Interim results for the period ended 30 June 2018

IAIN CONN, GROUP CHIEF EXECUTIVE

"In a first half in which we experienced rapidly rising commodity prices, extreme weather patterns, continued competitive pressures and ongoing political and regulatory uncertainty, Centrica demonstrated resilience from its portfolio of businesses. We delivered stable gross margin and EBITDA relative to 2017, and adjusted operating cash flow of £1.1bn. We are on track to achieve our full year Group financial targets and expect to maintain the full year dividend per share at its current level, subject to delivering adjusted operating cash flow and net debt in line with our target ranges.

We continue to make progress on implementing our strategy. We have developed new propositions and delivery capabilities in both customer divisions and our cost efficiency programme is on track. Although we are awaiting the final outcome of regulation to impose a temporary cap on all default tariffs for residential customers in the UK, we have plans in place to manage this. Our focus remains on performance delivery and financial discipline."

H1 PERFORMANCE AND FULL YEAR OUTLOOK

- Stable adjusted gross margin and EBITDA relative to H1 2017. Adjusted operating cash flow of £1.1bn, down 11%, including impact of working capital outflows due to cold weather and wholesale commodity price increases.
- Full year adjusted operating cash flow currently expected to be higher than 2017, within the targeted £2.1-£2.3bn range, and net debt expected to be within the targeted £2.5-£3bn range for 2018.
- Full year dividend per share expected to be maintained at 12.0p, subject to delivering adjusted operating cash flow and net debt in line with our target ranges.
- H1 2018 adjusted operating profit down 4%. Profit recovery in E&P from higher commodity prices and Rough field production, largely offsetting lower profit in the customer-facing divisions.
- H1 2018 adjusted EPS down 22% to 6.4p, impacted by a higher adjusted effective tax rate of 39%.
- Centrica Consumer adjusted operating profit down 20%. Rising wholesale energy costs have put pressure on UK energy supply margins, and extreme cold weather resulted in additional costs in UK services. Consumer account holdings down 1% in H1 2018, but rate of losses slowed compared to 2017. UK services accounts stable.
- Centrica Business adjusted operating profit down 57%. Strong underlying performance in EM&T but losses as expected from legacy gas contracts reduced overall EM&T profit. Good recovery in UK Business vs H2 2017 and strong order-book growth in DE&P. Continued weakness in North America Business power retail book as previously signalled. North America Business forward book higher for 2019.
- Awaiting final regulations imposing a temporary default tariff cap in the UK. Continue to engage constructively while implementing mitigating actions.

PROGRESS ON IMPLEMENTING THE STRATEGY

- Resilience from Centrica's diverse portfolio of businesses. Focus on performance delivery and financial discipline.
- Demonstrating new sources of gross margin growth. Improved customer segmentation, enhanced propositions, focus on customer lifetime value. Connected Home gross revenue up 31% and DE&P order book up 47% compared to H1 2017.
- Continued strong cost efficiency delivery with £92m of efficiencies delivered in H1 2018. On track to deliver £200m of savings for the full year, taking cumulative annual savings relative to 2015 to around £900m.
- Spirit Energy successfully established, providing cash flow diversity and balance sheet strength for the Group.

GROUP FINANCIAL SUMMARY

Six months ended 30 June	**2018**	2017	Change
Revenue	**£15.3bn**	£14.3bn	7%
Adjusted gross margin	**£2,256m**	£2,242m	1%
EBITDA	**£1,324m**	£1,291m	3%
Adjusted operating profit	**£782m**	£814m	(4%)
Adjusted effective tax rate	**39%**	30%	9ppt
Adjusted earnings for the period attributable to shareholders	**£358m**	£447m	(20%)
Adjusted basic earnings per share (EPS)	**6.4p**	8.2p	(22%)
Interim dividend per share	**3.6p**	3.6p	0%
Adjusted operating cash flow	**£1,101m**	£1,242m	(11%)
Underlying adjusted operating cash flow growth	**(15%)**	(3%)	nm
Group net debt	**£2,886m**	£2,941m	(2%)
Statutory operating profit	**£704m**	£250m	182%
Statutory profit for the period attributable to shareholders	**£238m**	£42m	467%
Statutory net cash flow from operating activities	**£876m**	£1,109m	(21%)
Net exceptional items after taxation included in statutory profit	**(£169m)**	(£268m)	37%
Basic earnings per share	**4.3p**	0.8p	438%

Prior period results have been restated on transition to IFRS 15. See notes 3, 4 and 9 to the Financial Statements and pages 56 to 58 for an explanation of the use of adjusted performance measures.

Group Metrics

Six months ended 30 June	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked) [1]	**1.13**	1.03	10%
Brand Net Promoter Score (NPS)			
Consumer			
UK Home	**(2)**	2	(4pt)
North America Home	**32**	23	9pt
Business			
UK Business	**(13)**	(11)	(2pt)
North America Business	**32**	29	3pt
Customer account holdings (period end)			
Consumer			
Energy supply and services (‘000s)	**24,055**	25,450	(5%)
Connected Home cumulative customers (‘000s)	**1,035**	660	57%
Business			
Energy supply (‘000s)	**1,223**	1,309	(7%)
DE&P active customer sites	**5,120**	4,236	21%
Total customer energy consumption			
Gas (mmth)	**6,940**	6,518	6%
Electricity (GWh)	**64,922**	64,495	1%
Energy use per Home energy customer (kWh)			
UK	**5,037**	4,645	8%
North America	**14,773**	13,735	8%
Annualised cost per Home customer (£) [2]			
UK	**101**	92	10%
North America	**168**	173	(3%)
Growth revenue (Connected Home, DE&P) (£m) [3]	**105**	106	(1%)
European E&P total production volumes (mmboe) [4]	**32.0**	23.5	36%
Controllable operating costs (£m) [5]	**1,286**	1,240	4%
Controllable operating costs as a % of underlying adjusted gross margin	**57%**	58%	(1ppt)
Direct Group headcount (period end) [6]	**31,939**	35,191	(9%)
Adjusted operating cash flow (£m)	**1,101**	1,242	(11%)
Underlying adjusted operating cash flow growth [7]	**(15%)**	(3%)	nm
Group net investment (£m) [7]			
Capital expenditure (including acquisitions)	**493**	385	28%
Net disposals	**(30)**	(254)	88%
Group net investment (£m)	**463**	131	253%
ROACE (post-tax) [8]	**nm**	nm	nm
Adjusted gross margin (£m)			
Centrica Consumer	**1,399**	1,517	(8%)
Centrica Business	**507**	585	(13%)
E&P	**350**	140	150%
Total adjusted gross margin (£m)	**2,256**	2,242	1%
Adjusted operating profit (£m)	**782**	814	(4%)
Adjusted earnings (£m)	**358**	447	(20%)
Adjusted earnings per share (pence)	**6.4p**	8.2p	(22%)

Prior period results have been restated on transition to IFRS 15.

1. Group and business unit total recordable injury frequency rate (per 200,000 hours worked) is on a 12 month rolling basis.
2. Annualised cost per Home customer is controllable operating costs and controllable cost of sales (costs which management deem can be directly influenced and excluding items such as commodity costs and transmission and distribution costs) per the total of holdings, installs and on demand jobs. 2017 North America annualised cost per Home account restated for foreign exchange movements.
3. Growth revenue is gross revenue for both Connected Home and Distributed Energy & Power.
4. E&P total production volumes relate to European volumes only following the disposal of Canadian and Trinidad and Tobago assets in 2017. E&P volumes include 100% share of Spirit Energy assets owned in partnership with Stadtwerke München and volumes from Rough.
5. Controllable operating costs exclude depreciation and amortisation, smart metering and solar expenses, dry hole costs, profit on fixed asset disposals, business performance impairments (other than credit losses on financial assets), the impact of portfolio changes and foreign exchange movements. Total like-for-like controllable costs as referenced in the Group Overview and Business Review sections is controllable operating costs, excluding growth investment in Connected Home and Distributed Energy & Power, and controllable cost of sales, excluding the impact of portfolio changes, foreign exchange movements and growth investment in Connected Home and Distributed Energy & Power. 2017 restated to reflect foreign exchange movements and portfolio changes.
6. Direct Group headcount excludes contractors, agency and outsourced staff.
7. See pages 56 to 58 for an explanation of the use of adjusted performance measures.
8. ROACE (post-tax) is reported annually.

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Group Overview

OVERVIEW

Centrica demonstrated resilience from its portfolio of businesses in the first half of 2018, against a backdrop of rapidly rising commodity prices, extreme weather patterns, continued competitive pressures, and ongoing political and regulatory uncertainty. Adjusted gross margin and EBITDA were stable, with increases in E&P offsetting a reduction from the customer-facing divisions. Adjusted operating cash flow was down 11% to £1,101m, including approximately £200m year-on-year impact of net working capital outflows due to cold weather and wholesale commodity increases.

For the full year we expect adjusted operating cash flow to be higher than in 2017, and within our targeted range of £2.1-£2.3bn. Full year capital expenditure is expected to be no more than £1.1bn, reflecting our continued focus on capital discipline, and net debt is expected to be within our 2018 targeted range of £2.5-£3.0bn. We expect to maintain the full year dividend per share at its current level of 12.0p, subject to delivering adjusted operating cash flow and net debt in line with our targeted ranges.

We continued our strong cost efficiency delivery and remain on track to deliver £200m of savings in 2018. We are making encouraging progress in demonstrating new sources of gross margin growth in Centrica Consumer and Centrica Business, with the introduction of new products and propositions in response to the changing needs of our customers, the development of enhanced customer segmentation and a stronger focus on customer life-time value. The rate of reduction in Consumer account holdings slowed relative to both H1 and full-year 2017, despite our April announcement of an energy price increase in the UK. We are seeing gross margin growth coming through in our North America Home Services, Connected Home and Distributed Energy & Power businesses. In E&P, Spirit Energy has been successfully established, creating a stronger and more sustainable European E&P business which is pursuing value through capture of synergies and portfolio optimisation.

Safety performance was mixed, with a total recordable injury frequency rate higher than in H1 2017, significantly due to musculoskeletal injuries in our smart meter programme in the UK. Process safety outputs continued to improve with a tier 1 & 2 process safety incident rate of 0.06 per 200,000 hours worked compared to 0.14 a year earlier. In customer service, Brand net promoter scores (NPS) were broadly stable overall while total energy supply complaints were lower across the UK, Ireland and North America in H1 2018 compared to H1 2017. In UK services, we experienced an increase in services customer complaints following cold weather in Q1, although these have now returned to more normal levels.

Although we are awaiting the final outcome of regulation to impose a temporary price cap on all default tariffs for domestic customers in the UK, we continue to engage constructively with the Regulator and Government while implementing mitigating actions. Our focus for 2018-2020 remains on performance delivery and financial discipline.

H1 2018 FINANCIAL PERFORMANCE

Centrica Consumer

Centrica Consumer adjusted gross margin of £1,399m was down 8% and adjusted operating profit of £430m was down 20% compared to H1 2017, with most of the reduction in UK Home. In UK Home energy supply, we saw increased energy consumption due to the cold weather in Q1, but were negatively impacted by the full period impact of the UK prepayment cap which was implemented in April 2017, a lower number of energy account holdings, and higher commodity and non-commodity costs which were not fully reflected in retail tariffs. This was mitigated by the implementation of a standard tariff price rise in May. However, energy prices have continued to rise since we announced our price rise in April, and a number of competitors have since increased prices. We are keeping the movement of wholesale energy prices and their impact on our cost of supply under review.

In UK Home services, the impact of extreme cold weather in February and early March resulted in additional one-time call out and associated costs of around £15m. In addition, we have invested for growth, including in our digital platform-enabled on-demand services offering, Local Heroes. For the full year, we are assuming a return to more normal weather conditions while we also expect cost efficiencies to accelerate in H2 2018.

Ireland reported lower adjusted operating profit, reflecting the first major maintenance outage at the Whitegate gas-fired power station since it was commissioned in 2010, and the impact of rising commodity prices on energy supply margins. Whitegate has seen improved operating performance since returning to service in May, while a standard tariff price increase averaging 5% for a dual fuel customer will take effect in August. North America Home reported higher adjusted operating profit, reflecting improved services performance and the impact of our exit from the loss-making residential solar business in H2 2017. Connected Home gross revenue was up 31% and gross margin was up 67% compared to H1 2017, and we saw a 15% increase in the cumulative number of Connected Home customers over

Group Overview continued

the first half and a 21% increase in product sales. The business reported a similar level of adjusted operating loss to H1 2017 reflecting continued revenue investment for growth.

Centrica Business

Centrica Business adjusted gross margin of £507m was down 13% and adjusted operating profit of £96m was down 57% compared to H1 2017. An improved performance from UK Business due to further cost efficiency, stable small and medium enterprise (SME) account holdings and no repeat of the negative impact of electricity cost volatility in H1 2017 was more than offset by reductions in the other business units. North America Business returned to profitability having made a loss in H2 2017, with strong performance in gas optimisation as the business captured value in the in the cold weather environment in Q1. However, retail power net margins on multi-year fixed price contracts signed in earlier periods continued to be squeezed by the timing effect of capacity market charges in the US North East that were higher in this period and will be lower in subsequent periods. We currently expect gross margin to improve in H2 2018 relative to H1 2018, and we are seeing a return towards more historically normal unit net margins in future periods, with 2019 margin under contract ahead of where 2018 margin under contract was at this time last year.

Distributed Energy & Power (DE&P) revenue was slightly down, however gross margin was up 15% reflecting improved project delivery. Our leading indicators demonstrate significant momentum, with order intake up 119% compared to the same period in 2017, and the order book 47% higher compared to H1 2017. As a result, we expect strong revenue growth in H2 2018 as a higher proportion of the order book translates into revenue. DE&P reported an increased adjusted operating loss, reflecting continued investment for growth. Energy Marketing & Trading (EM&T) adjusted operating profit from the core activities of route-to-market, trading and LNG was up, reflecting strong performance during periods of cold weather and commodity volatility. However, as previously indicated, our legacy flexible gas contracts were loss-making after making a profit in H1 2017 and as a result EM&T adjusted operating profit was lower overall. Central Power Generation adjusted operating profit also fell, predominantly reflecting the impact of lower nuclear volumes due to certain outages, including on the Hunterston B reactor.

Exploration and Production

E&P, which includes Spirit Energy and Centrica Storage (CSL), delivered adjusted operating profit of £256m in H1 2018, up by £200m or 357% compared to H1 2017. This predominantly reflects the impact of higher commodity prices on achieved gas and liquids prices in Spirit Energy, and significant gas production and adjusted operating profit of £101m from CSL's Rough asset, compared to no production and an operating loss of £43m in H1 2017.

The increase in adjusted operating profit also includes the impact of higher production following the consolidation of the Bayerngas Norge assets into Spirit Energy. However, Spirit Energy production was below our expectations during the first half, predominantly reflecting a higher level of unplanned outages at Morecambe and lower volumes from certain non-operated Norwegian fields. As a result, full year production is now expected to be around 50mmboe. We also saw increased spend on remediation works at Morecambe, and on exploration reflecting increased drilling activity in line with the strategy to maintain a strong and sustainable E&P business through a combination of production excellence, development and exploration.

E&P adjusted operating cash flow was up materially, and with capital expenditure of £231m in line with our expected spend of around £500m for the full year, the E&P business delivered £442m of free cash flow during H1 2018.

Centrica Group

Overall, adjusted gross margin and EBITDA were broadly stable compared to H1 2017 while adjusted operating profit fell by 4%. Group adjusted earnings of £358m were 20% lower than in H1 2017, including the impact of a lower net finance cost reflecting a repurchase of bonds in March but also an increase in the Group adjusted effective tax rate from 30% to 39% predominantly due to a change in profit mix towards the more highly-taxed E&P business and a shift in the mix within E&P towards Norway. Adjusted basic EPS was down 22% to 6.4p. The 2018 interim dividend will be 3.6p, 30% of the 2017 full year dividend in line with established practice.

A net post-tax exceptional charge of £169m was recognised in H1 2018, including costs relating to the repurchase of debt and restructuring costs. Total statutory profit attributable to shareholders of £238m was up from £42m in H1 2017, with lower net exceptional charges and a net profit from the re-measurement of open commodity positions more than offsetting the impact of lower adjusted earnings. Basic EPS was 4.3p compared to 0.8p in H1 2017.

Adjusted operating cash flow reduced by 11% to £1,101m, including working capital outflows reflecting the cold weather in Q1 and increasing commodity prices. After adjusting for commodity and foreign exchange movements, underlying adjusted operating cash flow fell by 15%. Statutory net cash flow from operating activities reduced by 21% to £876m.

Group Overview continued

Group net debt was just under £2.9bn at the end of June 2018. This is an increase of £290m since the start of the year, largely reflecting the working capital outflow. For the full year, we expect net debt to remain within the Group's targeted end-2018 range of £2.5-£3.0bn.

2018-20 FOCUS ON PERFORMANCE DELIVERY AND FINANCIAL DISCIPLINE

The next phase of Centrica's strategic transformation will be focused on performance delivery and financial discipline, as we look to demonstrate customer-led gross margin growth and drive further cost efficiency towards being "the most efficient price setter" in our markets consistent with our desired levels of service and brand positioning.

We will utilise our global divisional structure to improve organisational effectiveness across the Group and, with the energy and services world changing rapidly, particularly in areas of digital and physical technology, we will work to secure the capabilities we will need for 2020 and beyond. At all times, we must also continue our focus on safety, compliance, conduct and operational excellence, including targeting further customer service improvements.

Cost efficiency will continue to deliver a significant underlying contribution to operating profit and cash flow in the near term. However, we need to demonstrate that customer-led gross margin growth will begin to make a larger contribution in the medium term and we are making encouraging progress.

Demonstrating new sources of growth in Centrica Consumer

The rate of losses in account holdings in Centrica Consumer slowed in H1 2018 compared to the average across H1 2017, falling by 226,000, or 1%, with a decline in energy supply accounts partially offset by growth in services and Connected Home. UK energy supply account holdings fell by 341,000, including 50,000 prepayment accounts, largely reflecting market switching trends, while Ireland energy accounts were stable. North America energy supply account holdings fell by 33,000. However, our use of data analytics in North America is allowing us to focus on acquiring and retaining the most valuable customer segments through cost effective channels and we delivered a significant increase in sales to higher usage customers at a lower cost to acquire.

UK services account holdings increased by 13,000, the first time we have delivered growth in H1 since 2011, and growth in Local Heroes, our digital platform enabled on-demand services offering, continued to accelerate. We now have over 7,500 tradespeople signed up to Local Heroes and have completed over 50,000 jobs in total in the UK. In North America services, account holdings increased by 2,000 with further growth in paid protection plans.

We saw further growth in Connected Home products, hubs and subscriptions in H1 2018. We reached 1m customers in May and the cumulative number of customers increased by 135,000 in H1 2018. We also sold 352,000 products in the first six months and have now sold over 2m connected home products in total, nearly twice as many as 12 months ago. This reflects the wider range of products now available on the Hive ecosystem, including our Hive View camera, our advanced hub, Hive Hub 360 and our new GU10 light product range, all of which we launched in H1 2018. We have also introduced subscription options for camera storage, video playback and water leak detection.

