Centrica plc

Interim results for the period ended 30 June 2010 (unaudited)

For the period ended 30 June	**2010**	2009	Δ
Revenue‡	**£11.7bn**	£11.7bn	0%
Adjusted operating profit*‡	**£1,563m**	£945m	65%
Effective tax rate◊‡	**37%**	39%	2 ppts
Earnings^	**£886m**	£537m	65%
Adjusted basic earnings per share^	**17.2p**	10.5p	64%
Interim dividend per share	**3.84p**	3.66p	4.9%

Operating and financial overview:

- Strong first half performance:
  - includes first time contributions from Venture, British Energy and newly commissioned Langage power station
  - strong downstream performance, with the impact of reduced retail prices offset by lower commodity costs and higher volumes in one of the coldest winters on record
  - 2010 results expected to be heavily weighted towards the first half and in line with current market expectations for the full year
- 223,000 residential energy customer accounts added following industry-leading price reduction
- Maintained high levels of service during record level of winter callouts
- Continued growth in business energy supply
- Higher upstream production and generation volumes offset by lower gas and power prices
- Encouraging progress in North American business, with underlying operating profit* up 25%∂

"Centrica has performed well in the year to date, with strong results underpinned by improved operational performance in each area of our business. We have a sound platform for growth with significant optionality in our investment programme. We are therefore well positioned to deliver long-term value for our shareholders while maintaining a competitive, high quality service for our customers."

Sam Laidlaw, Chief Executive

Statutory results:

- Operating profit‡: £2,117m (2009: £509m)
- Earnings: £1,386m (2009: £218m)
- Basic earnings per ordinary share: 26.8p (2009: 4.0p)

A definition of the profit measures used throughout these results is provided in the Group Financial Review. A reconciliation between operating profit and adjusted operating profit is provided in note 6(b) and a reconciliation between the earnings measures is provided in note 11.

Earnings and operating profit numbers are stated, throughout the commentary, before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements where applicable – see note 3 for definitions. The Directors believe this measure assists with better understanding the underlying performance of the Group. Exceptional items and certain re-measurements are described in note 7.

All current financial results listed are for the period ended 30 June 2010. All references to 'the prior period', 'the prior year', '2009' and 'last year' mean the period ended 30 June 2009 unless otherwise specified.

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^ as above, except after other costs and joint ventures and associates stated net of interest and taxation
‡ from continuing operations
◊ includes tax from joint ventures and associates and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain remeasurements
∂ excludes the impact of one-off bad debt charges incurred in the first half of 2009

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

Performance Overview

Performance Overview

Centrica has recorded a strong performance in the year to date. The progress we have made in transforming the business, both upstream and downstream, has enabled Centrica to perform well in a competitive market. The strategic priorities we set out in February provide direction for our activities, as we focus on delivering growth and long-term value.

Earnings^ for the first half of the year were considerably ahead of the corresponding position in the same period last year, reflecting a strong downstream performance and first time contributions from Venture, British Energy and the newly commissioned gas-fired power station at Langage.

The United Kingdom experienced one of the coldest winters on record during the first quarter. The country's infrastructure performed well, satisfying the very high levels of energy demand during this period, with excellent operational performance from our gas fields, gas-fired power generation fleet and from the Rough gas storage facility making an important contribution to this outcome. Residential gas consumption in the United Kingdom rose by 8% in the first half, with additional demand during the cold weather more than offsetting an underlying reduction in consumption through energy efficiency measures.

In February, we were able to reduce our gas prices for British Gas residential customers, the first of the major energy suppliers to do so, making this our third price reduction within 12 months. As a consequence, the average British Gas customer bill has declined slightly from 2009 levels, despite the cold weather, and we achieved a significant increase in residential energy customer accounts. During the first six months of the year, we added 223,000 customer accounts, including over 50,000 additional households taking both energy and services products.

Achieving growth in both residential services and business energy supply and services is a fundamental part of our strategic priority to grow British Gas, and we have made good initial progress to date.

In Services, we experienced record levels of call-outs during the cold weather. Our staff demonstrated great commitment and dedication to provide our customers with help when they needed it most, with our service engineers repairing up to 35,000 boilers a day during the coldest period. Nearly two million of our existing services contracts have now been renewed onto an insurance based product, which provides an opportunity to offer a more flexible and diverse range of products. We continue to achieve good growth in plumbing and drains and electrical cover. We have also achieved a 17% increase in the number of central heating installations undertaken, following a successful move to offer a more competitively priced product with the reassurance offered by the British Gas brand, together with the positive impact of the Government's boiler scrappage scheme.

Business energy supply and services continues to perform well, delivering substantial growth by offering price and service propositions that meet the needs of our customers.

In our Upstream UK business, the operational performance of our assets was strong, benefiting from additional gas and oil production and power generation volumes from the Venture and British Energy transactions. However the low commodity price environment has continued to impact our returns.

The integration of Venture with our existing business is now complete, greatly enhancing our upstream gas capabilities. We made good progress across our development projects in the first half, bringing a third well onstream at Chiswick and commencing production at Eris and Ceres. Successful appraisal drilling in the Western region of the Cygnus field has now been completed and we also made exploration discoveries at the Olympus, Fogelberg and Maria prospects. In power generation, we successfully commissioned the 885MW gas-fired power station at Langage, which is now one of the most efficient plants on the United Kingdom merit order. At British Energy, output for the existing nuclear fleet has been adversely affected by lower output from Sizewell B power station, which has been shut down since March for inspection and repair.

The Rough storage facility continues to perform extremely well, making an important contribution to the UK system. Continued capital investment in the facility over the past few years has delivered further enhancement

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Performance Overview continued

of injection capability, enabling the reservoir to be filled and depleted to higher levels than had previously been possible. The differential between summer and winter gas prices has narrowed significantly, currently impacting both the level of underlying returns achievable from the Rough facility and also the economics of our three potential new gas storage projects. The first of these, the Caythorpe onshore project, will be able to achieve substantially faster cycle times than Rough and therefore take advantage of volatility in prices, making it less dependent on the summer/winter price differentials. However, very recently Ofgem have indicated that they are minded to consult on revoking the existing Third Party Access exemption associated with the facility, and as a result of the regulatory uncertainty this creates for the project we have decided not to proceed at the current time. Meanwhile, engineering studies continue on our other two gas storage projects, Baird and Bains. These are complex offshore projects which have slower cycle times than Caythorpe, and significant work is required to ensure that satisfactory returns on investment can be achieved. A decision on both projects is now expected in 2011.

In North America, we have made encouraging progress. Our downstream supply businesses have recorded improved profitability*, achieving rates of return considerably in excess of our cost of capital, although upstream margins continue to be impacted by low wholesale commodity prices. Residential energy supply and business energy supply have both had a good start to the year, with underlying profitability* substantially ahead of the corresponding level in the first half of 2009. This reflects our close focus on the quality of the residential customer base to retain and attract the most valuable customers, while also achieving a reduction in costs and debt levels. We have also recently introduced a prepaid product offering, a new concept in Texas, demonstrating our ability to transfer existing expertise from the United Kingdom to new markets. In business energy supply, we have achieved higher electricity supply volumes which, together with ongoing tight cost control, have enabled us to leverage the scale we have built.

