SPE		(601)
Net assets attributable to Segebel shareholders (51%)		626
Net assets of SPE acquired		313
Other net assets of Segebel acquired (cash and cash equivalents)		5
Total net assets acquired (50%)		318
Goodwill		226
Total consideration		**544**
Consideration comprises:		
Transaction costs		**6**
Deferred consideration (paid during the period)		**62**
Cash consideration		**476**

(b) Other acquisitions

The Group also acquired Econergy Ltd on 31 March 2009 (consideration £1 million, goodwill £1 million) and Energy and Building Management Solutions Ltd on 29 May 2009 (consideration £3 million, goodwill £3 million). The acquired businesses contributed a profit after tax of £nil to the Group from their respective dates of acquisition up to 30 June 2009.

The pro forma consolidated results of the Group, as if the 2009 acquisitions had been made at the beginning of the period, include revenue from continuing operations of £11,659 million (compared to reported Group revenue of £11,657 million), excluding the revenue of Segebel that has been reported in discontinued operations for the period, and an after tax profit of £198 million, including a £370 million loss relating to exceptional items and certain re-measurements (compared to reported profit of £218 million including a £342 million loss relating to exceptional items and certain re-measurements). In preparing the pro forma results, revenue and costs have been included as if the businesses were acquired on 1 January 2009 and inter-company transactions had been eliminated. This information is not necessarily indicative of the results of the combined Group that would have occurred had the purchases actually been made at the beginning of the period presented, or indicative of the future results of the combined Group.

As explained in note 10, the Group has reached agreement to dispose of its interest in Segebel.

Notes to the condensed interim Financial Statements

21. COMMITMENTS AND CONTINGENCIES

(a) Commitments

Commitments in relation to the acquisition of property, plant and equipment	30 June 2009 £m	31 December 2008 £m	30 June 2008 £m
Redevelopment of Statfjord gas field	**77**	62	81
Construction of a power station at Langage	**46**	64	143
Other gas field developments	**49**	60	–
Construction of Lynn and Inner Dowsing wind farms	**2**	5	39
Other	**32**	79	131
	206	270	394

Commitments in relation to the acquisition of intangible assets	30 June 2009 £m	31 December 2008 £m	30 June 2008 £m
Renewable obligation certificates	**1,125**	1,058	1,036
Carbon emissions certificates	**426**	399	435
Certified emission reduction certificates	**118**	139	191
Other	**127**	83	68
	1,796	1,679	1,730

Commitments in relation to other contracts	30 June 2009 £m	31 December 2008 £m	30 June 2008 £m
Liquefied natural gas capacity	**750**	783	754
Transportation and transmission capacity	**773**	829	685
Outsourcing of services	**311**	216	149
Other	**313**	355	185
	2,147	2,183	1,773

Commitments in relation to commodity purchase contracts	30 June 2009 £m	31 December 2008 £m	30 June 2008 £m
Within one year	**12,471**	15,202	15,600
Between one and five years	**20,388**	23,267	30,300
After five years	**8,660**	11,210	10,800
	41,519	49,679	56,700

(b) Contingent liabilities

There are no material contingent liabilities.

22. RELATED PARTY TRANSACTIONS

	2009			2008		
Period ended 30 June	Sale of goods and services £m	Purchase of goods and services £m	Other transactions £m	Sale of goods and services £m	Purchase of goods and services £m	Other transactions £m
Barrow Offshore Wind Limited	**–**	**8**	**1**	–	9	1
Braes of Doune Wind Farm (Scotland) Limited	**–**	**8**	**–**	–	8	–
The Consumers' Waterheater Income Fund	**45**	**–**	**1**	38	–	1
	45	**16**	**2**	38	17	2

22. RELATED PARTY TRANSACTIONS CONTINUED

	30 June 2009			31 December 2008		
	Amounts owed from related parties £m	Amounts owed to related parties £m	Provision for bad or doubtful debt relating to amounts owed from related parties £m	Amounts owed from related parties £m	Amounts owed to related parties £m	Provision for bad or doubtful debt relating to amounts owed from related parties £m
Barrow Offshore Wind Limited	**15**	**4**	**–**	16	4	–
Braes of Doune Wind Farm (Scotland) Limited	**26**	**3**	**–**	32	8	–
The Consumers' Waterheater Income Fund	**8**	**–**	**–**	5	–	–
	49	**7**	**–**	53	12	–

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

23. SEASONALITY OF OPERATIONS

Certain activities of the Group are affected by weather and temperature conditions. As a result of this, amounts reported for the six months ended 30 June 2009 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 and North America is driven primarily by heating load and is generally higher in the winter than in the summer, and higher from January to June than from July to December. Customer demand for electricity in the UK generally follows a similar pattern to gas, but is more stable. Customer demand for electricity in North America is also more stable than gas but is driven by heating load in the winter and cooling load in the summer. Generally demand for electricity in North America is higher in the winter and summer than it is in the spring and autumn, and higher from July to December than it is from January to June.

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

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

Power generation volumes are dependent on spark spread prices, which is the difference between the price of electricity and the price of gas multiplied by a conversion rate and, as a result, are not as seasonal as gas production volumes in the UK, as wholesale prices for both gas and electricity are generally higher in the winter than they are in the summer. Power generation volumes in North America are generally higher in the summer than in the winter and can be higher or lower from January to June compared to July to December.

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

24. EVENTS AFTER THE BALANCE SHEET DATE

In March 2009 the Group acquired a 23.6% stake in Venture Production plc (Venture) for cash consideration of £258 million. On 10 July 2009 the Group made a cash offer at 845 pence per share to acquire the remaining share capital of Venture. The Group subsequently increased its shareholding to the maximum level permitted, under Rule 5 of the Takeover Panel Code, to 29.9%.

Disclosures

Disclaimers

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

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

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

For further information

Centrica will hold its 2009 Interim Results presentation for analysts and institutional investors at 9.30am (UK) on Thursday **30th July 2009**. There will be a live audio webcast of the presentation and slides from 9.30am at www.centrica.com/investors.

A live audio broadcast of the presentation will be available by dialling in using the following number:
+44 (0)1452 556 620

The call title is "**Centrica Plc 2009 - Half Year Results 2009**" and the conference ID is **19776777**.

An archived webcast and full transcript of the presentation and the question and answer session will be available on the website on Friday 31 July.

Enquiries

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Financial Calendar

Ex-dividend date for 2009 interim dividend	23 September 2009
Record date for 2009 interim dividend	25 September 2009
2009 Interim dividend payment date	11 November 2009
Interim Management Statement	12 November 2009
2009 Prelim results announcement	25 February 2010

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