We continue to develop and build strategic partnerships. In the UK, we announced a partnership with EE, allowing customers to bundle Hive with their monthly mobile subscription. We have also now expanded Hive into mainland Europe, with our commercial partnership with Italian energy company Eni gas e luce going live in April and the launch of the Hive website in France. Most recently, we entered into a partnership with Wave, a joint venture between Anglian Water and NWG Business, to offer our water leak detection product to their business customers. All the products, services and channels we launched during H1 2018 will be fully available in H2 2018 and we are also planning further launches of products, propositions, subscriptions and partnerships in H2 2018. As a result, we expect growth to accelerate in H2 2018, and for the full year we continue to target a doubling of Connected Home revenue, as well as 500,000 new customers and over 1m product sales.

Across the Consumer division we are investing in the data science that underpins customer segmentation, to understand our customers better and create products and services that are tailored to their needs. Our enhanced capabilities are allowing us to optimise sales and marketing spend towards the most valuable channels and customers, target personalised offers at high value customers, and develop new customer offers, including bundles, that are tailored to different customer segments. We are also increasingly utilising British Gas Rewards, under which we are using digital and data science to personalise offers and rewards for customers. We now have over 1m customers signed up, and for those customers NPS is 6 points higher and customer churn is an estimated 22% lower.

Group Overview continued

Demonstrating new sources of growth in Centrica Business

In UK Business energy supply, the overall rate of account losses in H1 2018 was reduced compared to H1 2017, while the number of higher value SME customers was broadly stable as we enhanced our range of offers through both direct and broker channels using our enhanced customer segmentation capabilities.

In North America Business energy supply, despite the near-term margin pressures we are experiencing in 2018 we retain a strong position with good growth prospects. During H1 2018 we implemented changes in our sales channel mix and products and propositions, including our new Fixed Energy Plus offer, that gives high consuming customers access to real time usage and alerts them when system load is peaking allowing them to proactively reduce their consumption. In addition, system enhancements are providing us with greater granularity of gross margin drivers, underpinning our confidence in our forward order book. We have now completed two small bolt-on acquisitions in line with our strategy, adding customers in our core regions of the US Northeast and Mid-Atlantic and in states in which we have less of a footprint, specifically Indiana, Kentucky, Tennessee and Ohio. These transactions add around 150bcf to our annualised customer gas consumption.

Our EM&T business also continues to build on its strong capability. We are expanding our trading and route-to-market offerings in Europe, while in LNG we signed a non-binding heads of terms agreement to purchase gas from the Mozambique LNG project once it has been constructed, in partnership with Tokyo Gas.

We continue to develop our DE&P capabilities, with all products now marketed under the Centrica Business Solutions brand. We have also now launched our new integrated solutions platform which gives customers access to our DE&P products and solutions in one place, incorporating the capabilities gained from the targeted acquisitions of Panoramic Power, ENER-G Cogen, Neas Energy and REstore. The REstore acquisition in 2017 has provided us with leading demand response capability which we have been able to utilise to launch a 27MW "Virtual Power Plant" at Terhills in Belgium, which pools an 18MW Tesla battery storage project with flexible load and generation from a series of industrial customers. With the order book significantly higher at the end of H1 2018 compared to 12 months ago, we expect revenue to be significantly weighted towards H2 in 2018 and are targeting a 40% increase in full year revenue, including the impact of restating 2017 revenue for IFRS 15.

Exploration & Production performance and outlook

E&P continues to play an important role in our portfolio, providing cash flow diversity and balance sheet strength for the Group. Our E&P business was materially repositioned during 2017, with the disposal of Canada and Trinidad and Tobago assets, and the formation of Spirit Energy in December 2017 in partnership with Stadtwerke München, in which Centrica owns a 69% controlling interest. The establishment of Spirit Energy has created a stronger European E&P business which is expected to deliver medium-term production in the 45-55mmboe range and require capital reinvestment in the range £400m-£600m. The E&P division also includes CSL, which in January 2018 received consent to produce all recoverable gas reserves from the Rough asset.

Spirit Energy made good progress on its developments during H1 2018. The Oda project is proceeding to plan and we have commenced offshore installation, while an appraisal well was successfully drilled at Fogelberg, with further resources confirmed. Spirit Energy will make a final investment decision on Fogelberg in 2019. A positive final investment decision was made on the Nova oil field, while Spirit also experienced exploration success at the Hades/Iris prospect and has commenced drilling at the Scarecrow prospect in the Barents Sea.

CSL's Rough asset delivered strong production during H1 2018 and is currently expected to deliver full year production in the range 9-11mmboe, slightly higher than expectations at the start of the year. With the cessation of gas storage, the CSL-operated Easington processing plant now has available capacity to process gas for third parties. CSL is actively engaging with a number of companies with the aim of securing additional gas processing contracts in order to fully realise the value of the facility, in line with the Oil and Gas Authority's remit to ensure the maximum economic recovery of gas from the Southern North Sea for the benefit of the UK.

Continued strong cost efficiency progress

We delivered £92m of efficiencies in H1 2018, taking cumulative annual savings since 2015 to £784m. We remain on track to deliver £200m of efficiencies for the full year, taking total savings to around £900m per annum by the end of 2018, as part of our programme to deliver total savings of £1.25bn per annum by 2020.

After taking into account the impact of inflation and other cost movements which are one-off in nature or volume related, like-for-like controllable costs increased by 1% compared to H1 2017. Reported operating costs also increased by 1%, with the Group largely absorbing the effects of inflation, foreign exchange movements and additional

Group Overview continued

revenue investment in our growth businesses. We remain on track to deliver a like-for-like direct headcount reduction of around 1,000 for the full year.

The efficiencies in H1 2018 have been delivered predominantly in Centrica Consumer and our Group functions. In UK Home and North America Home we are driving further digitalisation of our customer operations activities in response to customer demand for self-service, and field force effectiveness through the integration of our field operations and associated back office and support activities. We have also delivered further procurement and supply chain savings, including from the simplification of our IT systems landscape, while the ongoing transformations of our HR and Finance functions are proceeding to plan.

NUCLEAR

In February we announced our intention to divest our 20% interest in the entity which owns the UK operating nuclear fleet of power stations, subject to alignment with our partner and being sensitive to Government interests. A process of pre-marketing has now commenced and we plan to commence the first round of the sales process in September.

UK ENERGY SUPPLY MARKET

In July 2018, the UK Government passed a draft bill to give Ofgem the duty to impose a cap on all default energy tariffs including the Standard Variable Tariff (SVT). This is in addition to the safeguard tariff already in place for around 4m prepayment households and a further cap extension to another 1m vulnerable customers that took effect from April 2018. A statutory consultation is due to commence in August 2018 and the cap is expected to be in place at the end of this year.

We will continue to engage constructively with the UK Government and the Regulator and are committed to achieving a customer-focused competitive market which innovates, delivers great service and choice, is efficient, keeps bills as low as possible and provides protection for the vulnerable.

We are focused on delivering a sustainable and attractive business in UK energy supply and are implementing mitigating actions. We are reducing our exposure to the price cap by encouraging customers to actively chose one of our fixed-term tariffs instead of the SVT and the number of customers on this tariff has reduced from 4.3m to 3.5m since the start of the year. We also currently have around 250,000 customers on our new fixed-term default temporary tariff. Our SVT and temporary tariffs remain competitively priced relative to the market, £52 below the average standard price of the other five largest suppliers, and with targeted cost efficiencies of £20 per dual fuel energy supply customer by 2020, we are relatively well-placed for a price cap on default tariffs.

OUTLOOK AND SUMMARY

We remain on track to achieve all our full year financial targets as detailed below:

- Adjusted operating cash flow expected to be in the range £2.1bn-£2.3bn.
- Group capital investment expected to be no more than £1.1bn in 2018. Spirit Energy total capex expected to be around £500m in 2018.
- Expect a flat 2018 full year dividend per share of 12.0p.
- £200m of efficiency savings in 2018.
- A like-for-like headcount reduction of around 1,000.
- Net debt in a £2.5-£3.0bn range in 2018.

Financial performance remains subject to the usual variables of weather patterns, commodity prices and operational and commercial performance over the balance of the year, as well as the impact of an uncertain regulatory environment for the UK energy supply business.

In summary, Centrica demonstrated resilience in H1 2018 against an environment of rapidly rising commodity prices, extreme weather, continued competitive pressures and ongoing political and regulatory uncertainty. Against this backdrop we delivered stable gross margin and adjusted operating profit, with adjusted operating cash flow of £1.1bn. For the full year, we expect adjusted operating cash flow to be within our targeted £2.1-£2.3bn range, and we expect to maintain the full year dividend per share at its current level, provided we are on track to deliver adjusted operating cash flow and net debt within our target ranges. We continue to make progress in implementing our strategy and have developed new propositions and delivery capabilities in both customer-facing divisions, while our cost efficiency programme is on track. Although we are awaiting the final outcome UK default tariff cap regulation, clear mitigating actions are underway. Our focus for 2018-20 remains on performance delivery and financial discipline.

Business Review

CENTRICA CONSUMER

UK HOME

Six months ended 30 June	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.52**	1.33	14%
Brand NPS	**(2)**	2	(4pt)
Complaints (per 100,000 customers) [1]			
Energy supply	**2,082**	2,828	(26%)
Services	**1,494**	982	52%
Customer account holdings (‘000s)			
Energy supply (‘000s)			
Standard variable tariff (SVT)	**5,550**	7,297	(24%)
Temporary	**446**	-	nm
Safeguard	**428**	-	nm
Prepayment	**2,222**	2,354	(6%)
Fixed term	**3,887**	4,222	(8%)
Total Energy supply	**12,533**	13,873	(10%)
Services	**7,482**	7,392	1%
Total customer account holdings (‘000s)	**20,015**	21,265	(6%)
Installs and on demand jobs (‘000s)	**191**	152	26%
Energy use per residential energy customer account			
Gas (therms)	**263**	239	10%
Electricity (kWh)	**1,700**	1,727	(2%)
Total energy use per residential energy customer account (kWh)	**5,037**	4,645	8%
Gross revenue (£m)			
Energy supply	**3,812**	3,813	0%
Services	**714**	722	(1%)
Total gross revenue (£m)	**4,526**	4,535	(0%)
Total adjusted gross margin (£m)	**1,021**	1,096	(7%)
Annualised cost per Home customer (£)	**101**	92	10%
Controllable operating costs as a % of underlying adjusted gross margin	**53%**	46%	7ppt
Adjusted operating profit (£m)			
Energy supply	**321**	381	(16%)
Services	**72**	108	(33%)
Total adjusted operating profit (£m)	**393**	489	(20%)
Adjusted operating cash flow (£m)	**91**	348	(74%)

1. Complaints per 100,000 customers as reported to Ofgem for UK energy supply and the FCA for UK Home services.

Business Review continued

UK HOME

During H1 2018 our UK Home business unit experienced significantly colder than normal weather in Q1, which resulted in higher energy consumption but led to additional costs in services, followed by warmer than normal weather in Q2. This came against a backdrop of increasing and volatile commodity prices, continued high levels of competitive intensity and regulatory changes. Reflecting all these factors, UK Home adjusted operating profit was down 20%.

Energy account holdings reduced by 341,000 over H1 to 12.5m, largely reflecting the highly competitive nature of the residential supply market. However, the underlying rate of losses slowed, with 36,000 fewer losses than H1 2017 despite the announcement of a 5.5% increase in the dual fuel Standard Variable Tariff (SVT) in April. At the end of March, we delivered on the commitment made in November 2017 to withdraw the SVT for new customers and we now have 1.2m fewer SVT accounts than at the start of the year. Around 428,000 accounts have moved onto the new safeguard tariff for vulnerable customers, with the remainder choosing to move onto alternative fixed-term offers. We also had 446,000 customer accounts on our new fixed-term Temporary Tariff at the end of June.

Services accounts increased by 13,000 in H1 2018 compared to a 79,000 reduction in H1 2017, the first time we have delivered H1 growth since 2011. This reflects increased sales of new bundled propositions and from commercial partnerships. In addition, installs and on-demand jobs increased by 26% compared to H1 2017, reflecting a higher number of central heating installations due to increased lead conversion and further growth in our Local Heroes offering. Local Heroes has now completed over 50,000 jobs, with over 25,000 completed in H1 2018.

Against the competitive backdrop we remain focused on developing new customer offers and bundles in response to customer demand. In H1 2018 we launched new online-only, tracker and green tariffs. We also launched and delivered energy bundles that include services and connected home products and in H1 2018, around 25% of our energy account sales were part of a bundle. Our British Gas Rewards programme now has over 1m customers signed up, with enrolled customer churn 22% lower than for comparable non-Rewards customers. We are also using increasingly sophisticated customer propensity and customer value modelling to drive retention and growth within higher value segments.

Delivering high levels of customer service remains a core priority and total energy supply complaints fell by 26% compared to H1 2017, with simpler bills and the next generation mobile app contributing to higher satisfaction levels. In services, we experienced an exceptionally high number of central heating boiler breakdowns due to the cold weather in Q1, with peak breakdowns more than twice the normal weekly rate. This did contribute to a 52% increase in customer complaints, largely related to rescheduled appointments. However, complaints have now returned to normal levels. Brand NPS reduced slightly, to -2, reflecting the issues in services and negative sentiment surrounding energy supply in the UK.

We remain focussed on delivering cost efficiencies to maintain a competitive pricing position, with around 60% of the Group’s additional £500m target by 2020 expected to be delivered in UK Home. In H1 2018, we further developed initiatives such as ‘Remote Diagnostics’, which benefits the customer through avoiding the need for an engineer visit to fix boilers. We are also now trialling ‘Natural Language Call Steering’ which identifies key words to route customers to the most appropriate call agent. This is already having a positive impact on the customer experience and resulting in shorter calls and lower costs. We continue to invest in our digital transformation, with improved functionality and performance on both our new customer app and our website allowing customers to complete common transactions, such as submitting meter reads or booking an engineer appointment, in fewer clicks. The number of customers with an online account grew 21% year on year and over 50% of all transactions were made through digital channels. Annualised cost per Home customer increased by 10%, with the impact of lower account holdings and mix, increased investment and additional costs in services due to the weather only partly offset by efficiencies.

Overall, UK Home adjusted operating profit was down 20% compared to H1 2017. Energy supply adjusted operating profit reduced by 16% due to the full period impact of 2.2m accounts on the prepayment cap, lower customer account holdings, and the timing of the SVT price rise compared to an earlier increase in wholesale commodity costs. This outweighed the progress made in cost efficiencies. Services adjusted operating profit was 33% lower than H1 2017, with a record number of call outs due to the cold weather resulting in additional costs of around £15m, the impact of customer mix and investment in growth only partly offset by cost efficiencies and a higher number of boiler installations. For the full year, we are assuming a return to more normal weather conditions, while we also expect cost efficiencies in services to accelerate in H2 2018.

UK Home adjusted operating cash flow reduced by 74%, reflecting the lower adjusted operating profit and working capital outflows due to the higher energy demand in Q1 and rising commodity prices.

Business Review continued

IRELAND

Six months ended 30 June	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.27**	1.03	23%
Brand NPS	**27**	19	8pt
Complaints (per 100,000 customers) [1]	**3**	3	0%
Customer account holdings ('000s)	**678**	694	(2%)
Energy use per residential energy customer account			
Gas (therms)	**246**	205	20%
Electricity (kWh)	**2,412**	2,290	5%
Total energy use per residential energy customer account (kWh)	**4,747**	4,165	14%
Gross revenue (£m)	**470**	422	11%
Adjusted gross margin (£m)	**65**	78	(17%)
Annualised cost per Home customer (£) [2]	**124**	111	12%
Controllable operating costs as a % of underlying adjusted gross margin [2]	**67%**	52%	15ppt
Adjusted operating profit (£m)	**15**	33	(55%)
Adjusted operating profit (€m)	**17**	39	(56%)
Adjusted operating cash flow (£m)	**29**	70	(59%)

1. Complaints per 100,000 customers as reported to CER.
2. 2017 restated for foreign exchange movements.

We delivered further good performance in energy supply and services in Ireland in H1 2018, with broadly stable account holdings in a highly competitive environment and improved customer service. However, the financial result was affected by an extended planned maintenance outage at the Whitegate Power Station, which was offline for over 100 days for its first major outage since it was commissioned in 2010. The plant was back online in late May, with the outage expected to result in improvements to reliability and efficiency.

Customer account holdings were down 1,000 in H1 2018 in a competitive environment. We have developed further our range of innovative propositions for customers, including an enhanced energy and services bundled offering. We continue to focus on customer segmentation and value, including utilising our access to the Bord Gáis Energy Theatre and our partnership with the Gaelic Athletic Association to provide benefits to customers through our rewards programme.

Our continued investment in customer service, and enhancements to our customer-facing IT platforms have contributed to complaints remaining at low levels, while Brand NPS has improved by 8 points over the past 12 months. This is despite an increase in call volumes caused by cold weather in Q1 and regulatory changes requiring us to contact customers who have been on the same tariff for more than three years to encourage them to check they are on a suitable tariff. We also made further good progress in delivering cost efficiency, with further improvements to our digital platform resulting in less calls and a higher proportion of sales coming through our lower cost online channels.

Adjusted operating profit was down 55% compared to H1 2017 and down 56% in local currency. This is largely due to the extended planned outage at Whitegate and the impact of rising wholesale commodity prices not being fully passed onto customers during H1 2018. With Whitegate now back online and performing well, and a standard tariff price increase of 4.7% for gas and 5.8% for electricity taking effect in August, we would expect to see improved adjusted operating profit from Ireland in H2 2018 compared to H1 2018. Adjusted operating cash flow was down 59%, broadly in line with the reduction in adjusted operating profit.

Business Review continued

NORTH AMERICA HOME

Six months ended 30 June	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.85**	1.21	(30%)
Brand NPS	**32**	23	9pt
Energy supply complaints (per 100,000 customers) [1]	**51**	49	4%
Customer account holdings ('000s)			
Energy supply ('000s)			
Texas	**640**	677	(5%)
US North East	**975**	1,031	(5%)
Canada	**922**	957	(4%)
Total energy supply	**2,537**	2,665	(5%)
Services	**871**	871	0%
Total customer account holdings ('000s)	**3,408**	3,536	(4%)
Installs and on demand jobs ('000s) [2]	**359**	364	(1%)
Energy use per residential energy customer account			
Gas (therms)	**87**	82	6%
Electricity (kWh)	**5,298**	4,854	9%
Total energy use per residential energy customer account (kWh)	**14,773**	13,735	8%
Gross revenue (£m)			
Energy supply	**1,042**	1,203	(13%)
Services	**211**	243	(13%)
Total gross revenue (£m)	**1,253**	1,446	(13%)
Total adjusted gross margin (£m)	**308**	340	(9%)
Total adjusted gross margin ($m)	**423**	432	(2%)
Annualised cost per Home customer (£) [3]	**168**	173	(3%)
Controllable operating costs as a % of underlying adjusted gross margin [3]	**70%**	71%	(1ppt)
Adjusted operating profit (£m)			
Energy supply	**72**	79	(9%)
Services	**(6)**	(21)	71%
Total adjusted operating profit (£m)	**66**	58	14%
Adjusted operating profit ($m)			
Energy supply	**100**	101	(1%)
Services	**(9)**	(25)	64%
Adjusted operating profit ($m)	**91**	76	20%
Adjusted operating cash flow (£m)	**117**	126	(7%)
Adjusted operating cash flow ($m)	**160**	157	2%

2017 results have been restated on transition to IFRS 15.