The North American market offers considerable growth opportunity for the Group, and provides important geographic diversity of earnings in chosen de-regulated markets. Our strategy is therefore to invest for growth and value, further developing the integrated energy model in the North American business over time. This will be achieved both by delivering improvements and growth in the existing business, and through carefully selected acquisitions in our target markets. We will therefore consider opportunities upstream, in gas production and power generation, and downstream, to build on our existing positions in key de-regulated markets. In energy services, we announced in June the acquisition of Clockwork Home Services, which completed in July. The transaction allows us to achieve scale in energy services in a cost-effective way, providing a platform for growth through its established franchise model. Leveraging our experience from the UK services business, the transaction marks a further step in the delivery of our strategy, to build a larger, more vertically integrated energy business in North America with a strong energy services offering.

Dividend

The Board of Directors is proposing an interim dividend of 3.84 pence per share to be paid on 17 November 2010 to shareholders on the register on 1 October 2010, in line with our stated dividend policy of paying an interim dividend of 30% of the prior year full year dividend.

Our employees

The Board extends its thanks to all our employees for their hard work, especially their dedication in ensuring that our customers continued to enjoy warm, well-lit homes throughout the exceptionally cold winter weather. Our ability to provide customers with the very highest levels of service, and to be able to respond flexibly to their requirements, is imperative for the business to achieve its maximum potential.

Safety remains paramount, across all areas of our business. In 2009, the Group's lost time accident rate improved from 1.00 to 0.49 incidents per 100,000 hours worked. Through ongoing attention to safe working practices we have been able to sustain this rate, despite the adverse winter conditions, with 0.48 incidents per 100,000 hours worked recorded in the first half of this year. We continue to work to achieve further improvements in our safety performance across the business. We have therefore implemented a roadmap

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Performance Overview continued

setting out our journey to a leading performance, and addressing both our culture and processes for all aspects of health, safety, process safety and environment.

The future

It is widely recognised that this is an important time for energy policy, if carbon targets and security of supply needs are to be met. We welcome the proposals the new Coalition Government has put forward in the Queen's Speech in respect of energy security and helping to decarbonise UK energy – both in power generation and in homes and businesses.

Changes to the power market will be required to ensure that appropriate incentives are in place to enable investment in low carbon generation and, over time, to manage increased levels of intermittent and low marginal cost generation. A stable investment climate will be essential for industry to be able to make the long-term investments that will be required.

The Government's 'Green Deal' will help households and businesses cut their energy usage, create thousands of new jobs and help to meet carbon reduction targets. We welcome the recognition that a new financing mechanism will need to be put in place so that people can pay for a range of energy efficiency upgrades over time through their energy bills from the savings they will make. British Gas aims to take a leadership position in making this policy initative a reality.

In March, we announced our plans to accelerate the roll-out of our smart meter programme, with a target of installing two million smart meters in customers' homes by the end of 2012. By sharing the details of our smart meter standards with the rest of the industry, we are actively building momentum to deliver smart meters across the country and ahead of the Government's target date of 2020 for all UK households to have smart meters installed.

In June we announced a £15 million programme to provide free solar panels to schools as part of our long running 'Generation Green' campaign to help raise awareness of energy efficiency in schools. In insulation, we have filled 400 of the 1,100 new jobs previously announced as we build a national insulation business. In the last five years alone, we have insulated 1.5 million homes, and see insulation as one of the most important ways for the country to make energy efficiency savings in the years ahead.

2010 outlook

The transformational progress we have delivered, both upstream and downstream, positions the business to perform well in both high and low commodity price environments. We see considerable growth opportunity for each of our businesses, both in the UK and in North America. Combining strong organic cash generation with a range of investment opportunities, aligned to our core competencies, provides a sound platform for growth. Through tight financial discipline, we remain closely focused on delivering long-term value for our shareholders, while maintaining a competitive, high quality service for our customers.

We have achieved strong financial performance in the first half of 2010, with downstream profitability* offsetting the effect of lower commodity prices on the upstream business. Overall, we expect the full year results for 2010 to be heavily weighted towards the first half of the year, and in line with current market earnings consensus, subject to the usual variables of weather patterns and commodity price movements.

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Group Financial Review

Group revenue for continuing operations was in line with the prior period at £11.7 billion (2009: £11.7 billion). Revenue in the Upstream UK business was higher due to first time contributions from Venture and the newly commissioned gas-fired power station at Langage, however this was offset by reductions in the UK downstream business caused by lower average tariffs for business energy customers and in North America as a result of lower commodity prices.

Throughout the Operating Review and Group Financial Review, reference is made to a number of different profit measures, which are shown in the table below:

For the period ended 30 June Term	**2010** **£m**	2009 £m	**Explanation**
Adjusted operating profit*:			
Downstream UK	**842**	472	
Upstream UK	**485**	334	
Storage UK	**97**	73	
North America	**139**	66	
Total adjusted operating profit*	**1,563**	945	The principal operating profit measure used by management and used throughout the Operating Review
Impact of fair value uplifts	**(68)**	-	Depreciation of fair value uplifts to property, plant and equipment of Strategic Investments
Interest and taxation on joint ventures and associates and other costs	**(44)**	(9)	
Group operating profit^Ω	**1,451**	936	Operating profit from continuing operations before exceptional items and certain re-measurements, reconciled to statutory profit in the Group Income Statement
Group profit^Ω	**850**	538	Profit from continuing operations before exceptional items and certain re-measurements, reconciled to statutory profit in the Group Income Statement
Adjusted earnings*	**886**	537	Earnings before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements, reconciled to statutory profit in note 11
Statutory profit	**1,386**	218	Profit including discontinued operations, exceptional items and certain re-measurements

Group operating profit^Ω from continuing operations was up 55% at £1,451 million (2009: £936 million). Adjusted operating profit* was up 65% to £1,563 million (2009: £945 million) as a result of improved profitability* from all segments. Downstream UK profitability* increased as lower commodity costs and higher volumes were partially offset by lower retail tariffs, higher transmission and metering costs, and higher environmental costs in the energy supply businesses. Upstream UK profitability* increased due to higher gas and power volumes resulting from the acquisitions of Venture and British Energy offsetting the impact of lower wholesale prices. Profitability* in North America increased as a result of improved performance from the downstream businesses being partially offset by an increased loss* from the upstream business.

Group profit^Ω on a continuing basis was up 58% to £850 million (2009: £538 million) primarily as a result of the increase in adjusted operating profit* described above. Taxation on profit^Ω from continuing operations increased by 45% to £488 million (2009: £337 million) and the resultant effective tax rate◊ for the Group was 37% (2009: 39%). The effective tax rate calculation is shown on the table on page 7.

Net interest expense was £113 million (2009: £61 million), reflecting the higher level of debt during the period. The increase in Group profit^Ω resulted in higher adjusted earnings per share^ (EPS) at 17.2 pence (2009: 10.5 pence).