1. Complaints per 100,000 customers as reported by various regulatory bodies.
2. Installs and on demand jobs includes a wider range of workload which is now identifiable following improvements to our Management Information systems. 2017 has been restated accordingly.
3. 2017 restated for foreign exchange movements.

Business Review continued

NORTH AMERICA HOME

North America Home performed well in H1 2018, with a relative stabilisation in account holdings, delivery of an improved customer experience and further progress on cost efficiency. Operating profit increased, largely reflecting a positive year-on-year impact due to the closure of the loss-making residential solar business in H2 2017 combined with gross margin growth in services and further cost efficiency delivery.

Energy account holdings reduced by 33,000 in the period, a significantly reduced level of losses compared to a reduction of 232,000 in H1 2017, with improvements across all regions. Despite increased competitive pressures in certain US North East markets we delivered improved sales performance, particularly through digital channels, while in Canada we continue to rebuild sales channels following our exit from door-to-door sales activity. We continue to focus our acquisition and retention on the most valuable customer segments, using data analytics to identify customer groups with higher estimated lifetime values. This enabled us to target the proactive renewal of more valuable customer segments on fixed price contracts in the important Texas market.

Services accounts increased by 2,000, with continued growth in paid protection plans, and services gross margin also improved, as a result of pricing strategy and cost management in our home protection business and growth in our Airtron business. We continue to focus on developing bundled propositions, including energy and services and energy with Hive, and in H1 2018 launched a bundle with Amazon, combining energy with the Echo Dot smart device.

We continue to focus on improving customer service further. In Alberta, we worked closely with our third-party billing provider to make significant service improvements, contributing to an increase in Brand NPS of 9 points over the past 12 months. We also continue to make good progress on cost efficiency and delivered call centre consolidation with the closure of our Phoenix and Buffalo Grove call centres. Reflecting these efficiencies, and the mix impact of the closure of the residential solar business, the annualised cost per North America Home account decreased by 3%.

Adjusted operating profit was up 14% compared to H1 2017, or up 20% in local currency. This was largely due to reduced losses in services reflecting the closure of the loss-making residential solar business, improved gross margin reflecting a focus on more valuable customer offers and cost efficiencies. Energy adjusted operating profit was broadly flat in local currency, with the impact of efficiencies broadly offsetting the impact of lower customer accounts. Total North America Home adjusted operating cash flow decreased by 7%, although was up 2% in local currency.

Business Review continued

CONNECTED HOME

Six months ended 30 June	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.34**	0.18	89%
Brand NPS	**42**	42	0%
Cumulative customers (‘000s)	**1,035**	660	57%
New customers in period (’000s)	**135**	133	2%
Products sold in period (‘000s)	**352**	291	21%
Active subscriptions (‘000s)	**148**	52	185%
Gross revenue (£m)	**21**	16	31%
Adjusted gross margin (£m)	**5**	3	67%
Controllable operating costs as a % of underlying adjusted gross margin	**738%**	1508%	(770ppt)
Adjusted operating (loss) (£m)	**(44)**	(44)	0%
Adjusted operating cash flow (£m)	**(43)**	(60)	28%

Connected Home delivered further growth in customers, products and revenue in H1 2018, as we consolidate our market leading position in the UK through expanding our range of products, propositions and partnerships, while continuing to expand our offering geographically.

The cumulative number of customers increased by 135,000 in H1 2018, slightly higher than in H1 2017 and reflecting an optimised sales approach. Product sales were up by 21% vs H1 2017, reflecting the wider range of products available on the Hive ecosystem and existing customers taking more products given loyalty and familiarity with the Hive platform and App. This growth was also enabled by higher in-home sales by British Gas engineers in the UK.

During H1 2018, we launched a number of new products including the Hive View camera, Hive Hub 360 and the GU10 lighting product range, while introducing a new subscription option for camera storage, Hive Video Playback Membership. We also introduced several new propositions, including “Warm Welcome Home” in the UK and “Close to Home” in both the UK and North America. In addition, we have opened up the Hive platform to select third party devices, with Philips Hue smart devices now integrated. The increase in the number of available products and propositions has driven an increase in the average Hive products per customer from 1.5 to 1.9 over the past 12 months and a 29% increase in the average revenue per customer. Connected Home is also having a positive impact on the rest of the Consumer business units with ‘Boiler IQ’ improving first time fix rates and improving customer retention in UK Home services.

In May, we announced a partnership with EE in the UK, enabling customers to bundle Hive products with their monthly mobile subscription. We also recently signed and launched a partnership with Wave, a joint venture between Anglian Water and NWG Business, where our Leak Plan is being offered to their business customers. We are in discussion with several other water companies in the UK.

We have now expanded Hive into mainland Europe, with our partnership with Italian energy company Eni gas e luce going live in April and the launch of our Hive website in France. We continue to grow our retail channels beyond the UK with Hive now available for sale on Amazon in the United States, Canada, Italy and France. Our focus in H2 2018 is on developing and launching new products and propositions, predominantly aligned to the peace of mind pillar of the Consumer strategic framework. We will also continue to look to develop and build more strategic partnerships.

Gross revenue increased by 31% to £21m, reflecting increased sales of products from our more diverse product range, and the average adjusted gross margin percentage increased to 24%. Given the continued expansion of our range of products, propositions and sales channels, and inherent seasonality of sales which is typically weighted towards H2, we continue to target a doubling of Connected Home gross revenue for the full year. The adjusted operating loss was in line with H1 2017, with gross margin growth offset by the continued investment in product and platform development and an increase in software amortisation. Adjusted operating cash outflow reduced by 28%, due to 2017 including more material purchase of inventory in preparation for launch in new geographies.

Business Review continued

CENTRICA BUSINESS

UK BUSINESS

Six months ended 30 June	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.39**	0.28	39%
Brand NPS	**(13)**	(11)	(2pt)
Complaints (per 100,000 customers) [1]	**2,378**	8,667	(73%)
Customer account holdings ('000s)			
Small and medium enterprises (SME)	**534**	560	(5%)
Industrial and commercial (I&C)	**105**	127	(17%)
Total customer account holdings ('000s)	**639**	687	(7%)
Total customer energy consumption			
Gas (mmth)	**244**	256	(5%)
Electricity (GWh)	**5,428**	5,813	(7%)
Gross revenue (£m)	**956**	952	0%
Adjusted gross margin (£m)	**129**	101	28%
Controllable operating costs as a % of underlying adjusted gross margin	**76%**	91%	(15ppt)
Adjusted operating profit (£m)	**23**	0	nm
Adjusted operating cash flow (£m)	**58**	84	(31%)

1. Complaints per 100,000 customers as reported to Ofgem.

Against a competitive backdrop, UK Business continued to deliver improved operational performance and customer outcomes in H1 2018. Adjusted operating profit also improved, with periods of colder than normal weather managed well and no repeat of the additional costs resulting from commodity volatility and energy volume settlements in Q1 2017.

Customer accounts declined by 14,000, or 2%, during the period. 11,000 of the account losses were in the I&C segment, primarily reflecting our decision not to actively pursue the renewals of some low-value multi-site customers. Our retention and acquisition focus is on the higher value SME segments, and the number of SME accounts was broadly stable over the first half of the year despite continued competitive intensity. This reflects improvements to our service levels and enhancements to our offers for customers through both direct and broker channels, including our online-only 'BG Lite' tariff which has been designed around the needs of the smaller SME customers.

Operational performance has continued to improve resulting in better customer outcomes, with further improvements in billing accuracy and timeliness. Call volumes were 5% lower than in H1 2017, while customer complaints fell by 73%. A focus on developing our digital platform also means more customers are interacting with us online, with self-service levels now at 55%. These enhancements are also enabling us to deliver cost efficiencies as we continue to work towards creating a simpler and more efficient service offer for our energy customers.

UK Business delivered adjusted operating profit of £23m compared to breaking even in H1 2017, primarily reflecting the non-repeat of the Q1 2017 additional costs and cost efficiencies resulting from optimising our sales channels and support activities. Adjusted operating cash flow reduced by 31% to £58m, reflecting the timing of working capital collection and transmission and distribution payments.

Business Review continued

NORTH AMERICA BUSINESS

Six months ended 30 June	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.00**	0.00	nm
Brand NPS	**32**	29	3pt
Complaints (per 100,000 customers) [1]	**15**	11	36%
Customer account holdings ('000s)	**538**	577	(7%)
Total customer energy consumption			
Gas (mmth)	**3,613**	3,176	14%
Electricity (GWh)	**41,235**	39,192	5%
Gross revenue (£m)	**4,390**	4,179	5%
Adjusted gross margin (£m)			
Gas retail and wholesale	**166**	171	(3%)
Power retail and wholesale	**49**	123	(60%)
Total adjusted gross margin (£m)	**215**	294	(27%)
Adjusted gross margin ($m)			
Gas retail and wholesale	**231**	215	7%
Power retail and wholesale	**66**	156	(58%)
Total adjusted gross margin ($m)	**296**	371	(20%)
Controllable operating costs as a % of underlying adjusted gross margin [2]	**67%**	55%	12ppt
Adjusted operating profit (£m)	**50**	112	(55%)
Adjusted operating profit ($m)	**69**	141	(51%)
Adjusted operating cash flow (£m)	**172**	147	17%
Adjusted operating cash flow ($m)	**240**	185	30%

1. Complaints per 100,000 customers as reported by various regulatory bodies.
2. 2017 restated for foreign exchange movements.

Business Review continued

NORTH AMERICA BUSINESS

North America Business returned to profitability having made a loss in H2 2017. However, retail power net margins on multi-year fixed price contracts signed in earlier periods continued to be squeezed by the timing effect of capacity market charges in the US North East that were higher in this period and will be lower in subsequent periods. As a result, total power adjusted gross margin fell by 58% in local currency compared to H1 2017. We expect this dynamic to continue in retail power through the remainder of 2018, but margins from these contracts are expected to recover in 2019, with total net margin under contract for 2019 at the end of June 2018 higher than the net margin under contract for 2018 at the end of June 2017. Total gas adjusted gross margin was up by 7% in local currency, reflecting stronger gas optimisation margin compared to H1 2017, as the business captured value in the cold weather environment in Q1. We remain focused on driving improvements in profitability and reducing volatility in North America Business and have implemented changes in our sales channel mix and products, as well as enhancing core systems, processes and controls.

Total gas consumption was up 14% and total power consumption was up 5% compared to H1 2017, reflecting both cold weather in Q1 and a focus on higher consuming, higher value customer segments. Total customer account holdings were down 32,000, or 6%, during H1, largely reflecting our exit from the door to door and third-party telesales sales channels. These channels have higher cost to acquire, higher regulatory risk and deliver relatively lower value and less loyal customers. Sales activity from these channels is being replaced through lower cost channels and reflecting this approach, we have revamped the web enrolment experience and our customer targeting model. As a result, digital sales are up 52% compared to H1 2017 and in addition, our recently launched rewards programme, targeted at higher value SME customers, is also helping enhance customer lifetime value.

During H1 2018 we launched our Fixed Energy Plus offer, which is targeted at high consuming businesses. It gives customers access to real time usage through our PowerRadar application and alerts them when system load is peaking, allowing them to lower their energy bills by proactively reducing their consumption. We also expanded our Energy Portfolio platform which gives customers direct access to our energy expertise while providing dynamic energy procurement options. North America Business continues to work closely with the Distributed Energy & Power business and is an important sales channel for distributed energy products, such as solar, energy efficiency, demand response, combined heat and power and backup generation options.

We also continue to focus on building our strong gas position in the US North East, in addition to expanding our offer into new geographies and have completed two small bolt-on acquisitions in the year to date. In February, we acquired New Jersey Resources' retail natural gas business, which supplies around 45bcf of gas per year to customers in the US North East and Mid-Atlantic. In July, we acquired a portion of BP's US retail marketing operation, which supplies around 100bcf of gas per year to customers in Indiana, Kentucky, Tennessee and Ohio. Delivering high levels of customer service remains a key focus for the business, and during H1 2018 we maintained a very low level of customer complaints and retain a strong brand NPS of 32.

North America Business adjusted operating profit fell 55% to £50m, primarily reflecting the lower realised unit margins in the power retail business. However, adjusted operating cash flow was up 17% to £172m reflecting improved working capital management as we focused on reducing collateral requirements in our energy procurement contracts.

Business Review continued

DISTRIBUTED ENERGY & POWER

Six months ended 30 June	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked) [1]	**1.52**	0.78	95%
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked) [1]	**0.00**	0.00	nm
NPS	**20**	nm	nm
Optimisation capacity (MW)	**2,094**	976	115%
Active customer sites	**5,120**	4,236	21%
Secured revenue (order book) (£m)	**408**	278	47%
Gross revenue (£m)	**84**	90	(7%)
Adjusted gross margin (£m)	**23**	20	15%
Controllable operating costs as a % of underlying adjusted gross margin [2]	**229%**	171%	58ppt
Adjusted operating (loss) (£m)	**(37)**	(19)	(95%)
Adjusted operating cash flow (£m)	**(32)**	(13)	(146%)

2017 results have been restated on transition to IFRS 15.
1. 2017 Total recordable injury frequency rate and process safety incident rate relate to both the Distributed Energy & Power and Central Power Generation segments due to shared employees across both business units. 2018 relates to Distributed Energy & Power segment only.
2. 2017 restated for foreign exchange movements.

We continue to make good progress in Distributed Energy & Power (DE&P), utilising the enhanced capabilities that we have developed both organically and through acquisition over the past three years.

Our leading indicators of growth demonstrate momentum, with a 119% increase in order intake compared to H1 2017 and an order book of £408m, 47% higher than 12 months ago. Gross revenue was slightly down compared to H1 2017 reflecting the phasing of order book delivery, however gross margin was up by 15% reflecting improved project delivery. Given the current anticipated realisation of the order book we expect gross revenue to be weighted towards the second half of the year and are now targeting full year gross revenue growth of 40%, which includes the impact of restating 2017 gross revenue for IFRS 15.

We continue to expand our DE&P offerings. In H1 we launched our Integrated Solutions Platform, under the name Power Radar. It is a digital portal which gives customers access to our products and solutions in one place and enables the combination of different technologies to develop new and differentiated products. For example, in H1 we integrated our Panoramic Power energy insight capability with our North American demand response offering to provide our customers planning and real-time monitoring of their demand response activities through the Integrated Solutions Platform.

We have also invested in our branding and sales approach, with all DE&P products now under the Centrica Business Solutions brand. A new digital marketing platform is in place across all our geographies and we are now running global marketing campaigns to target specific customer needs. We have also now agreed sales partnerships with several global organisations.

We are also leveraging the capability acquired through the REstore acquisition to expand our optimisation offering in different geographies, with a focus on North America. In H1 2018 we launched a 27MW Virtual Power Plant (“VPP”) in Belgium, using cloud-based technology to combine an 18MW battery storage system with flexible industrial load to provide a reliable power output and deliver electricity balancing services to the grid.

The construction of our new flexible generation projects, two 49MW fast response gas-fired plants at Brigg and Peterborough and a 49MW battery storage facility at Roosecote, is progressing to plan and are all expected to be operational by Q4 2018. The replant of the gas turbine at Kings Lynn is also progressing to plan and is expected to be operational in H1 2019.

Continued revenue investment to drive long term value resulted in an increased adjusted operating loss of £37m. We expect DE&P’s adjusted operating loss in H2 2018 to be broadly similar to H1 2018, with 2018 expected to be the year of peak losses. Adjusted operating cash outflow was £19m higher than H1 2017, in line with the increase in the adjusted operating loss.

Business Review continued

ENERGY MARKETING & TRADING

Six months ended 30 June	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.00**	0.00	nm
Adjusted operating profit (£m)	**48**	105	(54%)
Adjusted operating cash flow (£m)	**22**	220	(90%)

Energy Marketing & Trading (EM&T) performed well in H1 2018, as we utilised our enhanced capabilities and asset positions to deliver a strong trading performance in the UK and North-West Europe, particularly during periods of high market volatility associated with the exceptionally cold weather in Q1.

We continue to expand our route-to-market offering to customers across Europe and now serve customers who own decentralised assets with installed capacity of 11.5GW. In June 2018 we announced a direct investment in Barrow Green Gas, the UK's largest biomethane supplier and the only gas business in Great Britain focused solely on the green gas market, shipping almost half of the green gas used by British homes and businesses.

We also continue to build on our global LNG presence ahead of the first gas from our contract with Cheniere, which is expected in September 2019 from the Sabine Pass facility in Louisiana, with a second seven-year charter signed with GasLog Ltd for another 180,000 cubic meter LNG carrier. We are utilising our full range of trading, optimisation and operations capability and continued to transact multiple 'free on board' and 'delivered ex-ship' cargoes from a range of locations globally, including our first cargos to China, Pakistan and Poland. In June we announced a non-binding Heads of Agreement with Tokyo Gas to jointly purchase 2.6 million tonnes per annum, delivered ex-ship from the Mozambique LNG Project from the start-up of production until the early 2040s. The transaction represents the first long-term offtake agreement from Africa for Centrica in line with our strategy to further diversify our sources of LNG.

EM&T's three major flexible legacy gas contracts and associated hedges with 'take or pay' arrangements generated a loss of £36m compared to £40m profit in H1 2017, reflecting commodity price movements over recent years. The two historically most profitable contracts will end in 2018 leaving one contract which expires in 2025. Per previous guidance, we expect these contracts to be loss-making based on the current level of gas prices and as a result we continue to expect full year EM&T adjusted operating profit to be no more than half the level of 2017.

H1 2018 adjusted operating profit was £48m compared to £105m in H1 2017. After excluding the impact of the flexible legacy gas contracts, adjusted operating profit associated with EM&T's core activities increased by 29% compared to H1 2017. This reflects the strong trading and optimisation performance during extreme cold weather in Q1. Adjusted operating cash flow was £22m compared to £220m in H1 2017 due to the lower operating profit and a net working capital outflow in H1 2018 compared to a net working capital inflow in H1 2017, relating predominately to the timing of cash flows associated with the flexible gas contracts.

Business Review continued

CENTRAL POWER GENERATION

Six months ended 30 June	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked) [1]	**nm**	nm	nm
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked) [1]	**nm**	nm	nm
Nuclear power generated (GWh) [2]	**6,045**	6,445	(6%)
Achieved power price – nuclear (£/MWh)	**43.1**	43.7	(1%)
Adjusted operating profit (£m)	**12**	24	(50%)
Adjusted operating cash flow (£m)	**42**	7	500%

1. Following the disposal of the large CCGTs and Humber and Langage, total recordable injury frequency rate and process safety incident rate is no longer reported.
2. Total power generated now only includes Nuclear generation, following the disposals of the Lincs windfarm joint venture and the large CCGTs at Humber and Langage in 2017.

Having completed our exit from wind power generation and disposed of our large CCGTs at Humber and Langage in 2017, the Central Power Generation segment now consists of our 20% equity interest in the entity which owns and operates the eight nuclear power stations in the UK and the financial result of the tolling arrangement for Spalding Power Station.

Nuclear generation volumes were 6% lower than in H1 2017, reflecting certain outage extensions including Reactor 3 at the Hunterston B plant. In May, it was announced that this plant would remain offline while EDF Energy, as the operator of the plant, works with the Office for Nuclear Regulation to ensure the long-term safety case reflects the findings of recent inspections and results from other modelling and analysis. The unit is expected to return to service before the end of 2018, with a negative impact on Centrica's share of full year nuclear output of up to 0.6TWh.

Central Power Generation adjusted operating profit fell 50% to £12m. This was driven by the lower nuclear generation volumes, partially offset by the impact of the disposal of the loss-making large CCGTs.

Business Review continued

EXPLORATION & PRODUCTION

Six months ended 30 June	2018	2017	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.27**	0.69	(61%)
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)	**0.08**	0.40	(80%)
Gas production volumes (mmth)			
Europe	**1,461**	1,007	45%
Americas	**-**	636	nm
Total gas production volumes (mmth) [1]	**1,461**	1,643	(11%)
Liquids production volumes (mmboe)			
Europe	**8.4**	7.3	15%
Americas	**-**	1.1	nm
Total liquids production volumes (mmboe) [1]	**8.4**	8.4	0%
Total production volumes (mmboe)			
Europe	**32.0**	23.5	36%
Americas	**-**	11.7	nm
Total production volumes (mmboe) [1]	**32.0**	35.2	(9%)
Average achieved gas sales prices (p/therm)			
Europe	**46.5**	40.0	16%
Americas	**-**	15.7	nm
Average achieved liquid sales prices (£/boe)			
Europe	**41.9**	31.2	34%
Americas	**-**	28.1	nm
Lifting and other cash production costs (£/boe) [2]			
Europe	**13.4**	13.7	(2%)
Americas	**-**	6.7	nm
Gas and liquids realisations[3]	**1,101**	696	58%
Adjusted operating profit (£m)	**256**	56	357%
Adjusted operating profit after tax (£m)	**74**	6	1,133%
Adjusted operating cash flow (£m)	**667**	234	185%
Net investment (£m) [4]			
Capital expenditure (including small acquisitions)	**231**	233	(1%)
Net disposals	**(6)**	(33)	(82%)
Net investment (£m)	**225**	200	13%
Free cash flow (£m) [4]	**442**	34	1,200%

1. Includes 100% share of Canadian assets owned in partnership with Qatar Petroleum until 29 September 2017 and 100% share of Spirit Energy assets owned in partnership with Stadtwerke München effective from 8 December 2017.
2. Lifting and other cash production costs are total operating costs and cost of sales excluding depreciation and amortisation, dry hole costs, exploration costs and profit on disposal.
3. Realisations are total revenues from sales of gas and liquids including hedging and net of transportation costs.
4. See pages 56 to 58 for an explanation of the use of adjusted performance measures.

Business Review continued

EXPLORATION & PRODUCTION

Following the 2017 disposal of our assets in Canada and Trinidad and Tobago, our Exploration and Production division is wholly focused on North West Europe. The division now consists of Spirit Energy, a newly formed entity combining Centrica's E&P business with that of Bayerngas Norge in which Centrica owns 69%, and CSL, which was granted consent by the Oil and Gas Authority (OGA) to produce indigenous gas and associated liquids from its Rough asset in early January. Reflecting both the consolidation of Spirit Energy and significant production from Rough, E&P delivered increased volumes in Europe in H1 2018, while a higher wholesale commodity price environment resulted in higher achieved gas and liquids prices. As a result, adjusted operating profit and adjusted operating cash flow were both higher compared to H1 2017.

Total European gas and liquids production of 32mmboe was up 36% compared to H1 2017, reflecting production from Rough, the consolidation of the former Bayerngas assets in Spirit Energy and increased production from Morecambe following an extended outage in 2017 to undertake asset integrity works. Production of 6.8mmboe from Rough was ahead of expectations, reflecting good asset availability over the period. However, Spirit Energy production was lower than expected during the first half, predominantly reflecting a higher level of unplanned outages at Morecambe and lower volumes from certain non-operated Norwegian fields. For the full year, Spirit Energy is now expected to achieve production around 50mmboe, while full year production from Rough is expected to be in the 9-11mmboe range, slightly higher than forecast at the start of the year.

Spirit Energy continues to focus investment on the most attractive development options in the portfolio. In May, a positive final investment decision was taken on the Nova oil field development in which Spirit Energy has a 20% interest. Spirit Energy's share of the development cost is expected to be approximately NOK2,000m (£180m), with the project expected to deliver around 15mmboe of commercial production for Spirit Energy. The Spirit Energy-operated Oda project is progressing to plan and we have commenced offshore installation with first oil expected in mid-2019. An appraisal well was also successfully drilled at the Spirit Energy-operated Fogelberg discovery, in which Spirit owns a 51.7% interest. Updated volume calculations indicate that the discovery contains between 40-90mmboe of gas condensate, with a production test showing strong gas flows from the reservoir. We anticipate progressing the project to a final investment decision in 2019.

Spirit also experienced exploration success at the Hades/Iris prospect and is now establishing plans for an appraisal well, and at Lille Pransen. However, drilling at Tethys indicated sub-commercial volumes and an exploration well has now been plugged and abandoned. In July, we commenced drilling on the Scarecrow prospect in the Barents Sea. In CSL, with the cessation of gas storage, the Easington processing plant now has available capacity to process gas for third parties. CSL is actively engaging with a number of companies with the aim of securing additional gas processing contracts to fully realise the value of the facility, in line with the OGA's remit to ensure the maximum economic recovery of gas from the Southern North Sea for the benefit of the UK.

European lifting and other cash production costs were £13.4/boe, slightly lower than in H1 2017, despite the impact of additional works undertaken at Morecambe to secure the integrity of the asset and the impact of lower than expected Spirit Energy production, with Rough currently having relatively low lifting and other cash production costs. Adjusted operating profit of £256m was up 357% compared to H1 2017, with the impact of higher volumes and higher achieved prices more than offsetting the impact of the disposal of Americas assets in 2017. Adjusted operating cash flow was up 185% to £667m, reflecting the higher operating profit and the timing of tax payments. When combined with capital expenditure of £231m, in line with our full year expectation of £500m, E&P as a whole generated free cash flow of £442m in H1 2018.

Group Financial Review

GROUP REVENUE

Group revenue increased 7% to £15.3bn (2017: £14.3bn). This primarily reflects the impact of higher commodity prices and production volumes on Exploration and Production and the impact of increased activity in Energy Marketing and Trading.

OPERATING PROFIT

Throughout the Interim Results statement, reference is made to a number of different profit measures, as shown below:

Six months ended 30 June	Notes	2018 Business performance £m	2018 Exceptional items and certain re-measurements £m	2018 Statutory result £m	2017 Business performance £m	2017 Exceptional items and certain re-measurements £m	2017 Statutory result £m
Adjusted operating profit / (loss)							
UK Home		**393**			489		
Ireland		**15**			33		
North America Home		**66**			58		
Connected Home		**(44)**			(44)		
Centrica Consumer		**430**			536		
UK Business		**23**			-		
North America Business		**50**			112		
Distributed Energy & Power (DE&P)		**(37)**			(19)		
Energy Marketing & Trading (EM&T)		**48**			105		
Central Power Generation (CPG)		**12**			24		
Centrica Business		**96**			222		
Exploration & Production (E&P)		**256**			56		
Total adjusted operating profit	4(c)	**782**			814		
Interest and taxation on joint ventures and associates	4(c)	**(6)**			(15)		
Group operating profit / (loss)	4(c)	**776**	**(72)**	**704**	799	(549)	250
Net finance cost	6(a)	**(150)**	**(139)**	**(289)**	(171)	-	(171)
Taxation	8	**(245)**	**68**	**(177)**	(179)	105	(74)
Profit / (loss) for the period		**381**	**(143)**	**238**	449	(444)	5
Less loss attributable to non-controlling interests		**23**	**(23)**	**-**	2	(39)	(37)
Adjusted earnings		**358**	**(120)**	**238**	447	(405)	42

Total adjusted operating profit reduced 4% to £782m (2017: £814m). Profit from the Centrica Consumer division fell 20%, or £106m, with lower profit in UK Home reflecting the impacts of the UK energy prepayment cap, lower energy account holdings and high levels of central heating call-outs in UK Home services, and lower profit in Ireland reflecting an extended planned maintenance outage at the Whitegate gas-fired power station. Profit from the Centrica Business division fell by 57%, or £126m, with improved performance from UK Business more than offset by the impact of continued retail power margin pressures in North America Business, legacy gas contracts in EM&T becoming loss-making and an increased loss in DE&P reflecting investment in growth. E&P profit increased by 357%, or £200m, benefitting from the transition of Rough from a storage facility to a production asset, higher European production reflecting the consolidation of Spirit Energy and higher achieved commodity prices.

GROUP FINANCE CHARGE AND TAX

Net finance costs reduced to £150m (2017: £171m), largely reflecting the repurchase of £1.1bn of gross debt which completed in Q1 2018. This excludes the costs to achieve the debt repurchase, which are included in exceptional items.

Business performance taxation increased to £245m (2017: £179m) despite the fall in adjusted operating profit, due to the more highly taxed E&P business contributing 33% of adjusted operating profit, compared to 7% in H1 2017. After taking account of tax on joint ventures and associates, the adjusted tax charge was £246m (2017: £188m). The resultant adjusted tax rate for the Group was 39% (2017: 30%). An adjusted effective tax rate calculation is shown below:

Group Financial Review continued

Six months ended 30 June	UK £m	Non-UK £m	E&P UK £m	E&P Non-UK £m	E&P Total £m	2018 Total £m	UK £m	Non-UK £m	2017 Total £m
Adjusted Operating Profit	**398**	**128**	*60*	*196*	**256**	**782**	448	366	814
Share of JV/associates interest	**(5)**	**-**	-	-	**-**	**(5)**	(6)	-	(6)
Net finance cost	**(110)**	**(32)**	*(4)*	*(4)*	**(8)**	**(150)**	(114)	(57)	(171)
Adjusted profit before taxation	**283**	**96**	*56*	*192*	**248**	**627**	328	309	637
Taxation on profit	**49**	**20**	*21*	*155*	**176**	**245**	(9)	188	179
Share of JV/associates' taxation	**1**	**-**	-	-	**-**	**1**	9	-	9
Adjusted tax charge	**50**	**20**	*21*	*155*	**176**	**246**	(0)	188	188
Adjusted effective tax rate	**18%**	**20%**	*37%*	*81%*	**71%**	**39%**	0%	61%	30%

GROUP EARNINGS AND DIVIDEND

Profit for the period decreased to £381m (2017: £449m) and after adjusting for non-controlling interests, adjusted earnings fell by 20% to £358m (2017: £447m). Adjusted basic EPS was 6.4p (2017: 8.2p) reflecting the lower earnings and a slightly higher number of shares in issue as a result of scrip dividend take-up.

The statutory profit attributable to shareholders for the period was £238m (2017: £42m). The reconciling items between Group profit from business performance and statutory profit are related to exceptional items and certain re-measurements. The difference compared to 2017 is principally due to a lower net exceptional charge of £169m (2017: £268m) and a £26m net gain from certain re-measurements (2017: £176m net loss). The Group reported a statutory basic EPS of 4.3p (2017: 0.8p).

An interim dividend of 3.6p per share, in line with last year and consistent with our policy of paying 30% of the prior year's full year dividend as an interim dividend the following year, will be paid on 22 November 2018 to shareholders on the register on 11 October 2018.

GROUP CASH FLOW, NET DEBT AND BALANCE SHEET

Net cash flow from operating activities decreased to £876m (2017: £1,109m) including working capital outflows due to the impact of cold weather and commodity price increases. Adjusted operating cash flow, which is reconciled to net cash flow from operating activities in the table below, was down 11% to £1,101m.

Six months ended 30 June	2018 £m	2017 £m
Net cash flow from operating activities	**876**	1,109
Add back/(deduct):		
Net margin and cash collateral inflow (i)	**10**	(53)
Payments relating to exceptional charges	**117**	90
Dividends received from joint ventures and associates	**22**	20
Defined benefit deficit pension payment	**76**	76
Adjusted operating cash flow	**1,101**	1,242

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

Net cash outflow from investing activities increased to £491m (2017: £102m), reflecting lower disposal proceeds, with the sale of the Lincs wind farm completing in H1 2017, and slightly increased organic capital expenditure and acquisition spend.

Net cash outflow from financing activities was £1,838m (2017: £595m) reflecting the impact of the debt repurchase programme completed in H1 2018 and higher cash equity dividends reflecting a lower scrip take up.

As a result, the Group's net debt increased by £290m to £2,886m at 30 June 2018 (31 December 2017 £2,596m; 30 June 2017: £2,941m), which includes cash collateral posted or received in support of wholesale energy procurement. Net assets increased to £4,023m (31 December 2017: £3,432m).

The net pension liability was £29m at the end of H1 2018 compared to £886m at the end of 2017. Further details can be found in note 13.

ACQUISITIONS AND DISPOSALS

On 28 February 2018 the Group acquired NJR Retail Services company for consideration of $24m (£17m).

Group Financial Review continued

On 1 July 2018, the Group acquired a North American mid-continent retail business from BP Canada Energy Marketing Corporation for consideration of $39m (£31m). Consideration was paid in advance of the Group obtaining control of the business, and is included as an investing cash outflow in the period.

Further details on acquisitions, assets purchased and disposals are included in notes 4(e) and 11.

EXCEPTIONAL ITEMS

A net exceptional pre-tax charge of £209m was recognised in H1 2018 (2017: £331m).

Following the announcement of the second phase of its cost efficiency programme in February 2018, the Group incurred a further £70m of restructuring costs in H1 2018 in implementing the new organisational model relating principally to redundancy, data migration, business closures and transformational spending.

The Group also incurred one-off transaction costs of £139m relating to the debt repurchase programme completed in H1 2018.

These charges generated a taxation credit of £40m (2017: £63m) and total net exceptional charges after taxation were £169m (2017: £268m).

Further details on exceptional items can be found in note 6.

CERTAIN RE-MEASUREMENTS

The Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair valued under IFRS 9. The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. The operating profit in the statutory results includes the pre-tax loss of £2m (2017: loss of £218m) relating to these re-measurements, or £26m net gain after tax (2017: loss of £176m). The Group recognises the realised gains and losses on these contracts in business performance when the underlying transaction occurs. The profits arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements. See note 6 for further details.

EVENTS AFTER THE BALANCE SHEET DATE

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

RISKS AND CAPITAL MANAGEMENT

The Group's principal risks and uncertainties are largely unchanged from those set out in its 2017 Annual Report. Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note 18. Details on the Group's capital management processes are provided under sources of finance in note 12(a).

ACCOUNTING POLICIES

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

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Interim Results for the six-month period ended 30 June 2018 in accordance with applicable law, regulations and accounting standards. In preparing the condensed interim Financial Statements, the Directors are responsible for ensuring that they give a true and fair view of the state of affairs of the Group at the end of the period and the profit or loss of the Group for that period.

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

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

The Directors of Centrica plc are listed in the Group's 2017 Annual Report and Accounts. A list of current Directors is maintained on the Centrica plc website which can be found at www.centrica.com.

On behalf of the Board on 30 July 2018

Iain Conn
Group Chief Executive

Jeff Bell
Group Chief Financial Officer

Independent Review Report to Centrica plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Cash Flow Statement and related notes 1 to 19. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company 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 Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct 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 set of financial statements included in this half-yearly financial report has 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 set of financial statements in the half-yearly financial report based on our review.

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 Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, 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 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Statutory Auditor

London, United Kingdom

30 July 2018

Group Income Statement

Six months ended 30 June	Notes	2018 Business performance £m	2018 Exceptional items and certain re-measurements £m	2018 Results for the period £m	2017 (restated) (i) Business performance £m	2017 (restated) (i) Exceptional items and certain re-measurements £m	2017 (restated) (i) Results for the period £m
Group revenue	4(b)	**15,321**	**–**	**15,321**	14,299	–	14,299
Cost of sales before exceptional items and certain re-measurements		**(13,065)**	**–**	**(13,065)**	(12,057)	–	(12,057)
Re-measurement of certain energy contracts	6(b)	**–**	**–**	**–**	–	(223)	(223)
Cost of sales		**(13,065)**	**–**	**(13,065)**	(12,057)	(223)	(12,280)
Gross profit/(loss)		**2,256**	**–**	**2,256**	2,242	(223)	2,019
Operating costs before exceptional items and credit losses on financial assets		**(1,384)**	**–**	**(1,384)**	(1,395)	–	(1,395)
Credit losses on financial assets (ii)		**(98)**	**–**	**(98)**	(71)	–	(71)
Exceptional items – net impairments	6(a)	**–**	**–**	**–**	–	(352)	(352)
Exceptional items – net gain on disposal	6(a)	**–**	**–**	**–**	–	55	55
Exceptional items – restructuring	6(a)	**–**	**(70)**	**(70)**	–	(34)	(34)
Operating costs		**(1,482)**	**(70)**	**(1,552)**	(1,466)	(331)	(1,797)
Share of profits/(losses) of joint ventures and associates, net of interest and taxation	5	**2**	**(2)**	**–**	23	5	28
Group operating profit/(loss)	4(c)	**776**	**(72)**	**704**	799	(549)	250
Financing costs	6(a), 7	**(164)**	**(139)**	**(303)**	(183)	–	(183)
Investment income	7	**14**	**–**	**14**	12	–	12
Net finance cost		**(150)**	**(139)**	**(289)**	(171)	–	(171)
Profit/(loss) before taxation		**626**	**(211)**	**415**	628	(549)	79
Taxation on profit/(loss)	8	**(245)**	**68**	**(177)**	(179)	105	(74)
Profit/(loss) for the period		**381**	**(143)**	**238**	449	(444)	5
Attributable to:							
Owners of the parent		**358**	**(120)**	**238**	447	(405)	42
Non-controlling interests		**23**	**(23)**	**–**	2	(39)	(37)

Earnings per ordinary share		2018 Pence	2017 Pence
Basic	9	**4.3**	0.8
Diluted	9	**4.2**	0.8

(i) Prior period results have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 3(a) for further details.
(ii) Credit losses on financial assets are now disclosed separately in accordance with IAS 1: 'Presentation of financial statements', following the adoption of IFRS 9: 'Financial instruments'. See note 3(a).

The notes on pages 32 to 55 form part of these condensed interim Financial Statements.