The statutory profit for the period was £1,386 million (2009: £218 million). The reconciling items between Group profit^Ω and the statutory profit are related to exceptional items, certain re-measurements and

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Group Financial Review continued

discontinued operations. The Group reported a statutory basic EPS of 26.8 pence, up from a basic EPS of 4.0 pence in 2009. The increase in statutory basic EPS is more significant than the increase in adjusted earnings per share, due to the effect of exceptional items recorded in 2009 and significant credits on re-measurements of energy contracts in 2010 compared with re-measurement losses on energy contracts in 2009.

An interim dividend of 3.84 pence per share (2009: 3.66 pence per share) will be paid on 17 November 2010 to shareholders on the register on 1 October 2010, an increase of 4.9%.

Group operating cash flow from continuing operations before movements in working capital was up 77% to £1,856 million (2009: £1,051 million). After working capital adjustments, operational interest, tax, cash flows associated with exceptional charges in prior years and cash flow from discontinued operations, this stood at £1,737 million (2009: £705 million). The significant increase in operating cash flow is directly related to the increase in Group operating profit.

The net cash outflow from investing activities decreased to £640 million (2009: £1,602 million), due primarily to the significant expenditure in the prior period on acquiring 50% of Segebel S.A and the first tranche of the investment in Venture.

There was a net cash outflow from financing activities of £583 million (2009: inflow of £860 million). The net cash outflow principally arose from dividend and interest payments. The prior period included significant cash inflows from increasing debt facilities.

The Group's net debt reduced to £2,753 million from £3,136 million as at 31 December 2009 (30 June 2009: £1,889 million). This reflected the cash movements described above.

During the period net assets increased to £5,271 million from £4,255 million as at 31 December 2009 (30 June 2009: £4,630 million). The increase in net assets compared with 31 December 2009 reflects the profit for the period, including certain remeasurements, less the dividends paid.

Exceptional items

The Group did not have any exceptional items during the period (2009: charge of £194 million).

Certain re-measurements

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

The statutory results include net credits to operating profit relating to these re-measurements of £666 million (2009: net charge of £233 million) from continuing operations, relating primarily to contracts entered into for our energy procurement activities. As gas and power were delivered or settled under these contracts, net out-of-the-money mark-to-market positions from year end 2009 were unwound generating a net credit to the Income Statement in the period of £641 million (2009: net credit of £688 million). The portfolio of contracts fair valued under IAS 39 reported a net credit on revaluation of £16 million (2009: net charge of £1,039 million) reflecting a small net rise in forward price curves during the period. A gain of £21 million (2009: loss of £17 million) reflects positions relating to cross-border capacity and storage contracts. In 2009 the termination of an uneconomic long-term contract resulted in a credit within certain re-measurements of £135 million. There were also net losses arising on re-measurement of associates' energy contracts (net of taxation) of £12 million (2009: £nil million).

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Group Financial Review continued

As at 30 June 2010, derivative financial instruments entered into by the Group had, in aggregate, a net out-of-the-money mark-to-market position of £1,216 million (31 December 2009: £1,942 million, 30 June 2009: £2,067 million), relating primarily to energy contracts. The net gain on the re-measurement of energy contracts is calculated with reference to forward energy prices and therefore the extent of the overall economic profit or loss arising over the life of these contracts is uncertain and is entirely dependent upon the level of future wholesale energy prices.

Business combinations and capital expenditure

Details of business combinations are provided in note 16.

Details of capital expenditure are provided in note 6(c).

Principal risks and uncertainties

The Group's risk management process remains unchanged from 31 December 2009. The principal risks and uncertainties remain unchanged from those identified in the Company's 2009 Annual Report, which is available at www.centrica.com. A description of the impact of the volatility in wholesale commodity prices and the weakness of credit markets on financial risk management is provided in note 4.

Capital management

Details on the Group's capital management are provided in note 5.

Related party transactions

Related party transactions are described in note 19.

Events after the balance sheet date

On 1 July 2010, the Group acquired the business and net assets of Clockwork Home Services Inc and 100% of the shares of Air Time Canada Inc, together known as Clockwork. The total cash consideration for the acquisition was US$182 million (£122 million), which includes deferred consideration of US$17 million (£11 million).

On 20 July 2010, Centrica signed an agreement to sell its Spanish business, Centrica Energía S.L., to Villar Mir Energía S.L. (VME). Including a dividend taken out of the business prior to sale, the proceeds will be approximately €35 million (approximately £29 million) in cash. The transaction is expected to complete in September 2010.

Effective tax rate reconciliation:

For the period ended 30 June Term	2010 £m	2009 £m
Taxation on profit from continuing operations	**488**	337
Tax impact of depreciation on Venture fair value uplift	**17**	-
Share of joint ventures / associates taxation	**15**	2
Adjusted tax charge from continuing operations	**520**	339
Group operating profit Ω	**1,451**	936
Impact of fair value uplifts	**68**	-
Share of joint ventures / associates taxation	**15**	2
Net interest expense	**(113)**	(61)
Adjusted profit from continuing operations before taxation	**1,421**	877
Effective tax rate ◊	**37%**	39%

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Operating Review

Downstream UK

Our downstream UK business, British Gas, had a strong first half of the year, particularly in residential energy supply and business energy supply. Continued focus on customer service and a competitive pricing position resulted in an additional 223,000 residential energy accounts coming onto supply since the start of the year, while we continue to offer innovative products and improve our online penetration. In business energy supply, continued focus on segmentation, in particular the SME and multi-site sectors, resulted in improved margins. Our services business incurred incremental costs in the first half of 2010 as a result of the unusually cold weather and the subsequent higher incidence of boiler callouts, however the business has made good initial progress in the areas that will drive growth over the next three years. The number of boilers installed was materially higher year on year, growth in plumbing and electrical products continued, and customers are moving onto our flexible insurance based offering.

The number of 'joint product' households, those who take both an energy and a services product from us, increased by 51,000 in the first half of 2010. The number of residential energy accounts on supply increased by 223,000, mainly as a result of our market leading price reduction early in February, which positioned us as the cheapest supplier of both gas and electricity at average consumption in all regions of Britain. We remain the cheapest supplier for standard electricity across Britain at average consumption.

The number of services product holdings increased by over 100,000 to 8.56 million, with continued sales of our electrical and plumbing products to both Central Heating Care (CHC) and energy customers. A key part of the strategy for the services business is to offer customers more flexibility through insurance based products. Nearly two million of our customer product holdings are now insurance based, and we expect to have over 70% of our customer base converted by the end of 2010, with most of the remainder converted by the end of 2012.

The number of central heating systems installed was up by 17% on the prior year, partially helped by the Government's boiler scrappage scheme. We now offer a more competitively priced product, with the reassurance of the British Gas brand, as we look to improve lead conversion. This is an important part of our home services growth strategy and we expect to double the size of the Central Heating Installations business by 2012.

The number of business energy customer supply points was at 1.05 million, broadly the same as at the start of the year as we continued to focus on delivering price and service propositions to meet the needs of our customers. Retention rates remained high for our SME and multi-site customers, where we have a competitive advantage in meeting the high levels of service that customers demand. We have also made progress in the business services and management sector in the first six months of the year, with revenue up 45% and we expect this to improve customer retention moving forward and contribute growing returns over time.

Operationally the business continued to perform well. We have a good safety record, and the number of lost time incidents has continued to decline over the last year despite the high incidence of boiler repair call outs during the exceptionally cold winter. The average speed to answer calls remained well below 60 seconds in our energy call centres, whilst the number of calls received continued to decline as our billing accuracy remained high, and more customers chose to use our online platform. Following the introduction of "EnergySmart" towards the end of 2009 the number of meter reads submitted online has increased to around 140,000 per week, more than double the number from six months ago, while our customers are also increasingly using the internet to carry out other transactions as well. Around 40,000 payment transactions are being carried out online each week, compared to 30,000 this time last year and around 500,000 Annual Service Visits (ASV's) were booked online over the first six months of 2010, double the 2009 figure.

As a result of these operational improvements our Net Promoter Score (NPS) improved in both our residential and business energy supply divisions. Despite the cold winter we maintained a high level of operational performance in our services business, with our service engineers repairing up to 35,000 boilers a day during

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Operating Review continued

the coldest period, around double the amount normally repaired on a typical winter's day. As a result the NPS for the services business remained high at 54%.

Our people remain key to the success of British Gas, and ensuring they remain engaged is key for the future growth of the business. British Gas was also once again recognised by the Great Places to Work Institute as one of the 'UK's 50 Best Workplaces'.

We continue to lead the industry in supporting vulnerable customers, through our Essentials and 'Here to HELP' social programme. We are helping over 300,000 in-need customers through our discounted tariff and our spend has far exceeded our social spend commitment to Government in each of the past two years. Our successful 'Generation Green' campaign, which helps to raise awareness of energy efficiency to school children, now has over 10,000 schools participating across the UK, and we announced in June that we are investing £15 million to install solar panels for up to 750 schools in the UK.

New markets remain a key area for the future growth of British Gas. Following the announcement in February that we were building a national insulation business with the creation of 1,100 new jobs, we have opened six depots across the UK, and with the acquisition of Hillserve Limited in April now have over 400 employees in this business. We have installed over 100,000 smart meters to date for business and residential customers as we look to lead the roll out of smart meters in the UK. To that end in March we shared our technical standards with the rest of the industry to build momentum for an early roll-out and also announced the companies we would be partnering in the initial phase of the roll-out. This will allow us to achieve our target of two million smart meters installed by the end of 2012 and to help beat the Government's target date of 2020 for all UK households to have a smart meter installed.

We also retain interests in new technologies, to allow us to capitalise on these markets as they grow. In February we announced the go ahead of five biomethane demonstration projects, which should be the first technology of this type to clean up and inject renewable gas into the UK's existing gas grid. We remain the largest installer of solar photovoltaic panels in the UK, and combined with our interests in biomass heating through a stake in Econergy, Stirling Engine boilers via our partnership with Baxi and in Fuel Cell boilers through our stake in Ceres Power Holdings plc, we are well placed in the microgeneration market. We also remain focused on forging strategic relationships with local authorities, to take advantage of our expertise in the core energy and services markets.

Revenue in the period was down 2% to £6,733 million (2009: £6,877 million), predominately as a result of lower retail tariffs for both residential and business customers. Operating profit* increased by 78% to £842 million (2009: £472 million).

Residential energy supply recorded a profit* of £585 million (2009: £295 million). While energy efficiency measures led to a reduction in underlying energy consumption, average gas consumption and electricity consumption increased by 8% and 3% respectively due to the exceptionally cold winter. This was offset by lower average tariffs due to price reductions, leading to the average customer bill being slightly lower than in the previous year. Customer numbers increased following our industry leading tariff reduction in February. Overall, revenue increased by 1.5% to £4,448 million. Costs fell by 6% to £3,863 million as lower unit costs for gas and electricity more than offset the higher volumes, resulting in an overall fall in commodity costs. This was sufficient to offset higher transmission and metering costs, which increased by £16 million, higher environmental costs, the costs of closing out some out-of-the-money contracts for delivery of gas during the remainder of 2010 and 2011 amounting to £94 million, and incremental cost in respect of the £15 million investment to install solar panels for schools. Given normal consumption patterns and current forward wholesale commodity prices, residential energy supply profit* is expected to be heavily weighted towards the first half of the year.

For residential services, revenue was up 6%, reflecting contract growth and a higher number of installations. Business energy supply and services revenue fell by 14%, reflecting our segmented strategy to move away from large, higher consumption industrial customers, together with the impact of lower average wholesale prices. Residential services operating profit* was down 3% to £109 million (2009: £112 million), as the cold

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Operating Review continued

winter resulted in a record level of call outs, and increased costs. The net operating margin fell to 15.0% (2009: 16.3%), however we would typically expect an improvement in the second half subject to normal weather conditions. Business energy supply and services operating profit* more than doubled to £148 million (2009: £65 million), reflecting our focus on the higher value SME and multi-site segments and an overall improvement in operational performance, together with the impact of higher volumes resulting from the colder weather. Given the fixed contract nature of the contracts sold to business customers and the colder weather in the first half, profitability* in 2010 is expected to be weighted towards the first half.

As previously announced we are on track to exceed the targeted like for like cost base reduction of £100 million, allowing us to reinvest to drive growth in key areas, such as online, sales and marketing, customer service and new markets. These cost savings are part of our strategy to deliver sustainable profits in residential energy, together with outstanding customer service, innovative products and propositions, and competitive pricing, whilst also delivering growth in both residential services and business energy supply and services.

Downstream UK

For the period ended 30 June	H1 2010	H1 2009	Δ%	FY 2009
Downstream UK				
Total customer accounts ('000)	**25,542**	24,780	3.1	25,211
Total customer households ('000)	**12,268**	12,114	1.3	12,226
Joint product households ('000)	**2,094**	1,955	7	2,043
Revenue (£m):	**6,733**	6,877	(2.1)	12,565
Operating cost (excluding bad debt) (£m)	**697**	661	5	1,313
Operating profit (£m)*	**842**	472	78	1,011

For the period ended 30 June	H1 2010	H1 2009	Δ%	FY 2009
Residential energy supply				
Customer accounts (period end):				
Gas ('000)	**9,385**	9,382	0.0	9,378
Electricity ('000)	**6,549**	6,137	7	6,333
Total ('000)	**15,934**	15,519	2.7	15,711
Estimated market share (%):				
Gas	**43.5**	43.5	0.0 ppts	43.4
Electricity	**25.1**	23.6	1.5 ppts	24.2
Average consumption:				
Gas (therms)	**319**	295	8	506
Electricity (kWh)	**2,012**	1,960	2.7	3,892
Total consumption:				
Gas (mmth)	**2,997**	2,788	7	4,771
Electricity (GWh)	**12,986**	11,915	9	24,021
Revenue (£m):				
Gas	**3,075**	3,047	0.9	5,218
Electricity	**1,373**	1,337	2.7	2,625
Total	**4,448**	4,384	1.5	7,843
Transmission and metering costs (£m):				
Gas	**611**	627	(2.6)	1,239
Electricity	**336**	304	11	617
Total	**947**	931	1.7	1,856
Operating profit (£m)*	**585**	295	98	595
Operating margin (%)	**13.2**	6.7	6.5 ppts	7.6