Group Statement of Comprehensive Income

Six months ended 30 June	2018 £m	2017 (restated) (i) £m
Profit for the period	**238**	5
Other comprehensive income/(loss):		
Items that will be or have been reclassified to the Group Income Statement:		
Gains on revaluation of available-for-sale securities, net of taxation	**–**	3
Net (losses)/gains on cash flow hedges	**(1)**	17
Transferred to income and expense on cash flow hedges (ii)	**5**	(25)
Transferred to assets and liabilities on cash flow hedges (iii)	**–**	(4)
Cash flow hedging reserve recycled to Group Income Statement on disposal	**–**	10
Taxation on cash flow hedges	**(1)**	1
	3	(1)
Exchange differences on translation of foreign operations (iv)	**53**	(81)
Exchange gains on translation of actuarial reserve	**1**	1
Exchange differences recycled to Group Income Statement on disposal	**–**	4
Share of other comprehensive income of joint ventures and associates, net of taxation	**–**	10
	57	(64)
Items that will not be reclassified to the Group Income Statement:		
Gains on revaluation of equity instruments measured at fair value through other comprehensive income, net of taxation	**1**	–
Net actuarial gains on defined benefit pension schemes	**800**	193
Taxation on net actuarial gains on defined benefit pension schemes	**(136)**	(33)
	664	160
Share of other comprehensive income/(loss) of joint ventures and associates, net of taxation	**47**	(2)
	712	158
Other comprehensive income, net of taxation	**769**	94
Total comprehensive income for the year	**1,007**	99
Attributable to:		
Owners of the parent	**1,001**	140
Non-controlling interests	**6**	(41)

(i) Comparatives have been restated on adoption of IFRS 15: 'Revenue from contracts with customers'. See note 3(a) for further details. Comparatives have also been re-presented to show exchange differences on translation of actuarial reserve as an item that will be reclassified to the Group Income Statement, and cash flow hedging reserve recycled to Group Income Statement on disposal separately from share of other comprehensive income and loss of joint ventures and associates.
(ii) Cash flow hedging gains and losses have been transferred to the following lines of the Group Income Statement: £5 million other comprehensive loss reclassified to financing costs (2017: £21 million other comprehensive gain) and £nil transferred to cost of sales before exceptional items and certain re-measurements (2017: £4 million other comprehensive gain).
(iii) On adoption of IFRS 9: 'Financial instruments', cash flow hedging gains and losses transferred to assets and liabilities are no longer presented as an item in the Group Statement of Comprehensive Income. During the period, a £1 million gain has been transferred to assets and liabilities through the Group Statement of Changes in Equity.
(iv) Includes £6 million gain (2017: £4 million loss) of exchange differences on translation of foreign operations attributable to non-controlling interests.

The notes on pages 32 to 55 form part of these condensed interim Financial Statements.

Group Statement of Changes in Equity

	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
1 January 2018 (as previously reported)	348	2,121	1,180	(950)	**2,699**	729	**3,428**
Effect of adoption of IFRS 15 (i)	–	–	4	–	**4**	–	**4**
1 January 2018 (restated)	348	2,121	1,184	(950)	**2,703**	729	**3,432**
Adjustment on adoption of IFRS 9 (i)	–	–	28	(28)	**–**	–	**–**
Profit for the period	–	–	238	–	**238**	–	**238**
Other comprehensive income	–	–	–	763	**763**	6	**769**
Transfers to assets and liabilities from cash flow hedge reserve	–	–	–	(1)	**(1)**	–	**(1)**
Employee share schemes	–	–	(1)	9	**8**	–	**8**
Scrip dividend (note 10)	2	45	–	–	**47**	–	**47**
Dividends paid to equity holders (note 10)	–	–	(470)	–	**(470)**	–	**(470)**
30 June 2018	**350**	**2,166**	**979**	**(207)**	**3,288**	**735**	**4,023**

	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	Total £m	Non-controlling interests £m	Total equity £m
1 January 2017 (as previously reported)	342	1,929	1,504	(1,109)	2,666	178	2,844
Effect of adoption of IFRS 15 (i)	–	–	9	–	9	–	9
1 January 2017 (restated)	342	1,929	1,513	(1,109)	2,675	178	2,853
Profit/(loss) for the period (restated) (i)	–	–	42	–	42	(37)	5
Other comprehensive income/(loss)	–	–	–	98	98	(4)	94
Employee share schemes	–	–	5	7	12	–	12
Scrip dividend (note 10)	6	185	–	–	191	–	191
Dividends paid to equity holders (note 10)	–	–	(459)	–	(459)	–	(459)
Distribution to non-controlling interests	–	–	–	–	–	(1)	(1)
30 June 2017 (restated)	348	2,114	1,101	(1,004)	2,559	136	2,695

(i) See note 3(a) for further details of adjustments and restatements arising on transition to IFRS 15: 'Revenue from contracts with customers' and IFRS 9: 'Financial instruments'.

The notes on pages 32 to 55 form part of these condensed interim Financial Statements.

Group Balance Sheet

	Notes	30 June 2018 £m	31 December 2017 restated (i) £m
Non-current assets			
Property, plant and equipment		**4,059**	4,132
Interests in joint ventures and associates		**1,727**	1,699
Other intangible assets		**2,009**	1,676
Goodwill		**2,678**	2,650
Deferred tax assets		**637**	568
Trade and other receivables, and contract related assets		**90**	97
Derivative financial instruments	14	**546**	463
Securities	12(b), 14	**231**	231
Retirement benefit assets	13	**275**	–
		12,252	11,516
Current assets			
Trade and other receivables, and contract related assets		**4,524**	4,669
Inventories		**347**	409
Derivative financial instruments	14	**1,293**	927
Current tax assets		**243**	289
Securities	12(b)	**61**	5
Cash and cash equivalents	12(b)	**1,538**	2,864
		8,006	9,163
Total assets		**20,258**	20,679
Current liabilities			
Derivative financial instruments	14	**(1,018)**	(733)
Trade and other payables, and contract liabilities		**(4,995)**	(5,418)
Current tax liabilities		**(484)**	(336)
Provisions for other liabilities and charges		**(247)**	(264)
Bank overdrafts, loans and other borrowings	12(c)	**(898)**	(707)
		(7,642)	(7,458)
Non-current liabilities			
Deferred tax liabilities		**(380)**	(174)
Derivative financial instruments	14	**(516)**	(287)
Trade and other payables		**(337)**	(167)
Provisions for other liabilities and charges		**(2,697)**	(2,684)
Retirement benefit obligations	13	**(304)**	(886)
Bank loans and other borrowings	12(c)	**(4,359)**	(5,591)
		(8,593)	(9,789)
Total liabilities		**(16,235)**	(17,247)
Net assets		**4,023**	3,432
Share capital		**350**	348
Share premium		**2,166**	2,121
Retained earnings		**979**	1,184
Other equity		**(207)**	(950)
Total shareholders' equity		**3,288**	2,703
Non-controlling interests		**735**	729
Total shareholders' equity and non-controlling interests		**4,023**	3,432

(i) Prior period comparatives have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 3(a) for further details.

The notes on pages 32 to 55 form part of these condensed interim Financial Statements

Group Cash Flow Statement

Six months ended 30 June	Notes	2018 £m	2017 (restated) (i) £m
Group operating profit including share of results of joint ventures and associates		**704**	250
Less share of profits of joint ventures and associates, net of interest and taxation		**–**	(28)
Group operating profit before share of results of joint ventures and associates		**704**	222
Add back/(deduct):			
Depreciation, amortisation, write-downs, impairments and write-backs		**550**	871
Profit on disposals		**(2)**	(60)
Increase/(decrease) in provisions		**14**	(38)
Defined benefit pension service cost and contributions		**(64)**	(64)
Employee share scheme costs		**19**	24
Unrealised (gains)/losses arising from re-measurement of energy contracts		**(3)**	246
Operating cash flows before movements in working capital		**1,218**	1,201
Decrease in inventories		**62**	19
Decrease in trade and other receivables, and contract related assets		**154**	721
Decrease in trade and other payables, and contract liabilities		**(447)**	(718)
Operating cash flows before payments relating to taxes and exceptional charges		**987**	1,223
Taxes refunded/(paid)		**6**	(24)
Payments relating to exceptional charges in operating costs		**(117)**	(90)
Net cash flow from operating activities		**876**	1,109
Purchase of businesses, net of cash acquired		**(58)**	(3)
Sale of businesses		**7**	28
Purchase of property, plant and equipment and intangible assets	4(e)	**(435)**	(382)
Sale of property, plant and equipment and intangible assets		**23**	11
Investments in joint ventures and associates		**–**	(4)
Dividends received from joint ventures and associates		**22**	20
Disposal of interests in joint ventures and associates		**–**	219
Interest received		**7**	15
Purchase of securities	12(b)	**(57)**	(6)
Net cash flow from investing activities		**(491)**	(102)
Payments for own shares		**(11)**	(11)
Distribution to non-controlling interests		**–**	(5)
Financing interest paid	12(b)	**(160)**	(143)
Repayment of borrowings and finance leases (ii)	12(b)	**(1,240)**	(178)
Equity dividends paid		**(427)**	(258)
Net cash flow from financing activities		**(1,838)**	(595)
Net (decrease)/increase in cash and cash equivalents		**(1,453)**	412
Cash and cash equivalents including overdrafts at 1 January		**2,737**	1,960
Effect of foreign exchange rate changes		**19**	(12)
Cash and cash equivalents including overdrafts at 30 June		**1,303**	2,360
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents		**1,538**	2,398
Overdrafts included within current bank overdrafts, loans and other borrowings		**(235)**	(81)
Assets of disposal groups classified as held for sale		**–**	43

(i) Prior period comparatives have been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 3(a) for further details.
(ii) Includes cash flows related to exceptional costs for the Group's debt repurchase programme. See note 6(a) for further details.

The notes on pages 32 to 55 form part of these condensed interim Financial Statements.

Notes to the condensed interim Financial Statements

Notes to the condensed interim Financial Statements provide additional information required by statute, accounting standards or Listing Rules to explain a particular feature of the condensed interim Financial Statements. These condensed interim Financial Statements should be read in conjunction with the information that was released in the Group's consolidated Financial Statements for the year ended 31 December 2017.

1. GENERAL INFORMATION

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

The condensed interim Financial Statements for the six months ended 30 June 2018 included in this announcement were authorised for issue in accordance with a resolution of the Board of Directors on 30 July 2018.

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 2017 were approved by the Board of Directors on 21 February 2018 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006. The financial information contained in these condensed interim Financial Statements is unaudited. The Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Changes in Equity, Group Cash Flow Statement for the interim period to 30 June 2018, the Group Balance Sheet as at 30 June 2018, and the related notes have been reviewed by the auditors and their report to the Company is set out on page 26.

2. BASIS OF PREPARATION

These condensed interim Financial Statements for the six months ended 30 June 2018 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34: 'Interim financial reporting', as adopted by the European Union.

These condensed interim Financial Statements should be read in conjunction with the Group's consolidated Financial Statements for the year ended 31 December 2017, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and applied by the Group at the time.

Preparation of interim statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense. Actual amounts may differ from these estimates. In preparing these condensed interim Financial Statements, the significant judgements, estimates and assumptions made by management in applying the Group's accounting policies were consistent with those applied in the Group's consolidated Financial Statements for the year ended 31 December 2017, unless amended by the application of new accounting standards, as described in note 3.

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

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

3. ACCOUNTING POLICIES

This section details new accounting standards, amendments and interpretations, whether these are effective in 2018 or later years, and if and how these are expected to impact the financial position and performance of the Group. In addition, this section sets out the Group's specific accounting measures applied in the preparation of the condensed interim Financial Statements. These measures enable the users of the accounts to understand the Group's underlying and statutory business performance separately.

The accounting policies applied in these condensed interim Financial Statements are consistent with those of the Group's consolidated Financial Statements for the year ended 31 December 2017, as described in those annual Financial Statements, with the exception of standards, amendments and interpretations effective as of 1 January 2018. The Group has not early adopted other standards, amendments to standards or interpretations that have been issued but are not yet effective. The nature and effect of these changes are disclosed next in sections (a) and (b).

(a) Standards, amendments and interpretations effective or adopted in 2018

From 1 January 2018, the following standards and amendments are effective in the Group's consolidated Financial Statements:

- IFRS 9: 'Financial instruments'
- IFRS 15: 'Revenue from contracts with customers'

The impact of adoption of these standards and the key changes to the accounting policies are disclosed below. The full revised accounting policies applicable from 1 January 2018 will be provided in the Group's consolidated financial statements for the year ending 31 December 2018.

Other amendments to IFRSs that became effective for the period beginning on 1 January 2018 did not have any impact on the Group's accounting policies.

3. ACCOUNTING POLICIES

IFRS 9

The Group adopted IFRS 9 from 1 January 2018. In accordance with the transition provisions in the Standard, comparatives have not been restated.

Classification of financial assets

IFRS 9 requires the use of two criteria to determine the classification of financial assets: the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. The Standard goes on to identify three categories of financial assets - amortised cost; fair value through profit or loss (FVTPL); and fair value through other comprehensive income (FVOCI).

As a result of adopting IFRS 9, certain debt financial instruments previously classified as available-for-sale and measured at FVOCI have been reclassified and are now measured at FVTPL. The Group's remaining available-for-sale assets were equity instruments and at 1 January 2018 the Group elected to classify these at FVOCI, thereby retaining the previous measurement treatment. The value of debt instruments reclassified at 1 January 2018 was £74 million. On the same date £28 million of previous fair value gains, net of taxation, were reclassified from the available-for-sale reserve to retained earnings. See the Group Statement of Changes in Equity for further details.

Certain cash and cash equivalents (money market funds) have also been classified as FVTPL on adoption of IFRS 9.

A summary of all reclassifications, which have resulted in no change to the carrying value of any financial instrument, is shown below. All other financial instruments (cash and deposits, trade receivables, borrowings, derivative instruments etc.) measurement categories and carrying amounts remain the same.

Type of financial instrument	IAS 39 measurement category	IFRS 9 measurement category	1 January 2018 £m
Non-current financial assets			
Equity securities	Available-for-sale	FVOCI	**34**
Debt securities	Available-for-sale	FVTPL	**74**
Current financial assets			
Cash and cash equivalents – money market funds	Amortised cost	FVTPL	**2,022**

Impairment

IFRS 9 mandates the use of an expected credit loss model to calculate impairment losses rather than an incurred loss model, and therefore it is not necessary for a credit event to have occurred before credit losses are recognised. The new impairment model applies to the Group's financial assets and loan commitments.

No changes to the impairment provisions were made on transition to IFRS 9. The majority of trade receivables reside in the Group's energy supply and services businesses, where a sophisticated provision matrix approach is already applied to establish impairment provisions and the inclusion of specific expected credit loss considerations did not have a material impact. In addition, a significant portion of the Group's other financial assets subject to IFRS 9's requirements are in the Group's Treasury function where investment ratings of counterparties result in low credit risk. Credit losses on financial assets are now disclosed separately on the face of the Group Income Statement in accordance with IAS 1: 'Presentation of financial statements'.

Hedge accounting

The Group has not applied IFRS 9's hedge accounting requirements and continues to account for its hedge relationships in accordance with IAS 39.

IFRS 15

The Group adopted IFRS 15: 'Revenue from contracts with customers' from 1 January 2018. The primary impact of application is the revision of accounting policies to reflect the five-step approach to revenue recognition required by IFRS 15, resulting in insignificant adjustments to amounts previously recognised in the financial statements.

The key changes to accounting policies are described below.

Energy supply to business and residential customers

The Group supplies gas and electricity to residential and business customers in the UK, Ireland and North America. The vast majority of contractual energy supply arrangements have no fixed duration, require no minimum consumption by the customer and can be terminated by either party at any time. The Group has determined that no enforceable rights and obligations exist at inception of the contract and arise only once the cooling off period is complete and the Group is the legal supplier of energy to the customer. The performance obligation is the supply of energy over the contractual term; the units of supply represent a series of distinct goods that are substantially the same with the same pattern of transfer to the customer. The performance obligation is considered to be satisfied as the customer consumes based on the units of energy delivered. This is the point at which revenue is recognised.

Energy services provided to business and residential customers

Energy services in the scope of IFRS 15 relate to the installation, repair and maintenance of central heating, ventilation and air conditioning systems as well as smaller installation services across the UK, Ireland and North America.

In the UK, delivery of an item is considered a separate performance obligation to the installation of the item, both satisfied at a point in time. As delivery and installation occur at the same point in time revenue is recognised for both performance obligations on installation.

Certain heating, ventilation and air conditioning (HVAC) system installations in North America are considered to be a single performance obligation satisfied over time, representing our promise to deliver the customer a functioning HVAC system. The duration of these contracts may be over a number of weeks and the performance obligation is deemed to be satisfied over this period. Revenue is recognised on an input basis with reference to costs incurred.

Notes to the condensed interim Financial Statements (continued)

3. ACCOUNTING POLICIES

Sales of own gas and oil production

With the exception of certain contracts containing 'sellers' nomination rights', revenue arising from the sale of produced gas is recognised in a manner consistent with energy supply contracts with the revenue recognition profile reflecting the supply of gas to the customer. In respect of oil sales, each barrel of oil is considered a separate performance obligation satisfied at a point in time – on delivery.

The rights and obligations identifiable within a contract where the Group holds sellers' nomination rights are considered to be enforceable from inception of the contract. The transaction price for the contract will include variable consideration based on forecast production and market prices. The point at which the performance obligation is satisfied and revenue recognised is the point at which control of the commodity passes to the customer according to the contractual trading terms.

Transition approach

In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year.

In summary, the adjustments resulted in a £6 million increase in revenue, and a £2 million decrease in earnings for the six-month period ended 30 June 2017. The following adjustments were also made to the amounts recognised in the comparative balance sheet presented in these condensed interim Financial Statements:

	31 December 2017 IAS 18 carrying amount £m	Reclassification £m	Energy supply contract commissions (i) £m	Franchise revenue (ii) £m	**31 December 2017 IFRS 15 carrying amount £m**
Trade and other receivables and contract related assets:					
>1 year	87	8	2	–	**97**
<1 year	4,668	(8)	9	–	**4,669**
Trade and other payables and contract liabilities:					
<1 year	(5,412)	–	–	(6)	**(5,418)**
Deferred tax liabilities	(173)	–	(3)	2	**(174)**

(i) Commissions paid on acquisition of energy supply contracts have been capitalised as a cost to obtain a contract. These costs will be amortised over the average contract duration.
(ii) Consideration received from franchisees previously recognised as revenue upon receipt is deferred and recognised over the life of the franchise agreement.

The impact on the Group's retained earnings is as follows:

1 January	**2018 £m**	2017 £m
Retained earnings (before IFRS 9 application)	**1,180**	1,504
Energy supply contract commissions, net of taxation	**8**	13
Franchise revenue, net of taxation	**(4)**	(4)
	1,184	1,513

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

The Group has not yet applied the following standards:

- IFRS 16: 'Leases', effective from 1 January 2019; and
- IFRS 17: 'Insurance contracts', effective from 1 January 2021

IFRS 16: 'Leases' was issued in January 2016 and will have a significant impact on the Group's consolidated Financial Statements, as all leases will be recognised on the balance sheet (with the exception of short-term and low value leases).

An initial impact analysis on the Group's results was carried out in 2017, with implementation and data capture work continuing in 2018. Based on the work performed to date, the Group has elected to apply the Standard retrospectively on a modified basis, utilising certain of the practical expedients provided within the Standard. Therefore the cumulative effect of initial application will be recognised in opening retained earnings at the date of application.

As data capture work is ongoing the Group has not yet fully quantified the effect of application on the consolidated Financial Statements, however, the operating lease commitment at 31 December 2017 gives an indication of the scale of lease commitments that would be recognised on the Group Balance Sheet on transition.