* including joint ventures and associates stated gross of interest and taxation, and before other costs and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Operating Review continued

For the period ended 30 June	H1 2010	H1 2009	Δ%	FY 2009
Residential services				
Customer product holdings (period end):				
Central heating service contracts ('000)	**4,593**	4,555	0.8	4,598
Kitchen appliances care (no. of customers) ('000)	**434**	422	2.8	433
Plumbing and drains care ('000)	**1,745**	1,671	4.4	1,724
Home electrical care ('000)	**1,460**	1,363	7	1,430
Other contracts ('000)	**328**	203	62	268
Total holdings ('000)	**8,560**	8,214	4.2	8,453
Central heating installations ('000)	**63**	54	17	114
Revenue (£m):				
Central heating service contracts	**371**	359	3.3	725
Central heating installations	**179**	169	6	351
Other	**176**	160	10	330
Total	**726**	688	6	1,406
Engineering staff employed	**9,440**	9,339	1.1	9,295
Operating profit (£m)*	**109**	112	(2.7)	233
Operating margin (%)	**15.0**	16.3	(1.3) ppts	16.6

For the period ended 30 June	H1 2010	H1 2009	Δ%	FY 2009
Business energy supply and services				
Customer supply points (period end):				
Gas ('000)	**398**	408	(2.5)	400
Electricity ('000)	**650**	639	1.7	647
Total ('000)	**1,048**	1,047	0.1	1,047
Average consumption:				
Gas (therms)	**1,784**	1,839	(3.0)	3,134
Electricity (kWh)	**14,911**	16,328	(9)	32,275
Total consumption:				
Gas (mmth)	**712**	756	(6)	1,275
Electricity (GWh)	**9,672**	10,267	(6)	20,512
Revenue (£m):				
Gas	**603**	716	(16)	1,170
Electricity	**956**	1,089	(12)	2,146
Total	**1,559**	1,805	(14)	3,316
Transmission and metering costs (£m):				
Gas	**101**	107	(6)	204
Electricity	**198**	210	(6)	418
Total	**299**	317	(6)	622
Operating profit (£m)*	**148**	65	128	183
Operating margin (%)	**9.5**	3.6	5.9 ppts	5.5

Upstream UK

Our UK upstream business faced challenging market conditions during the first half of 2010 as UK wholesale commodity prices remained low for much of the period. Despite this the operational performance of our assets was strong and operating profit* for the division was up 45% to £485 million (2009: £334 million) with the impact of lower gas and power prices being offset by higher gas production and power generation volumes following the acquisitions of Venture and the 20% stake in British Energy in 2009.

Upstream gas and oil

Our UK upstream gas and oil business has made good progress during the first six months of 2010. The integration of Venture with our existing activities has been completed successfully, greatly enhancing our upstream capabilities. Staff retention across the business has also remained high. We now have the depth of

* including joint ventures and associates stated gross of interest and taxation, and before other costs and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Operating Review continued

expertise to become a leading operator of mature and orphaned assets in the UK, Norway and The Netherlands. We have also embedded the decision making processes and accountabilities required to ensure that the business can operate with the pace and flexibility required to realise fully the opportunities made available to it.

During this period we have made good progress on our gas development projects. The third development well at our Chiswick field in the North Sea was successfully drilled and brought on stream in early 2010 and the fourth well is expected to come on stream in the third quarter. Both the Eris and Ceres gas fields commenced production in March 2010. Work on the F3-FA development continues to progress with the platform due to be installed on location later in 2010. First gas remains on track to be delivered during winter 2010/11.

Successful appraisal drilling in the western region of the Cygnus field has now been completed and the reserves potential of the field is now being assessed as part of the full field development planning. As part of our focused exploration and appraisal programme we made discoveries at the Olympus prospect in the southern North Sea and the Fogelberg and Maria prospects in Norway. Results from the wells are encouraging and early indications are that these will be commercial development opportunities.

Of the ten operated and non-operated wells drilled this year seven have shown positive results, including three exploration discoveries. A further six wells are scheduled to be drilled by the end of 2010 giving Centrica one of the most active drilling programmes in the UK North Sea.

In February we announced the acquisition of Suncor's portfolio of Trinidadian exploration, development and production assets, providing access to one of the Atlantic Basin's key LNG export areas. Government approval has been secured and the transaction is expected to be completed shortly.

The low gas price continued to impact returns from our upstream gas and oil business in the period although this was partially offset by greater production, with a full six month contribution from the Venture assets. As a result operating profit* was £314 million (2009: £346 million). The average achieved gas sales price was down 29% at 39.8 pence per therm (p/th) (2009: 55.7p/th) reflecting the reduction in UK wholesale market gas prices. In addition the price achieved in 2009 benefited from forward sales entered into when the gas price was materially higher. The corresponding effect of forward sales in 2010 was significantly lower.

Overall gas production volumes were up 41% at 1,321 million therms (mmth) (2009: 939mmth) and oil and condensate production were also up 88% at 6.0 million barrels of oil equivalent (mmboe) (2009: 3.2mmboe) reflecting the additional contribution from the Venture assets as well as higher production from Morecambe, which was shut in for parts of 2009. Overall production costs increased to £504 million (2009: £309 million) reflecting higher production volumes and an increased proportion of production from newly developed and acquired fields.

Power generation

The first half of 2010 saw gas-fired power stations continuing to displace coal fired generation on the UK merit order, although low gas prices and healthy UK system margins led to relatively low market power prices and spark spreads. Our CCGT fleet reliability was excellent at 99% (2009: 96%) and the average load factor was 60% (2009: 57%). Overall the average spark spread achieved was slightly down at £11.5 per megawatt hour (MWh) (2009: £11.7/MWh). Generated volumes include output from our new 885MW Langage power station which commenced full commercial operation in March and is one of the most efficient stations on the UK merit order. Despite the high availability of our wind portfolio, weather patterns resulted in lower generated volumes.

In February we completed the joint venture agreement with DONG and Siemens Project Ventures for the development of the Lincs 270MW offshore wind project. All major contracts for this project have been awarded and onshore works have commenced.

In nuclear, our 20 per cent equity share of the output from the British Energy fleet was 5.0 terrawatt hours during the first half of 2010. Output has been adversely impacted by lower production from Sizewell B power station, which has been shut down since March for inspection and repair. The average achieved power price was £42.9/MWh as we continued to benefit from British Energy's forward sales, at prices above market levels.