The Group is still assessing the impact IFRS 17: 'Insurance contracts' will have on the consolidated Financial Statements.

Other issued amendments or interpretations that have not yet been applied by the Group are not expected to have a material impact on the Group's accounting policies.

(c) Other restatements

Following the announcement made by the Group in June 2017 that the Rough facility could not safely be returned to storage and injection operations, and the granting of a production consent from January 2018, the Rough field has operated as a producing gas asset. Therefore, reflecting this change in activity, and the segmental performance information reviewed by the Group's Executive Committee (which is the Group's Chief Operating Decision Maker as defined by IFRS 8: 'Operating segments'), the Group's reportable segments have been revised to present Centrica Storage (of which the Rough field is the principal asset) as part of Exploration & Production. Comparatives have been re-presented accordingly.

3. ACCOUNTING POLICIES

(d) Centrica specific accounting measures and critical accounting judgements

Use of adjusted profit, cash flow and earnings measures

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

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

- exceptional items; and
- certain re-measurements;

but including:

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

Exceptional items and certain re-measurements are excluded because these items are considered by the Directors to distort the Group's underlying business performance. The Group's share of results from joint ventures and associates is presented before interest and taxation because this gives a consistent measurement of results compared to wholly owned subsidiaries.

Note 4(c) contains an analysis of adjusted operating profit by segment and a reconciliation of adjusted operating profit to operating profit after exceptional items and certain re-measurements.

Adjusted gross margin is defined as gross profit before certain re-measurements and is used to measure gross profit arising from underlying business performance, without the distorting effects of certain re-measurements described below.

Note 4(c) also contains an analysis of adjusted operating profit after taxation by segment and a reconciliation to the statutory results for the period. Adjusted operating profit after taxation is defined as adjusted operating profit, net of associated taxation, before:

- the impact of changes to UK and US corporation tax rates; and
- certain Corporate and other taxation.

Given the significant variance in tax rates for different jurisdictions and different businesses within the Group, this measure provides management with an analysis of each segment's contribution to overall earnings. The impact of changes to UK and US corporation tax rates is excluded because it predominantly relates to future tax impacts rather than the current period performance. The measure excludes interest and related tax impacts because this measure provides an analysis of the segment's operating performance and its contribution to earnings before the impact of the financing of the segment.

Adjusted earnings is defined as earnings before:

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

A reconciliation of adjusted earnings and adjusted earnings per share is provided in note 9.

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

- payments relating to exceptional items;
- deficit reduction payments made to the UK defined benefit pension schemes; and
- movements in variation margin and cash collateral that are included in net debt;

but including:

- dividends received from joint ventures and associates.

Payments related to exceptional items are excluded because the Directors do not consider these to represent underlying business performance. Deficit reduction payments and movements in variation margin and cash collateral are excluded because the Directors do not consider these to represent the operating cash flows generated by underlying business performance, as they are predominantly triggered by wider market factors and, in the case of variation margin and cash collateral, these represent timing differences. Dividends received from joint ventures and associates are considered by the Directors to represent operating cash flows generated by the Group's operations that are structured in this manner.

Exceptional items and certain re-measurements

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

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

Primarily because some of these trades include terms that permit net settlement, they are prohibited from being designated as 'own use' and so IFRS 9: 'Financial instruments' requires them to be individually fair valued.

Notes to the condensed interim Financial Statements (continued)

3. ACCOUNTING POLICIES

Fair value movements on these commodity derivative trades do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. Therefore, these certain re-measurements are reported separately and are subsequently reflected in business performance when the underlying transaction or asset impacts profit or loss.

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

Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. Again, to ensure the business performance column reflects the underlying results of the Group, these exceptional items are also reported in the separate column in the Group Income Statement. Items that may be considered exceptional in nature include disposals of businesses or significant assets, business restructurings, significant onerous contract charges/releases, asset impairments/write-backs, certain pension past service credits, significant debt repurchase costs, the tax effects of these items and the effect of changes in UK upstream tax rates.

Key areas of critical accounting judgement and estimation uncertainty that have the most significant effect on the consolidated Group Financial Statements are further disclosed in note 3(a) and 3(b) of the Annual Report and Accounts for the year ended 31 December 2017.

4. SEGMENTAL ANALYSIS

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

(a) Segmental structure

The types of products and services from which each reportable segment derived its revenues during the period are detailed below.

Segment	Description
Centrica Consumer	
UK Home	(i) The supply of gas and electricity to residential customers in the UK; and (ii) the installation, repair and maintenance of domestic central heating, plumbing and drains, gas appliances and kitchen appliances, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in the UK.
Ireland	(i) The supply of gas, electricity and energy management solutions to residential, commercial and industrial customers in the Republic of Ireland; (ii) power generation in the Republic of Ireland; and (iii) the repair and maintenance of domestic central heating in the Republic of Ireland.
North America Home	(i) The supply of gas and electricity to residential customers in North America; and (ii) the installation and maintenance of heating, ventilation and air conditioning (HVAC) equipment and water heaters, and the provision of breakdown services, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in North America.
Connected Home	The supply of new technologies and energy efficiency solutions to residential customers in all geographies in which the Group operates.
Centrica Business	
UK Business	The supply of gas and electricity and provision of energy-related services to business customers in the UK.
North America Business	(i) The supply of gas, electricity and energy-related services to business customers in North America; and (ii) procurement, trading and optimisation of energy in North America.
Distributed Energy & Power	The supply of energy efficiency solutions, flexible generation and new technologies to commercial and industrial customers in all geographies in which the Group operates. Flexible merchant generation is also provided to the UK system operator.
Energy Marketing & Trading	Trading and optimisation of energy.
Central Power Generation	Generation of power from the Spalding combined cycle gas turbine tolling contract and nuclear assets in the UK.
Exploration & Production	Production and processing of gas and oil and the development of new fields to maintain reserves in the UK and Europe. Following a reorganisation of the Group's reporting segments, the segment formerly known as Centrica Storage is now included as part of Exploration & Production. See note 3(c) for further details.

Notes to the condensed interim Financial Statements (continued)

4. SEGMENTAL ANALYSIS

(b) Revenue

Gross segment revenue represents revenue generated from the sale of products and services to both third parties and to other reportable segments of the Group. Group revenue reflects only the sale of products and services to third parties. Sales between reportable segments are conducted on an arm's length basis.

Group revenue from contracts with customers reflects the value of revenue arising from contracts with customers in the scope of IFRS 15: 'Revenue from contracts with customers'. Revenue from other sources arises from contracts in the scope of other standards, for example IFRS 4: 'Insurance contracts' and IFRS 9: 'Financial instruments'.

Six months ended 30 June	2018 Gross segment revenue £m	2018 Less inter-segment revenue £m	2018 Group revenue £m	2018 Group revenue from contracts with customers (IFRS 15) £m	2017 Gross segment revenue (restated) (i) £m	2017 Less inter-segment revenue (restated) (i) £m	2017 Group revenue (restated) (i) £m	2017 Group revenue from contracts with customers (IFRS 15) £m
Centrica Consumer								
UK Home	**4,526**	**(2)**	**4,524**	***4,023***	4,535	(2)	4,533	*4,023*
Ireland	**470**	**–**	**470**	***357***	422	–	422	*328*
North America Home	**1,253**	**–**	**1,253**	***1,195***	1,446	–	1,446	*1,388*
Connected Home	**21**	**(6)**	**15**	***15***	16	(5)	11	*11*
	6,270	**(8)**	**6,262**	***5,590***	6,419	(7)	6,412	*5,750*
Centrica Business								
UK Business	**956**	**–**	**956**	***750***	952	(2)	950	*719*
North America Business	**4,390**	**–**	**4,390**	***3,649***	4,179	–	4,179	*3,466*
Distributed Energy & Power	**84**	**(2)**	**82**	***82***	90	(1)	89	*77*
Energy Marketing & Trading	**3,014**	**(141)**	**2,873**	***917***	2,266	(104)	2,162	*415*
Central Power Generation (ii)	**371**	**(137)**	**234**	***5***	330	(103)	227	*6*
	8,815	**(280)**	**8,535**	***5,403***	7,817	(210)	7,607	*4,683*
Exploration & Production (iii)	**1,215**	**(691)**	**524**	***521***	805	(525)	280	*290*
	16,300	**(979)**	**15,321**	***11,514***	15,041	(742)	14,299	*10,723*

(i) Revenue has been restated on transition to IFRS 15. Segmental revenues have also been restated to reflect the new operating structure of the Group, under which the segment formerly known as Centrica Storage is shown as part of Exploration & Production. See note 3 for further details.
(ii) In prior periods power generated under the Group's Spalding power station tolling contract was sold internally by Central Power Generation to Energy Marketing & Trading under an internal tolling arrangement. This internal arrangement has now come to an end, and power generated by the Spalding power station is sold directly by Central Power Generation.
(iii) Exploration & Production Group revenue includes negative amounts arising on the realisation of out-of-the-money commodity swap contracts outside the scope of IFRS 15.

Disaggregation of revenue

The key economic factors impacting the nature, timing and uncertainty of revenue and cash flows are considered to be driven by the type and broad geographical location of the customer. Therefore, revenue from contracts with customers has been disclosed by segment.

The only material exception to the above arises in the UK Home and North America Home segments, which include both energy supply revenue and service revenue. The split of revenue in the scope of IFRS 15 between these material sources is shown below.

Six months ended 30 June	2018 Energy supply (i) £m	2018 Energy services (ii) £m	2017 Energy supply (i) £m	2017 Energy services (ii) £m
UK Home	**3,736**	**287**	3,727	296
North America Home	**1,041**	**154**	1,198	190

(i) Energy supply reflects revenue earned from the supply of gas and electricity to residential customers and excludes revenue earned from related services, such as meter installations.
(ii) Energy services revenue in the scope of IFRS 15 includes energy-related services detailed above and excludes insurance contracts in the scope of IFRS 4.

4. SEGMENTAL ANALYSIS

(c) Operating profit before and after taxation

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

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

Six months ended 30 June	Adjusted operating profit/(loss) 2018 £m	Adjusted operating profit/(loss) 2017 (restated) (i) £m	Adjusted operating profit/(loss) after taxation 2018 £m	Adjusted operating profit/(loss) after taxation 2017 (restated) (i) £m
Centrica Consumer				
UK Home	**393**	489	**318**	399
Ireland	**15**	33	**13**	26
North America Home	**66**	58	**50**	35
Connected Home	**(44)**	(44)	**(35)**	(34)
	430	536	**346**	426
Centrica Business				
UK Business	**23**	–	**19**	–
North America Business	**50**	112	**37**	68
Distributed Energy & Power	**(37)**	(19)	**(28)**	(14)
Energy Marketing & Trading	**48**	105	**38**	85
Central Power Generation	**12**	24	**11**	17
	96	222	**77**	156
Exploration & Production	**256**	56	**74**	6
Adjusted operating profit	**782**	814	**497**	588
Share of joint ventures'/associates' interest and taxation (note 5)	**(6)**	(15)		
Operating profit before exceptional items and certain re-measurements	**776**	799		
Exceptional items (note 6(a))	**(70)**	(331)		
Certain re-measurements included within gross profit (note 6(b))	**–**	(223)		
Certain re-measurements of associates' energy contracts (net of taxation) (note 6(b))	**(2)**	5		
Operating profit after exceptional items and certain re-measurements	**704**	250		

Six months ended 30 June	2018 £m	2017 (restated) (i) £m
Adjusted operating profit after taxation (ii)	**497**	588
Corporate and other taxation, and interest (net of taxation) (iii)	**(116)**	(139)
Business performance profit for the period	**381**	449
Exceptional items and certain re-measurements (net of taxation) (note 6)	**(143)**	(444)
Statutory profit for the period	**238**	5

(i) 2017 comparatives have been restated on transition to IFRS 15. 2017 results have also been restated to reflect the change to the Group's operating structure, as a result of which the segment formerly known as Centrica Storage is now presented as part of Exploration & Production. See note 3 for further details.
(ii) Segmental adjusted operating profit after taxation includes a profit of £23 million (2017: £4 million) attributable to non-controlling interests.
(iii) Includes joint ventures'/associates' interest, net of associated taxation.

Notes to the condensed interim Financial Statements (continued)

4. SEGMENTAL ANALYSIS

(d) Included within adjusted operating profit

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

Six months ended 30 June	Share of results of joint ventures and associates before interest and taxation 2018 £m	2017 (restated) (i) £m	Depreciation and impairments of property, plant and equipment 2018 £m	2017 (restated) (i) £m	Amortisation, write-downs and impairments of intangibles 2018 £m	2017 (restated) (i) £m
Centrica Consumer						
UK Home	**–**	–	**(22)**	(25)	**(52)**	(56)
Ireland	**–**	–	**(2)**	(1)	**(5)**	(4)
North America Home	**–**	–	**(6)**	(6)	**(20)**	(27)
Connected Home	**–**	–	**(1)**	–	**(8)**	(6)
		–	**(31)**	(32)	**(85)**	(93)
Centrica Business						
UK Business	**–**	–	**(1)**	(1)	**(6)**	(6)
North America Business	**–**	–	**(4)**	(4)	**(25)**	(19)
Distributed Energy & Power	**–**	(1)	**(4)**	(4)	**(5)**	(4)
Energy Marketing & Trading	**–**	–	**(1)**	(1)	**(5)**	(5)
Central Power Generation	**8**	39	**–**	(10)	**–**	–
	8	38	**(10)**	(20)	**(41)**	(34)
Exploration & Production	**–**	–	**(355)**	(320)	**(14)**	(6)
Other (ii)	**–**	–	**(3)**	(3)	**(11)**	(4)
	8	38	**(399)**	(375)	**(151)**	(137)

(i) Segmental results have been restated to reflect the change to the Group's operating structure as a result of which the segment formerly known as Centrica Storage is now presented as part of Exploration & Production. See note 3(c) for further details.
(ii) The Other segment includes corporate functions, subsequently recharged.

Write-downs of intangible assets
During the period a write-down of £12 million (2017: £3 million) was recognised in the Exploration & Production segment within business performance, relating to exploration and evaluation assets.

4. SEGMENTAL ANALYSIS

(e) Capital expenditure

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

Six months ended 30 June	Capital expenditure on property, plant and equipment 2018 £m	2017 (restated) (i) £m	Capital expenditure on intangible assets other than goodwill 2018 £m	2017 (restated) (i) £m
Centrica Consumer				
UK Home	**7**	16	**165**	212
Ireland	**20**	1	**5**	5
North America Home	**2**	2	**6**	3
Connected Home	**3**	2	**17**	16
	32	21	**193**	236
Centrica Business				
UK Business	**–**	–	**77**	108
North America Business	**3**	4	**110**	137
Distributed Energy & Power	**66**	19	**5**	2
Energy Marketing & Trading	**2**	2	**25**	15
Central Power Generation	**–**	39	**–**	–
	71	64	**217**	262
Exploration & Production	**161**	204	**64**	14
Other (ii)	**33**	1	**46**	8
Capital expenditure	**297**	290	**520**	520
Capitalised borrowing costs	**(3)**	(5)	**–**	–
Inception of new finance leases and movements in payables and prepayments related to capital expenditure	**(25)**	(12)	**(31)**	2
Purchases of emissions allowances and renewable obligation certificates	**–**	–	**(323)**	(413)
Net cash outflow	**269**	273	**166**	109

(i) Segmental results have been restated to reflect the change to the Group's operating structure as a result of which the segment formerly known as Centrica Storage is now presented as part of Exploration & Production. See note 3(c) for further details.
(ii) The Other segment relates to corporate assets.

Notes to the condensed interim Financial Statements (continued)

4. SEGMENTAL ANALYSIS

(f) Adjusted operating cash flow

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

Six months ended 30 June	2018 £m	2017 (restated) (i) £m
Centrica Consumer		
UK Home	**91**	348
Ireland	**29**	70
North America Home	**117**	126
Connected Home	**(43)**	(60)
	194	484
Centrica Business		
UK Business	**58**	84
North America Business	**172**	147
Distributed Energy & Power	**(32)**	(13)
Energy Marketing & Trading	**22**	220
Central Power Generation	**42**	7
	262	445
Exploration & Production	**667**	234
Other (ii)	**(22)**	79
Adjusted operating cash flow	**1,101**	1,242
Dividends received from joint ventures and associates	**(22)**	(20)
UK pension deficit payments	**(76)**	(76)
Payments relating to exceptional charges	**(117)**	(90)
Margin and cash collateral included in net debt	**(10)**	53
Net cash flow from operating activities	**876**	1,109

(i) Segmental results have been restated to reflect the change to the Group's operating structure as a result of which the segment formerly known as Centrica Storage is now presented as part of Exploration & Production. See note 3(c) for further details.
(ii) The Other segment includes corporate functions.

5. JOINT VENTURES AND ASSOCIATES

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

(a) Share of results of joint ventures and associates

The Group's share of results of joint ventures and associates for the six months ended 30 June 2018 principally arises from its interest in Nuclear - Lake Acquisitions Limited, an associate, reported in the Central Power Generation segment.

Six months ended 30 June	**2018 £m**	2017 £m
Income	**249**	279
Expenses excluding certain re-measurements	**(241)**	(241)
Certain re-measurements	**(2)**	5
	6	43
Financing costs	**(5)**	(6)
Taxation excluding certain re-measurements	**(1)**	(9)
Share of post-taxation results of joint ventures and associates	**–**	28

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

Six months ended 30 June	**2018 £m**	2017 £m
Share of post-taxation results of joint ventures and associates	**–**	28
Certain re-measurements (net of taxation)	**2**	(5)
Financing costs	**5**	6
Taxation (excluding taxation on certain re-measurements)	**1**	9
Share of adjusted results of joint ventures and associates	**8**	38

Notes to the condensed interim Financial Statements (continued)

6. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

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

(a) Exceptional items

Six months ended 30 June	2018 £m	2017 £m
Restructuring costs (i)	**(70)**	(34)
Impairment of retained Exploration & Production assets	**–**	(97)
Impairment of UK gas storage assets	**–**	(270)
Write-back of retained Central Power Generation assets	**–**	15
Net gain on disposal of Exploration & Production and Central Power Generation businesses and assets	**–**	55
Exceptional items included within Group operating profit	**(70)**	(331)
Debt repurchase costs (financing) (ii)	**(139)**	–
Exceptional items included within Group profit before taxation	**(209)**	(331)
Net taxation on exceptional items (note 8)	**40**	63
Net exceptional items after taxation	**(169)**	(268)

(i) Following the announcement of phase 2 of the Group's cost efficiency programme, the Group has incurred restructuring costs principally related to redundancy, data migration, business closures and transformational spending.

(ii) The Group's debt repurchase programme resulted in c.£1.1 billion of debt instruments being repurchased in advance of their maturity date. Due to the premium paid above existing carrying values and related swap realisations and transaction fees, a one-off Income Statement financing cost of £139 million has been incurred.

(b) Certain re-measurements

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

Six months ended 30 June	2018 £m	2017 £m
Certain re-measurements recognised in relation to energy contracts (note 3(d)):		
Net losses arising on delivery of contracts	**(178)**	(110)
Net gains/(losses) arising on market price movements and new contracts	**178**	(113)
Net re-measurements included within gross profit	**–**	(223)
Net (losses)/gains arising on re-measurement of associates' energy contracts (net of taxation) (note 5)	**(2)**	5
Net re-measurements included within Group operating profit	**(2)**	(218)
Taxation on certain re-measurements (note 8)	**28**	42
Net re-measurements after taxation	**26**	(176)

7. NET FINANCING COST

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

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

Six months ended 30 June	**Financing costs £m**	**Investment income £m**	**2018 Total £m**	Financing costs £m	Investment income £m	2017 Total £m
Cost of servicing net debt:						
Interest income	**–**	**10**	**10**	–	10	10
Interest cost on bonds, bank loans and overdrafts	**(132)**	**–**	**(132)**	(143)	–	(143)
Interest cost on finance leases	**(6)**	**–**	**(6)**	(7)	–	(7)
	(138)	**10**	**(128)**	(150)	10	(140)
Net gains on revaluation	**–**	**3**	**3**	–	2	2
Notional interest arising from discounting	**(29)**	**1**	**(28)**	(38)	–	(38)
	(167)	**14**	**(153)**	(188)	12	(176)
Capitalised borrowing costs (i)	**3**	**–**	**3**	5	–	5
Financing (cost)/income before exceptional items	**(164)**	**14**	**(150)**	(183)	12	(171)
Exceptional items (note 6(a)) (ii)	**(139)**	**–**	**(139)**	–	–	–
Financing (cost)/income	**(303)**	**14**	**(289)**	(183)	12	(171)

(i) Borrowing costs have been capitalised using an average rate of 4.73% (2017: 4.64%). Capitalised interest has attracted tax deductions totalling £1 million (2017: £1 million), with deferred tax liabilities being set up for the same amounts.

(ii) During the period an exceptional financing cost of £139 million (2017: £nil) was incurred in relation to the Group's debt reduction programme. See note 6(a) for further details.

8. TAXATION

The taxation note details the different tax charges arising in the Group. This tax charge excludes the Group's share of taxation on the results of joint ventures and associates. The Group's adjusted effective tax rate for the six months to June 2018 was 39% (2017: 30%) and is reconciled to this note in the Group Financial Review on page 22.

Analysis of tax charge

Six months ended 30 June	**Business performance £m**	**Exceptional items and certain re-measurements £m**	**2018 Results for the period £m**	Business performance £m	Exceptional items and certain re-measurements £m	2017 Results for the period £m
The taxation charge comprises						
UK corporation tax	**(83)**	**78**	**(5)**	(1)	65	64
UK petroleum revenue tax	**13**	**–**	**13**	10	–	10
Non-UK tax	**(175)**	**(10)**	**(185)**	(188)	40	(148)
Total tax on profit (i)	**(245)**	**68**	**(177)**	(179)	105	(74)

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

Notes to the condensed interim Financial Statements (continued)

9. EARNINGS PER ORDINARY SHARE

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

Basic earnings per ordinary share has been calculated by dividing the profit attributable to equity holders of the Company for the period of £238 million (2017 restated: £42 million) by the weighted average number of ordinary shares in issue during the period of 5,600 million (2017: 5,484 million).

The number of shares excludes 43 million ordinary shares (2017: 55 million), being the weighted average number of the Company's own shares held in the employee share trust and treasury shares purchased by the Group.

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

In addition to basic and adjusted basic earnings per ordinary share, information is presented for diluted and adjusted diluted earnings per ordinary share. Under this presentation, the weighted average number of shares used as the denominator is adjusted for potentially dilutive ordinary shares.

Weighted average number of shares

Six months ended 30 June	**2018 Million shares**	2017 Million shares
Weighted average number of shares – basic	**5,600**	5,484
Dilutive impact of share-based payment schemes	**29**	50
Weighted average number of shares – diluted	**5,629**	5,534

Basic to adjusted basic earnings per share reconciliation

Six months ended 30 June	**2018 £m**	**2018 Pence per ordinary share**	2017 (restated) (i) £m	2017 (restated) (i) Pence per ordinary share
Earnings – basic	**238**	**4.3**	42	0.8
Net exceptional items after taxation (notes 3 and 6) (ii)	**169**	**3.0**	229	4.2
Certain re-measurement (gains)/losses after taxation (notes 3 and 6) (ii)	**(49)**	**(0.9)**	176	3.2
Earnings – adjusted basic	**358**	**6.4**	447	8.2
Earnings – diluted	**238**	**4.2**	42	0.8
Earnings – adjusted diluted	**358**	**6.4**	447	8.1

(i) 2017 comparatives have been restated on adoption of IFRS 15: 'Revenue from contracts with customers'. See note 3(a) for further details.
(ii) Certain re-measurement gains after taxation of £26 million (2017: £176 million) are increased by £23 million (2017: £nil) for the purpose of calculating adjusted basic and adjusted diluted EPS. Similarly, net exceptional items after taxation of £169 million (2017: £268 million) are reduced by £nil (2017: £39 million). The adjustments reflect the share of net certain re-measurements and exceptional items attributable to non-controlling interests.

10. DIVIDENDS

Dividends represent the return of profits to shareholders and are paid twice a year; in June and November. Dividends are paid as an amount per ordinary share held. The Group retains part of the profits it generates to meet future investment plans or to fund share repurchase programmes.

	£m	Pence per share	2018 Date of payment	£m	Pence per share	2017 Date of payment
Prior year final dividend (i)	**470**	**8.40**	**28 Jun 2018**	459	8.40	29 Jun 2017

(i) Included within the prior year final dividend are forfeited dividends of £1 million (2017: £2 million) older than 12 years that were written back in accordance with Group policy.

Since 2015, the Company has offered a scrip dividend alternative to its shareholders. £47 million of the £470 million prior year final dividend was in the form of ordinary shares to shareholders opting in to the scrip dividend alternative. The scrip reference share price was £1.46 per share resulting in the issue of 32 million new shares and £45 million of share premium.

Similarly, £191 million of the £459 million 2016 final dividend paid on 29 June 2017 was taken as a scrip dividend. The scrip reference share price was £1.93 resulting in the issue of 99 million new shares and £185 million of share premium.

An interim dividend of 3.60 pence (2017: 3.60 pence) per ordinary share, totalling £203m (2017: £202 million) will be paid on 22 November 2018 to shareholders on the register on 12 October 2018.

11. ACQUISITIONS AND DISPOSALS

(a) 2018 business combinations and disposals

This section details business combinations and disposals made by the Group. There have been no material acquisitions or disposals during the period.

On 28 February 2018 the Group acquired NJR Retail Services Company for cash consideration of $24 million (£17 million) of which $13 million (£10 million) was deferred. The provisional fair value of assets and liabilities acquired was $24 million.

(b) 2017 business combinations – measurement period adjustments

During the period there have been no material updates to the fair value of assets and liabilities recognised for businesses acquired in 2017.

12. SOURCES OF FINANCE

(a) Capital structure

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

	30 June 2018 £m	31 December 2017 (restated) (i) £m
Net debt	**2,886**	2,596
Equity	**3,288**	2,703
Capital	**6,174**	5,299

(i) Equity has been restated on transition to IFRS 15: 'Revenue from contracts with customers'. See note 3(a) for further details.

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

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

The level of debt that can be raised by the Group is restricted by the Company's Articles of Association. Borrowings are limited to the higher of £10 billion and a gearing ratio of three times adjusted capital and reserves. The Group funds its long-term debt requirements through issuing bonds in the capital markets and taking bank debt. Short-term debt requirements are met primarily through drawing on the Group's revolving credit facilities and the issuance of commercial paper. The Group maintains substantial committed facilities and uses these to provide liquidity for general corporate purposes, including short-term business requirements and back-up for commercial paper.

British Gas Insurance Limited (BGIL) is required under PRA regulations to hold a minimum capital amount and has complied with this requirement in 2018 (and 2017). BGIL's capital management policy and plan is subject to review and approval by BGIL's board. Reporting processes provide relevant and timely capital information to management and the board. A medium-term capital management plan forms a part of BGIL's planning and forecasting process, embedded into approved timelines, management reviews and board approvals.

In the period from 2015-2017, the Group reduced its overall levels of net debt, in accordance with its strategic objectives and financial framework. This resulted in an increase in overall levels of cash held. In 2018 the Group repurchased some of its outstanding bonds, reducing the amount of surplus cash and future interest costs. This resulted in a reduction in nominal gross debt of £1.1 billion.

The Group regularly reviews its cash and gross debt positions in order to maintain a more efficient balance sheet.

Notes to the condensed interim Financial Statements (continued)

12. SOURCES OF FINANCE

(b) Net debt summary

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

Presented in the derivatives and current and non-current borrowings, finance leases and interest accruals, net of related deposits columns shown below are the assets and liabilities that give rise to financing cash flows.

	Cash and cash equivalents, net of bank overdrafts (i) (ii) £m	Cash posted/ (received) as collateral (iii) £m	Current and non-current securities (iv) £m	Current and non-current borrowings, finance leases and interest accruals, net of related deposits (ii) £m	Derivatives £m	**Net debt £m**
1 January 2018	2,737	336	236	(6,171)	266	**(2,596)**
Net cash outflow from purchase of securities	(57)	–	57	–	–	**–**
Cash outflow from payment of capital element of finance leases	(23)	–	–	23	–	**–**
Cash outflow from debt repurchase repayment of borrowings, including premiums, related derivative settlements and fees	(1,217)	–	–	1,116	(38)	**(139)**
Remaining cash inflow and movement in cash posted/received under margin and collateral agreements (v)	4	10	–	–	–	**14**
Revaluation	–	–	(2)	48	(26)	**20**
Financing interest paid	(160)	–	–	135	(11)	**(36)**
Increase in interest payable and amortisation of borrowings	–	–	–	(138)	–	**(138)**
New finance lease agreements	–	–	–	(34)	–	**(34)**
Exchange adjustments	19	4	1	(1)	–	**23**
30 June 2018	**1,303**	**350**	**292**	**(5,022)**	**191**	**(2,886)**

	Cash and cash equivalents, net of bank overdrafts (restated) (i) (ii) (vi) £m	Cash posted/ (received) as collateral (iii) £m	Current and non-current securities (iv) £m	Current and non-current borrowings, finance leases and interest accruals, net of related deposits (restated) (ii) (vi) £m	Derivatives (restated) (vi) £m	Net debt (restated) (vi) £m
1 January 2017	1,960	496	232	(6,452)	291	(3,473)
Net cash outflow from purchase of securities	(6)	–	6	–	–	–
Cash outflow from payment of capital element of finance leases	(18)	–	–	18	–	–
Cash outflow from repayment of borrowings	(160)	–	–	160	–	–
Remaining cash inflow and movement in cash posted/received under margin and collateral agreements (v)	739	(53)	–	–	–	686
Revaluation	–	–	3	22	5	30
Financing interest paid	(143)	–	–	139	(41)	(45)
Increase in interest payable and amortisation of borrowings	–	–	–	(150)	–	(150)
New finance lease agreements	–	–	–	(13)	–	(13)
Exchange adjustments	(12)	(16)	(1)	53	–	24
30 June 2017	2,360	427	240	(6,223)	255	(2,941)

12. SOURCES OF FINANCE

(i) Unrestricted cash and cash equivalents includes £972 million (2017: £nil million) of cash equivalents that are measured at FVTPL. Cash and cash equivalents also includes £91 million of restricted cash (2017: £130 million), mostly held by the Group's insurance undertakings that is not readily available to be used for other purposes within the Group. £58 million of this restricted cash is carried at FVTPL (2017: £nil). Also included in cash and cash equivalents is cash totalling £90 million (2017: nil) within the Spirit Energy business that is not restricted by regulation but is managed by Spirit Energy's own treasury department. In 2017, cash and cash equivalents included £43 million of cash included within the assets of disposal groups classified as held for sale.
(ii) Cash and cash equivalents are net of £235 million bank overdrafts (2017: £81 million). This is offset by a corresponding gross up in current borrowings.
(iii) Collateral is posted or received to support energy trading and procurement activities. It is posted when contracts with marginable counterparties are out of the money and is received when contracts are in the money. These positions reverse when contracts are settled and the collateral is returned. Of the net cash collateral posted as at 30 June 2018, £33 million (2017: £18 million) is included within trade and other payables, £259 million (2017: £282 million) within trade and other receivables, and £124 million (2017: £163 million) has been settled against net derivative financial liabilities. The items to which the cash posted or received as collateral under margin and collateral agreements relate are not included within net debt.
(iv) Securities balances include £126 million (2017: £129 million) of index-linked gilts, which are used by the Group for short-term liquidity management purposes. Securities balances also include £68 million (2017: £67 million) debt instruments and £37 million (2017: £26 million) equity instruments, all measured at fair value as described in note 14. In addition to the above, securities include £61million (2017: £18 million) of deposits with maturities greater than three months, which are measured at amortised cost. The Group has posted £26 million (2017: £32 million) of non-current securities as collateral against an indexed-linked swap maturing on 16 April 2020.
(v) Including non-cash movements relating to the reversal of collateral amounts posted when the related derivative contract settles (where these daily margin amounts posted reduce the ultimate amount payable/receivable on settlement of the related derivative contract).
(vi) Comparatives have been re-presented to be consistent with the current period separate presentation of cash flows related to financing interest, disclosed in accordance with the amendment to IAS 7: 'Statement of cash flows'.

(c) Borrowings, finance leases and interest accruals summary

	Coupon rate %	Principal m	**Current £m**	**Non-current £m**	**30 June 2018 Total £m**	Current £m	Non-current £m	31 December 2017 Total £m
Bank overdrafts			**(235)**	**–**	**(235)**	(127)	–	(127)
Bank loans			**–**	**(143)**	**(143)**	–	(138)	(138)
Bonds (by maturity date):								
19 September 2018 (i)	7.000	£400	**(403)**	**–**	**(403)**	(411)	–	(411)
1 February 2019	3.213	€100	**(89)**	**–**	**(89)**	–	(89)	(89)
25 September 2020	Floating	US$80	**–**	**(61)**	**(61)**	–	(59)	(59)
22 February 2022	3.680	HK$450	**–**	**(43)**	**(43)**	–	(43)	(43)
10 March 2022 (i) (ii)	6.375	£246	**–**	**(256)**	**(256)**	–	(531)	(531)
16 October 2023 (i) (ii)	4.000	US$302	**–**	**(227)**	**(227)**	–	(563)	(563)
4 September 2026 (i) (ii)	6.400	£52	**–**	**(56)**	**(56)**	–	(225)	(225)
16 April 2027	5.900	US$70	**–**	**(53)**	**(53)**	–	(51)	(51)
13 March 2029 (i) (ii)	4.375	£552	**–**	**(548)**	**(548)**	–	(751)	(751)
5 January 2032 (iii)	Zero	€50	**–**	**(58)**	**(58)**	–	(57)	(57)
19 September 2033 (i)	7.000	£770	**–**	**(762)**	**(762)**	–	(763)	(763)
16 October 2043 (ii)	5.375	US$367	**–**	**(273)**	**(273)**	–	(437)	(437)
12 September 2044	4.250	£550	**–**	**(537)**	**(537)**	–	(537)	(537)
25 September 2045	5.250	US$50	**–**	**(37)**	**(37)**	–	(36)	(36)
10 April 2075 (i) (iv)	5.250	£450	**–**	**(448)**	**(448)**	–	(455)	(455)
10 April 2076 (v)	3.000	€750	**–**	**(662)**	**(662)**	–	(664)	(664)
			(492)	**(4,021)**	**(4,513)**	(411)	(5,261)	(5,672)
Obligations under finance leases			**(57)**	**(195)**	**(252)**	(49)	(192)	(241)
Interest accruals			**(114)**	**–**	**(114)**	(120)	–	(120)
			(898)	**(4,359)**	**(5,257)**	(707)	(5,591)	(6,298)

(i) Bonds or portions of bonds maturing in 2018, 2022, 2023, 2026, 2029, 2033 and 2075 have been designated in a fair value hedging relationship.
(ii) Before the effect of the debt repurchase programme dated March 2018 the notional values of the bonds were as follows: 2022 maturity - £500 million, 2023 - US$750 million, 2026 - £200 million, 2029 - £750 million, 2043 - US$600 million.
(iii) €50 million of zero coupon notes have an accrual yield of 4.200%, which will result in a €114 million repayment on maturity.
(iv) The Group has the right to repay at par on 10 April 2025 and every interest payment date thereafter.
(v) The Group has the right to repay at par on 10 April 2021 and every interest payment date thereafter.

Notes to the condensed interim Financial Statements (continued)

13. POST-RETIREMENT BENEFITS

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

(a) Summary of main post-retirement benefit schemes

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

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

Independent valuations

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

The latest full actuarial valuations for all schemes have been updated to 30 June 2018 for the purpose of meeting the requirements of IAS 19. Investments held in all schemes have been valued for this purpose at market value.

Governance

The Registered Pension Schemes are managed by trustee companies whose boards consist of both company-nominated and member-nominated Directors. Each scheme holds units in the Centrica Combined Common Investment Fund (CCCIF), which holds the majority of the combined assets of the Registered Pension Schemes. The board of the CCCIF is currently comprised of nine Directors: three independent Directors, three Directors appointed by Centrica plc (including the Chairman) and one Director appointed by each of the three Registered Pension Schemes.

(b) Accounting assumptions

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

Major assumptions used for the actuarial valuation	30 June 2018 %	31 December 2017 %
Rate of increase in employee earnings:		
Subject to 2% cap	**1.7**	1.7
Other not subject to cap	**2.2**	2.3
Rate of increase in pensions in payment	**3.0**	3.1
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	**1.9**	2.0
In line with RPI	**3.0**	3.1
Discount rate	**2.9**	2.6

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

13. POST-RETIREMENT BENEFITS

The disclosure below shows the Group Balance Sheet position for all of the Group's pension schemes in total.

(c) Amounts included in the Group Balance Sheet

	30 June 2018 £m	31 December 2017 £m
Fair value of plan assets	**8,527**	8,451
Present value of defined benefit obligation	**(8,556)**	(9,337)
Net liability recognised in the Group Balance Sheet	**(29)**	(886)
Pension liability presented in the Group Balance Sheet as:		
Retirement benefit assets	**275**	–
Retirement benefit obligations	**(304)**	(886)
Net pension liability	**(29)**	(886)

The Trust Deed and Rules for the Registered Pension Schemes provide the Group with a right to a refund of surplus assets assuming the full settlement of scheme liabilities. No asset ceiling restrictions have been applied in the condensed interim Financial Statements.

Included in the Group Balance Sheet within securities are £93 million (31 December 2017: £94 million) of investments, held in trust on behalf of the Group as security in respect of the Centrica Unfunded Pension Scheme. Of the pension liabilities above, £61 million (31 December 2017: £63 million) relates to this scheme.