* including joint ventures and associates stated gross of interest and taxation, and before other costs and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Operating Review continued

Overall operating profit* for the period was £127 million (2009: £43 million), with the additional contribution from the British Energy fleet and Langage more than offsetting the lower achieved spark spreads and lower wind yields.

Industrial and commercial

This segment, which includes a number of legacy gas sales contracts, together with results from our LNG and German businesses, reported an operating profit* of £46 million (2009: operating loss* of £89 million) during the first half of 2010. The average achieved sales price from the legacy gas sales contracts was lower year on year at 47.8p/th (2009: 49.1p/th), however higher sales volumes and the effect of a lower hedge position going into the year enabled the segment to benefit from the fall in wholesale gas prices.

During the first half of the year, we took 9 LNG cargoes into the Isle of Grain totaling 364mmth. This was despite lower NBP gas prices and demand from global markets.

Proprietary energy trading

Accord delivered an operating loss* of £2 million (2009: operating profit* £34 million) over the period, reflecting difficult trading conditions.

Upstream UK

For the period ended 30 June	H1 2010	H1 2009	Δ%	FY 2009
Upstream gas and oil				
Gas production volumes (mmth)				
Morecambe	**736**	553	33	847
Other	**585**	386	52	861
Total	**1,321**	939	41	1,708
Average gas sales price (p/therm)	**39.8**	55.7	(29)	48.9
Oil and condensate production volumes (mmboe)	**6.0**	3.2	88	8.8
Average oil and condensate sales price (£/boe)	**41.9**	29.7	41	38.1
Production costs (£m)	**504**	309	63	796
Operating profit (£m)*	**314**	346	(9)	444
Power generation				
Power generated (GWh)				
Gas-fired	**12,328**	9,651	28	23,203
Renewables	**209**	386	(46)	821
British Energy	**4,960**	0	nm	1,128
Total	**17,497**	10,037	74	25,152
Achieved Clean Spark Spread (£/MWh)	**11.5**	11.7	(1.7)	11.7
Achieved power price (including ROCs) (£/MWh) - renewables	**98.7**	103.4	(4.5)	97.3
Achieved power price (£/MWh) - British Energy	**42.9**	n/a	nm	45.9
Operating profit (£m)*	**127**	43	195	147
Industrial and commercial				
UK I&C external sales volumes (mmth)	**728**	617	18	1,268
UK I&C Average sales price (p/therm)	**47.8**	49.1	(2.6)	45.8
Operating profit / (loss) (£m)*	**46**	(89)	nm	(93)
Proprietary energy trading				
Operating (loss) / profit (£m)*	(2)	34	nm	27
Upstream UK operating profit (£m)*	**485**	334	45	525

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Operating Review continued

Storage UK

The Rough storage facility continues to perform extremely well, with reliability of over 99% during the first half of 2010. The unusually cold winter, which led to National Grid issuing 'Gas Balancing Alerts' on three days in a week in January, resulted in record demand for gas and subsequent high levels of withdrawal. This resulted in a record low Net Reservoir Volume (NRV) for Rough in March this year, following its highest ever NRV in November 2009.

In April we announced that we had sold all SBUs for the 2010/11 storage year at an average selling price of 39.7p (2009/10: 46.8p). The effect of the lower price will be reflected fully in the second half result. The decline in price reflects a narrowing of summer/winter spreads towards the end of the sales period, and the current 2011/12 spreads remain narrower than seen in recent years.

Gross revenue in the first half was up 19% to £148 million (2009: £124 million), reflecting an average SBU price in the period of 44.4p (2009: 41.5p) and improved optimisation performance, the majority of this expected to be recognised in the first half of the year. Operating profit* was up 33% to £97 million (2009: £73 million).

On our Caythorpe gas storage project we were expecting to be able to make a final investment decision this month. Substantially faster cycle times will allow Caythorpe to take advantage of volatility in prices, making it less dependent on summer/winter price differentials. However, very recently Ofgem have indicated that they are minded to consult on revoking the existing Third Party Access exemption associated with the facility, and as a result of the regulatory uncertainty this creates for the project we have decided not to proceed at the current time. Meanwhile, engineering studies continue on our other two gas storage projects, Baird and Bains. The Front End Engineering Design (FEED) for Baird has now been largely completed, and in combination with further subsurface works the estimated reservoir capacity has increased to around 80bcf. We have increased our stake in the Bains field through the acquisition of GdF Suez's 34% share of the facility, taking our total share to 86.8% and have commenced FEED. These are complex offshore projects which have more seasonal cycle times, and significant work is required to ensure that satisfactory returns on investment can be achieved. A decision on both projects in now expected in 2011.

Storage UK

For the period ended 30 June	H1 2010	H1 2009	Δ%	FY 2009
Average SBU price (in period) (pence)	**44.4**	41.5	7	44.2
Gross Revenue (£m)				
Standard SBUs	**100**	94	6	201
Optimisation / other	**48**	30	60	65
Total	**148**	124	19	266
External revenue (£m)	**128**	95	35	196
Cost of gas (£m)	**9**	11	(18)	19
Operating profit (£m)*	**97**	73	33	168

North America

Our North American business, Direct Energy, is making encouraging progress with good returns in the downstream businesses being partially offset by a reduction in upstream profitability*, where we continue to be impacted by the low commodity prices in Canada and Texas.

Our North American downstream supply businesses are achieving rates of return considerably in excess of our cost of capital. In both residential and business energy supply we have made good progress in the first half, with lower bad debt costs in residential and lower churn in Texas, and strong second quarter energy sales to business customers. In services the acquisition of Clockwork Home Services, which completed in July, provides a step change in scale, in a cost effective manner. This transaction will allow synergies to be realised,

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Operating Review continued

provides enhanced geographical spread, and nearly doubles the proportion of our energy customers we can offer a services product to.

Upstream the business continues to be impacted by low gas prices across North America and low spark spreads in Texas, however as asset prices reduce we will continue to look for opportunities to increase the level of vertical integration in the North American business in both gas production and power generation.

Direct Energy made an operating profit* of £139 million (2009: £66 million), up 111% in part reflecting the one-off write off in 2009 of final debt balances in Texas. On an underlying basis profit* was up 25% and was up 29% on a constant currency basis, with the improvement downstream more than offsetting the impact of low commodity prices upstream. Revenue was down 9% and down 11% on a constant currency basis, as the lower wholesale prices impacted the upstream and flowed through to the downstream energy supply businesses.

With a new management team in place, we see considerable opportunity for growth in the North American business, providing geographic diversity of earnings for the Group in carefully selected de-regulated markets.

Residential energy supply

Operating profit* in our residential energy supply business was £110 million (2009: £46 million), more than double the 2009 comparator which included a one-off debt write off of £45 million. Underlying profitability*, excluding the impact of the write-off, was up 25% on a constant currency basis. Revenue was down 6% to £1,369 million (2009: £1,454 million) and down 10% on a constant currency basis, as a result of lower retail tariffs, lower customer numbers and lower average consumption.

Customer numbers fell by 5% over the first half as we focused on retaining the most valuable customers, and tightened our acquisition criteria. In Texas we have improved retention rates through an increased focus on value based pricing, proactive outbound retention and an improved understanding of the causes of churn. In addition any new customer acquisitions must meet tighter credit criteria, the benefits of which are already being seen in reduced bad debt charges. In the US North East we are focusing on customer retention and acquisition in the most valuable customer segments, as a result of which we saw attrition of some blocks of low value customers, and we now have over 50,000 customers in Pennsylvania, where the power market opened at the end of 2009. Market conditions remain challenging in Ontario for electricity, where we are assessing the impact of new legislation that makes it more difficult to sell electricity contracts.

Our overall cost base has decreased as we continue to focus on cost reduction to help improve returns from the existing business. In Texas our underlying debt level is much reduced as a result of operational improvements and the tighter acquisition criteria, and we recently launched prepay meters into the Texas market, which will allow customers to join us without the need for an upfront deposit. Our focus in the residential energy supply business remains on continuing to improve returns and on growing the scale of the business.

Business energy supply

Our business energy supply division continued to grow during the first half of 2010, with electricity volumes up 18% compared to the same period in 2009. Following a first quarter in which customers were holding back on signing new contracts as a result of wholesale commodity price uncertainty, we have seen a significant upturn in sales volumes in the second quarter. The net margin also improved to 3.3% (2009: 1.5%), as a result of a lower cost base, and disciplined customer acquisition as we continued to price for credit and capital utilisation and targeted particular customer segments.

Operating profit* more than doubled to £44 million (2009: £20 million), as a result of the higher volumes and the higher margin. Revenue was broadly flat, reflecting the lower commodity price environment. We continue to focus on reducing costs, to leverage the scale we have now built, improving effectiveness of sales channels and growing volume, focusing on the most attractive customer segments.

* including joint ventures and associates stated gross of interest and taxation, and before other costs and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Operating Review continued

Residential and business services

The acquisition of Clockwork Home Services, completed in July, materially increases the size of our North American services business. Clockwork provides on-demand services to around one million households annually across North America, and also has franchise operations and an affinity programme for independent contractors. The acquisition will generate scale synergies through lower procurement costs, increases the proportion of households to which Direct Energy can offer both energy and services, and makes Direct Energy the market leader in the home energy services market, providing a robust platform for growth through an established franchise model.

Performance of the existing home services business has improved, with profits* higher than last year and a lower cost base driving higher margins. Profitability* in Canada increased despite competitive pressures resulting in a small decline in customers. In the US the recovery in the economy is positive for the business, although new housing construction remains slow and this slowdown is also affecting our light commercial new construction services business. Revenue from our residential and business services was up 3% to £208 million (2009: £201 million), and down 3% on a constant currency basis. Operating profit* more than doubled to £8 million (2009: £3 million).

Upstream and wholesale energy

Gas and power prices across North America remained low during the first half of 2010, significantly impacting the returns from our upstream and wholesale business. However the new management team is now in place, and as asset prices reduce we will continue to look for value-adding opportunities to increase the level of vertical integration through carefully selected acquisitions.

The average spot gas price in Canada was C$4.2 per gigajoule (GJ), which was reflected in the achieved gas sales price of C$5.2 per GJ from our gas business in Alberta. Volumes were down 5% reflecting the deferral of development activity in the current environment.

Power generation volumes were down 1% as our mid-merit plants in Texas experienced slightly reduced running patterns with gas fired plants remaining at the margin. Reserve margins remained healthy during the first half as a result of lower consumer demand, resulting in low market spark spreads, and as a result the margin we made from our power plants was insufficient to cover our fixed costs.

Overall, the upstream and wholesale energy division made an operating loss* of £23 million (2009: operating loss* of £3 million) as a result of the low commodity price environment, partially offsetting the improvement in performance downstream.

* including joint ventures and associates stated gross of interest and taxation, and before other costs and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Operating Review continued

North America

For the period ended 30 June	H1 2010	H1 2009	Δ%	FY 2009
Residential energy supply				
Customer numbers (period end) ('000)	**2,945**	3,115	(5)	3,075
Revenue (£m)	**1,369**	1,454	(6)	2,644
Operating profit (£m)*	**110**	46	139	94
Operating margin (%)	**8.0**	3.2	4.8 ppts	3.6
Business energy supply				
Gas sales (mmth)	**361**	400	(10)	689
Electricity sales (GWh)	**18,280**	15,488	18	33,430
Revenue (£m)	**1,319**	1,311	0.6	2,491
Operating profit (£m)*	**44**	20	120	34
Operating margin (%)	**3.3**	1.5	1.8 ppts	1.4
Residential and business services				
Customer numbers (period end) ('000)	**2,069**	2,167	(4.5)	2,111
Revenue (£m)	**208**	201	3.5	406
Operating profit (£m)*	**8**	3	167	18
Operating margin (%)	**3.8**	1.5	2.3 ppts	4.4
Upstream and wholesale energy				
Gas production volumes (mmth)	**177**	186	(4.8)	375
Power generated (GWh)	**2,190**	2,207	(0.8)	4,982
Revenue (£m)	**149**	385	(61)	567
Operating (loss) / profit (£m)*	**(23)**	(3)	nm	7
North America revenue (£m)	**3,045**	3,351	(9)	6,108
North America operating profit (£m)*	**139**	66	111	153

North America with comparator year of 2009 restated to remove effect of foreign exchange movements

For the period ended 30 June	H1 2010	H1 2009^	Δ%
Revenue (£m)			
Residential energy supply	**1,369**	1,525	(10)
Business energy supply	**1,319**	1,308	0.8
Residential and business services	**208**	215	(3.3)
Upstream and wholesale energy	**149**	385	(61)
Direct Energy revenue	**3,045**	3,433	(11)
Operating profit / (loss) (£m)*			
Residential energy supply	**110**	43	156
Business energy supply	**44**	19	132
Residential and business services	**8**	4	100
Upstream and wholesale energy	**(23)**	(3)	nm
Direct Energy operating profit*	**139**	63	121

* including joint ventures and associates stated gross of interest and taxation, and before other costs and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Statement of Directors' Responsibility

The Directors are responsible for preparing the Interim Results for the six month period ended 30 June 2010 in accordance with applicable law, regulations and accounting standards. In preparing the condensed interim Financial Statements, the Directors are responsible for ensuring that they give a true and fair view of the state of affairs of the Group at the end of the period and the income or loss of the Group for that period.

The Directors confirm that the condensed interim Financial Statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the European Union and that the Interim 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 2009 Annual Report and Accounts. A list of current Directors is maintained on the Centrica plc website which can be found at www.centrica.com.

By order of the Board

Sam Laidlaw	**Nick Luff**
28 July 2010	**28 July 2010**
Chief Executive	**Group Finance Director**

Independent Review Report to Centrica plc

Introduction

We have been engaged by the Company to review the condensed interim Financial Statements in the Interim Results for the six months ended 30 June 2010, which comprise the Group Income Statement, Group Statement of Comprehensive Income, Group Balance Sheet, Group Statement of Changes in Equity, Group Cash Flow Statement and related notes. We have read the other information contained in the Interim Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed interim Financial Statements.