14. FINANCIAL INSTRUMENTS

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

(a) Fair value hierarchy

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

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

	Level 1 £m	Level 2 £m	Level 3 £m	30 June 2018 Total £m	Level 1 (i) £m	Level 2 £m	Level 3 £m	31 December 2017 Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	8	1,492	105	**1,605**	(2)	1,014	56	1,068
Interest rate derivatives	–	52	–	**52**	–	128	–	128
Foreign exchange derivatives	–	182	–	**182**	–	194	–	194
Treasury gilts designated FVTPL	126	–	–	**126**	128	–	–	128
Debt instruments (ii)	68	–	–	**68**	74	–	–	74
Equity instruments (iii)	23	–	14	**37**	31	–	3	34
Cash and cash equivalents – money market funds (iv)	–	1,030	–	**1,030**	–	–	–	–
Total financial assets at fair value	**225**	**2,756**	**119**	**3,100**	231	1,336	59	1,626
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	(37)	(1,376)	(55)	**(1,468)**	(60)	(845)	(33)	(938)
Interest rate derivatives	–	(42)	–	**(42)**	–	(34)	–	(34)
Foreign exchange derivatives	–	(24)	–	**(24)**	–	(48)	–	(48)
Total financial liabilities at fair value	**(37)**	**(1,442)**	**(55)**	**(1,534)**	(60)	(927)	(33)	(1,020)

(i) In 2017 Level 1 energy derivative assets included liabilities of £6 million which are presented within derivative assets on the Group Balance Sheet, as a result of being netted off the associated Level 2 trades with the same commodity/instrument type.
(ii) Certain of the Group's debt instrument assets have been classified as FVTPL on adoption of IFRS 9. In prior periods similar items were classified as available-for-sale.
(iii) The Group's equity instrument assets have been designated as FVOCI on adoption of IFRS 9. In prior periods similar items were classified as available-for-sale.
(iv) Certain cash and cash equivalents have been classified as FVTPL on adoption of IFRS 9.

Notes to the condensed interim Financial Statements (continued)

14. FINANCIAL INSTRUMENTS

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

Level 2 interest rate derivatives and foreign exchange derivatives comprise interest rate swaps and forward foreign exchange contracts. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Forward foreign exchange contracts are fair valued using forward exchange rates that are quoted in an active market, with the resulting market value discounted back to present value using observable yield curves.

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during the period was 1% (Europe) and 3% (North America) per annum (31 December 2017 average discount rate of 1% (Europe) and 3% (North America) per annum).

For Level 3 energy derivatives, the main input used by the Group pertains to deriving expected future commodity prices in markets that are not active as far into the future as some of our contractual terms. This applies to certain contracts within Europe and North America. Fair values are then calculated by comparing and discounting the difference between the expected contractual cash flows and these derived future prices using an average discount rate of 2% (Europe) and 3% (North America) per annum (31 December 2017 average discount rate of 1% (Europe) and 3% (North America) per annum).

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

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

It should be noted that the fair values disclosed in the tables above only concern those contracts entered into which are within the scope of IFRS 9. The Group has numerous other commodity contracts which are outside of the scope of IFRS 9 and are not fair valued. The Group's actual exposure to market rates is constantly changing as the Group's portfolio of energy contracts changes.

The Group's valuation process includes specific teams of individuals that perform valuations of the Group's derivatives for financial reporting purposes, including Level 3 valuations. The Group has an independent team that derives future commodity price curves based on available external data and these prices feed in to the energy derivative valuations, subject to adjustments to ensure they are compliant with IFRS 13: 'Fair value measurement'. The price curves are subject to review and approval by the Group's Executive Committee and valuations of all derivatives, together with other contracts that are not within the scope of IFRS 9, are also reviewed regularly as part of the overall risk management process.

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

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

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

				30 June 2018			31 December 2017
		Notes	Carrying value £m	Fair value £m	Fair value hierarchy	Carrying value £m	Fair value £m	Fair value hierarchy
Bank loans		12(c)	(143)	(166)	Level 2	(138)	(203)	Level 2
Bonds	Level 1	12(c)	(4,412)	(5,086)	Level 1	(5,573)	(6,311)	Level 1
	Level 2	12(c)	(101)	(123)	Level 2	(99)	(126)	Level 2
Obligations under finance leases		12(c)	(252)	(256)	Level 2	(241)	(250)	Level 2

15. COMMITMENTS AND CONTINGENCIES

(a) Commitments

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

The Group's commitments primarily relate to the acquisition of property, plant and equipment, intangible assets, commodity purchase contracts, LNG capacity and transportation capacity.

Commodity purchase contract commitments have increased by £6 billion since 31 December 2017 to £48 billion.

During the period, the Exploration & Production segment entered into a contract related to the development of a new oil and gas field covering the period 2018 to 2021, giving rise to a capital commitment of £167 million.

There has not been a material change in the Group's operating lease commitments since 31 December 2017.

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

(b) Contingent liabilities

There are no contingent liabilities that are significant to the Group.

16. EVENTS AFTER THE BALANCE SHEET DATE

The Group updates disclosures in light of new information being received, or a significant event occurring, in the period between 30 June 2018 and the date of this report.

On 1 July 2018 the Group acquired a North American mid-continent retail business from BP Canada Energy Marketing Corporation for consideration of $39 million (£31 million). Consideration was paid in advance of the Group obtaining control of the business, and is included as an investing cash outflow in the period.

17. RELATED PARTY TRANSACTIONS

The Group's principal related party is its investment in the existing EDF UK nuclear fleet. The disclosures below, including comparatives, only refer to related parties that were related parties in the current period.

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

				2018				2017
	Sale of goods and services (i) £m	**Purchase of goods and services (i) £m**	**Amounts owed from (ii) £m**	**Amounts owed to (ii) £m**	Sale of goods and services (i) £m	Purchase of goods and services (i) £m	Amounts owed from (iii) £m	Amounts owed to (iii) £m
Associates:								
Nuclear	**–**	**(242)**	**–**	**(40)**	–	(275)	–	(40)
	–	**(242)**	**–**	**(40)**	–	(275)	–	(40)

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

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

At the balance sheet date, the Group had committed facilities to the Lake Acquisitions Group totalling £120 million (2017: £120 million), although nothing has been drawn down at 30 June 2018 (2017: £nil).

Notes to the condensed interim Financial Statements (continued)

18. FINANCIAL RISK MANAGEMENT

The Group's normal operating, investing and financing activities expose it to a variety of financial risks: market risk (including commodity price risk, currency risk, and interest rate risk), credit risk and liquidity risk. These condensed interim Financial Statements do not include all financial risk management information and disclosures included in note S3 of the Group's consolidated Financial Statements for the year ended 31 December 2017.

The Group's normal operating, investing and financing activities expose it to a variety of risks. Risk management is fundamental to the way the Group is governed and managed. Our system of risk management and internal control is set out in the 2017 Annual Report and Accounts.

Our financial performance and price competitiveness is dependent upon our ability to manage exposure to wholesale commodity prices for gas, oil, carbon and power, interest rates for our long-term borrowing, fluctuations in various foreign currencies, and environmental factors. Financial risk is reviewed quarterly by the senior Finance stakeholders and the executive Group Risk Assurance and Control Committee (GRACC) to review Group financial exposures and assess compliance with risk limits.

The four main areas of financial risk are managed as follows:

- commodity price risk management is carried out in accordance with individual business unit policies and directives including appropriate escalation routes;
- treasury risk management, including management of currency risk, interest rate risk and liquidity risk is carried out by a central Group Treasury function in accordance with the Group's financing and treasury policy, as approved by the Board;
- wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with the Group's credit risk policy; and
- downstream customer credit risk management is carried out in accordance with individual business unit credit policies.

Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract. The Group continually reviews its rating thresholds for counterparty credit limits, and updates these as necessary based on a consistent set of principles. It continues to operate within its limits. In both the US and Europe, there is an effort to maintain a balance between exchange-based trading and bilateral transactions. This allows for a reasonable balance between counterparty credit risk and potential liquidity requirements. In addition, the Group actively manages the trade-off between credit and liquidity risks by optimising the use of contracts with collateral obligations and physically settled contracts without collateral obligations.

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

At 30 June 2018, the Group had undrawn committed credit facilities of £3,763 million (31 December 2017: £3,530 million) and £1,357 million (31 December 2017: £2,664 million) of unrestricted cash and cash equivalents. 174% (31 December 2017: 238%) of the Group's net debt has been raised in the long-term debt market and the average term to maturity of the long-term debt portfolio was 10.7 years (31 December 2017: 10.8 years).

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

19. SEASONALITY OF OPERATIONS

Certain activities of the Group are affected by weather and temperature conditions. As a result of this, amounts reported for the six-month period ended 30 June 2018 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 retail tariffs.

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

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

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

Power generation volumes from the Group's thermal power stations 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. As the nuclear power stations in which the Group holds an interest are used to meet baseload power demand, volumes of power generated by these stations are not as seasonal as those generated by the Group's thermal power station assets.

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

Additional Information – Explanatory Notes (Unaudited)

DEFINITIONS AND RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

Centrica's 2018 Interim Results include a number of non-GAAP measures. These measures are chosen as they provide additional useful information on business performance and underlying trends. They are also used to measure the Group's performance against its strategic financial framework. They are not however, defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Where possible they have been reconciled to the statutory equivalents from the primary statements (Group Income Statement ('I/S'), Group Balance Sheet ('B/S'), Group Cash Flow Statement ('C/F')) or the notes to the Financial Statements.

Adjusted operating profit, adjusted earnings and adjusted operating cash flow have been defined and reconciled separately in notes 3, 4 and 9 to the condensed interim Financial Statements where further explanation of the measures is given. Additional performance measures are used within this announcement to help explain the performance of the Group and these are defined and reconciled below.

Adjusted gross margin, Underlying adjusted gross margin and Controllable operating costs as a % of underlying adjusted gross margin

Adjusted gross margin is a metric used to assess the gross profit performance of the business without the distorting effects of certain re-measurements. Underlying adjusted gross margin removes the impact of foreign exchange rate movements and acquisitions and disposals, thereby providing a like-for-like measure.

Controllable operating costs are the Group's operating costs as adjusted to remove exceptional items and other non-controllable costs (e.g. depreciation, amortisation, smart metering, solar costs, dry hole costs, impairments and foreign exchange movements). Controllable operating costs as a % of underlying adjusted gross margin is a metric that assesses operating costs under the Group's control relative to its gross margin on a like-for-like basis.

Six months ended 30 June		2018 £m	2017 (restated) (i) £m
Gross profit	I/S	**2,256**	2,019
Certain re-measurements	6(b)	**–**	223
Adjusted gross margin		**2,256**	2,242
Foreign exchange movements (ii)		**–**	(52)
Acquisitions/disposals		**(2)**	(36)
Underlying adjusted gross margin		**2,254**	2,154

(i) Comparatives have been restated on adoption of IFRS 15: 'Revenue from contracts with customers'. See note 3(a) for further details.
(ii) The foreign exchange movement has been calculated by applying the average 2018 rate to the 2017 adjusted gross margin of entities with functional currencies other than GBP.

Six months ended 30 June		2018 £m	2017 (restated) (i) £m
Operating costs	I/S	**1,552**	1,797
Exceptional items included in operating costs	6(a)	**(70)**	(331)
Adjusted operating costs		**1,482**	1,466
Foreign exchange movements (ii)		**–**	(18)
Non-controllable costs		**(196)**	(208)
Controllable operating costs		**1,286**	1,240
Underlying adjusted gross margin	above	**2,254**	2,154
Controllable operating costs as a % of underlying adjusted gross margin		**57%**	58%

(i) Comparatives have been restated on adoption of IFRS 15: 'Revenue from contracts with customers'. See note 3(a) for further details.
(ii) The foreign exchange movement has been calculated by applying the average 2018 rate to the 2017 adjusted operating costs of entities with functional currencies other than GBP.

EBITDA

EBITDA is the profit measure that provides the bridge between the Income Statement and the Group's key cash metrics.

Six months ended 30 June		2018 £m	2017 (restated) (i) £m	Change
Group operating profit	I/S	**704**	250	
Exceptional items and certain re-measurements before taxation	I/S	**72**	549	
Share of profits of joint ventures and associates, net of interest and taxation	I/S	**(2)**	(23)	
Depreciation and impairments of property, plant and equipment	4(d)	**399**	375	
Amortisation, write-downs and impairments of intangibles	4(d)	**151**	137	
Impairment of joint ventures and associates		**–**	3	
EBITDA		**1,324**	1,291	3%

(i) Comparatives have been restated on adoption of IFRS 15: 'Revenue from contracts with customers'. See note 3(a) for further details.

DEFINITIONS AND RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

The table below shows how EBITDA reconciles to adjusted operating cash flow.

Six months ended 30 June		2018 £m	2017 (restated) (i) £m
EBITDA		**1,324**	1,291
Profit on disposals (ii)		**(1)**	(3)
Decrease in provisions (ii)		**(31)**	(43)
Defined benefit pension service cost and contributions	C/F	**(64)**	(64)
UK Pension deficit payments	4(f)	**76**	76
Employee share scheme costs	C/F	**19**	24
Re-measurement of energy contracts (ii)		**(4)**	23
Net movements in working capital (ii)		**(256)**	(5)
Taxes refunded/(paid)	C/F	**6**	(24)
Dividends received from joint ventures and associates	C/F	**22**	20
Margin cash movements	4(f),12(b)	**10**	(53)
Adjusted operating cash flow		**1,101**	1,242

(i) Comparatives have been restated on adoption of IFRS 15: 'Revenue from contracts with customers'. See note 3(a) for further details.
(ii) These line items relate to business performance only and therefore will differ from amounts quoted in the IFRS condensed interim Financial Statements.

Underlying adjusted operating cash flow

Adjusted operating cash flow is the key metric used to assess the cash generating performance of the Group. Underlying adjusted operating cash flow makes further adjustments for foreign exchange and the commodity price movements that most impact the Group, which are outside its control, along with other material one-off items, to provide a comparable year-on-year measure of cash generation that more closely reflects business performance.

The calculation has been amended to make adjustments to rebase adjusted operating cash flow to reflect the prevailing foreign exchange and commodity prices in 2015 rather than those in the current reporting period. This provides a fixed reference point and prevents the need to continually recalculate the comparative periods and allows management to measure underlying adjusted operating cash flow growth since 2015, the announcement of the Strategic Review.

Six months ended 30 June		2018 £m	2017 (restated) £m	Change	2016 (restated) £m	Change
Adjusted operating cash flow	4(f)	**1,101**	1,242		1,372	
Commodity price – E&P and Nuclear (i)		**(93)**	(90)		36	
Foreign exchange movements (ii)		**(24)**	6		(1)	
UK Business working capital impact		**–**	–		(218)	
Underlying adjusted operating cash flow		**984**	1,158	(15%)	1,189	(3%)

(i) The commodity price adjustment has been calculated by applying the average commodity price in 2015 to production and generation volumes for 2018, 2017 and 2016 net of taxation. In 2015, the commodity price has been adjusted to exclude the impacts of hedging prior to 2015 to ensure the operating cash flow reflects the prevailing average commodity price in 2015.
(ii) The foreign exchange movement has been calculated by applying the average 2015 rate to the 2018, 2017 and 2016 adjusted operating cash flow net of taxation of entities with functional currencies other than GBP.

Underlying adjusted operating cash flow is adjusted operating cash flow as defined in note 3 and reconciled in note 4(f). It has been adjusted for the impacts of commodity price movements on E&P and nuclear assets and foreign exchange movements. It has also been adjusted for one-off working capital movements in UK Business. This follows billing performance issues after the implementation of a new system in 2014, impacting the Group's ability to collect cash from customers and therefore its adjusted operating cash flow. As a consequence, the working capital movement for UK Business has been removed from underlying adjusted operating cash flow.

Group net investment

With an increased focus on cash generation, capital discipline and reducing net debt, Group net investment provides a measure of the Group's capital expenditure from a cash perspective and allows the Group's capital discipline to be assessed.

Six months ended 30 June		2018 £m	2017 £m	Change
Capital expenditure (including small acquisitions) (i)		**493**	385	
Material acquisitions (>£100 million) (ii)		**–**	–	
Net disposals (iii)		**(30)**	(254)	
Group net investment		**463**	131	253%
Dividends received from joint ventures and associates	C/F	**(22)**	(20)	
Interest received	C/F	**(7)**	(15)	
Purchase of securities	C/F	**57**	6	
Net cash flow from investing activities	C/F	**491**	102	381%

(i) Capital expenditure is the net cash flow on capital expenditure and purchases of businesses (less than £100 million). See table (a).
(ii) Material acquisitions is the net cash flow on acquisitions of businesses over £100 million. See table (b).
(iii) Net disposals is the net cash flow from sales of businesses, property, plant and equipment and intangible assets, net of investments in joint ventures and associates. See table (c).

Additional Information – Explanatory Notes (Unaudited) (continued)

DEFINITIONS AND RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

Group net investment is capital expenditure including acquisitions less net disposals. It excludes cash flows from investing activities not associated with capital expenditure as detailed in the table above.

(a) Capital expenditure (including small acquisitions)

Six months ended 30 June		2018 £m	2017 £m	Change
Purchase of property, plant and equipment and intangible assets	C/F	435	382	
Purchase of businesses, net of cash acquired	C/F	58	3	
Less: material acquisitions (>£100 million)		–	–	
Capital expenditure (including small acquisitions)		493	385	28%

(b) Material acquisitions (>£100 million)

Six months ended 30 June		2018 £m	2017 £m	Change
Purchase of businesses, net of cash acquired	C/F	58	3	
Less: non-material acquisitions (<£100 million)		(58)	(3)	
Material acquisitions (>£100 million)		–	–	–

(c) Net disposals

Six months ended 30 June		2018 £m	2017 £m	Change
Disposal of interests in joint ventures and associates	C/F	–	(219)	
Sale of businesses	C/F	(7)	(28)	
Sale of property, plant and equipment and intangible assets	C/F	(23)	(11)	
Investments in joint ventures and associates	C/F	–	4	
Net disposals		(30)	(254)	(88%)

E&P free cash flow

Free cash flow is used as an additional cash flow metric for the E&P business due to its asset intensive nature. This metric provides a measure of the cash generating performance of the E&P business, taking account of its investment activity.

Six months ended 30 June		2018 £m	2017 (restated) (i) £m	Change
Exploration & Production adjusted operating cash flow	4(f)	667	234	
Capital expenditure (including small acquisitions)		(231)	(233)	
Net disposals		6	33	
Free cash flow		442	34	1,200%

(i) Exploration & Production cash flows in the table above have been restated to reflect the new operating structure of the Group, and therefore include cash flows arising from the segment formerly known as Centrica Storage. See note 3(c) for further details.

E&P free cash flow is E&P's adjusted operating cash flow, as defined in note 3 and reconciled in note 4(f), less the business's capital expenditure and net disposals as defined above. See the definition of Group net investment for further details on the definition of 'Capital expenditure (including small acquisitions)' and 'Net disposals'.

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 2018 Interim Results presentation for analysts and institutional investors at 9.30am (UK) on Tuesday 31 July 2018. There will be a live audio webcast of the presentation and slides at www.centrica.com

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

+ 44 (0) 20 3059 8125

An archived webcast and full transcript of the presentation and the question and answer session will be available on the Centrica website on 2 August 2018.

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Financial calendar

Ex-dividend date for 2018 interim dividend	11 October 2018
Record date for 2018 interim dividend	12 October 2018
Final date to elect to participate in 2018 interim scrip dividend programme	1 November 2018
Trading Update	22 November 2018
2018 interim dividend payment date	22 November 2018
2018 Preliminary Results Announcement	21 February 2019

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