Directors' responsibilities

The Interim Results are the responsibility of, and have been approved by, the directors. The directors are responsible for preparing the Interim Results in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim Financial Statements in the Interim Results for the six months ended 30 June 2010 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
1 Embankment Place
London
WC2N 6RH
28 July 2010

Notes

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

Group Income Statement

Six months ended 30 June	Notes	2010 Business performance £m	2010 Exceptional items and certain re-measurements £m	2010 Results for the period £m	2009 Business performance £m	2009 Exceptional items and certain re-measurements £m	2009 Results for the period £m
Continuing operations							
Group revenue	6	**11,707**	**-**	**11,707**	11,657	-	11,657
Cost of sales before exceptional items and certain re-measurements		**(8,921)**	**-**	**(8,921)**	(9,412)	-	(9,412)
Exceptional items	7	**-**	**-**	**-**	-	(194)	(194)
Re-measurement of energy contracts	7	**-**	**678**	**678**	-	(233)	(233)
Cost of sales		**(8,921)**	**678**	**(8,243)**	(9,412)	(427)	(9,839)
Gross profit/(loss)		**2,786**	**678**	**3,464**	2,245	(427)	1,818
Operating costs		**(1,330)**	**-**	**(1,330)**	(1,312)	-	(1,312)
Share of (losses)/profits of joint ventures and associates, net of interest and taxation	12	**(5)**	**(12)**	**(17)**	3	-	3
Group operating profit	6	**1,451**	**666**	**2,117**	936	(427)	509
Interest income	8	**249**	**-**	**249**	309	-	309
Interest expense	8	**(362)**	**-**	**(362)**	(370)	-	(370)
Net interest expense	8	**(113)**	**-**	**(113)**	(61)	-	(61)
Profit/(loss) from continuing operations before taxation		**1,338**	**666**	**2,004**	875	(427)	448
Taxation on profit from continuing operations	9	**(488)**	**(184)**	**(672)**	(337)	122	(215)
Profit/(loss) from continuing operations after taxation		**850**	**482**	**1,332**	538	(305)	233
(Loss)/profit from discontinued operations	17	**(8)**	**62**	**54**	22	(37)	(15)
Profit/(loss) for the period		**842**	**544**	**1,386**	560	(342)	218
Attributable to:							
Equity holders of the parent		**835**	**544**	**1,379**	537	(335)	202
Non-controlling interests		**7**	**-**	**7**	23	(7)	16
		842	**544**	**1,386**	560	(342)	218

Earnings per ordinary share	Notes	2010 Pence	2009 Pence
From continuing and discontinued operations:			
Basic	11	**26.8**	4.0
Diluted	11	**26.7**	3.9
From continuing operations:			
Basic	11	**25.8**	4.5
Diluted	11	**25.7**	4.5
Interim dividend proposed/paid per ordinary share	10	**3.84**	3.66
Prior year final dividend paid per ordinary share	10	**9.14**	8.73

The notes on pages 25 to 41 form part of these condensed interim Financial Statements.

Group Statement of Comprehensive Income

Six months ended 30 June	2010 £m	2009 £m
Profit for the period	**1,386**	218
Other comprehensive income:		
(Losses)/gains on revaluation of available-for-sale securities	**(6)**	39
Taxation on revaluation of available-for-sale securities	**-**	(9)
	(6)	30
Losses on cash flow hedges	**(11)**	(327)
Transferred to income and expense on cash flow hedges	**160**	162
Transferred to assets and liabilities on cash flow hedges	**(2)**	(7)
Recycling of cash flow hedges on disposal of business	**9**	-
Exchange (losses)/gains on cash flow hedges	**(9)**	14
Taxation on cash flow hedges	**(45)**	43
	102	(115)
Exchange gains on translation of foreign operations	**43**	36
Taxation on related exchange differences	**-**	(23)
	43	13
Actuarial losses on defined benefit pension schemes	**(1)**	(182)
Taxation on actuarial losses on defined benefit pension schemes	**-**	51
	(1)	(131)
Share of other comprehensive income/(loss) of joint ventures and associates, net of taxation	**(18)**	-
Other comprehensive income/(loss), net of taxation	**120**	(203)
Total comprehensive income for the period	**1,506**	15
Attributable to:		
Equity holders of the parent	**1,499**	(1)
Non-controlling interests	**7**	16
	1,506	15

The notes on pages 25 to 41 form part of these condensed interim Financial Statements.

Group Balance Sheet

	Notes	30 June 2010 £m	31 December 2009 £m	30 June 2009 (restated) (i) £m
Non-current assets				
Goodwill		**2,176**	2,088	1,348
Other intangible assets		**769**	734	585
Property, plant and equipment		**5,986**	6,059	4,631
Interests in joint ventures and associates	12	**2,452**	2,422	98
Deferred tax assets		**264**	534	286
Trade and other receivables		**78**	143	23
Derivative financial instruments		**441**	316	440
Securities		**176**	176	152
Retirement benefit assets	15	**-**	-	5
		12,342	12,472	7,568
Current assets				
Inventories		**348**	382	371
Current tax assets		**59**	69	46
Trade and other receivables		**3,663**	4,181	3,893
Derivative financial instruments		**485**	492	839
Securities		**42**	74	359
Cash and cash equivalents		**1,807**	1,294	2,659
		6,404	6,492	8,167
Assets of disposal groups classified as held for sale	17	**636**	478	2,983
Total assets		**19,382**	19,442	18,718
Current liabilities				
Trade and other payables (i)		**(3,227)**	(3,955)	(2,753)
Current tax liabilities (i)		**(430)**	(184)	(406)
Bank overdrafts, loans and other borrowings	13	**(89)**	(86)	(180)
Derivative financial instruments		**(1,200)**	(1,744)	(2,116)
Provisions for other liabilities and charges		**(165)**	(193)	(34)
		(5,111)	(6,162)	(5,489)
Net current assets		**1,293**	330	2,678
Non-current liabilities				
Trade and other payables		**(91)**	(82)	(62)
Bank overdrafts, loans and other borrowings	13	**(4,689)**	(4,594)	(4,591)
Derivative financial instruments		**(942)**	(1,006)	(1,230)
Deferred tax liabilities		**(1,256)**	(1,179)	(221)
Retirement benefit obligations	15	**(350)**	(565)	(182)
Provisions for other liabilities and charges		**(1,191)**	(1,249)	(921)
		(8,519)	(8,675)	(7,207)
Liabilities of disposal groups classified as held for sale	17	**(481)**	(350)	(1,392)
Net assets		**5,271**	4,255	4,630
Equity				
Called up share capital		**318**	317	316
Share premium account		**826**	778	761
Retained earnings (i)		**4,016**	3,103	2,520
Accumulated other comprehensive income/(loss)		**(467)**	(587)	(243)
Other equity		**578**	581	656
Total shareholders' equity		**5,271**	4,192	4,010
Non-controlling interests in equity		**-**	63	620
Total non-controlling interests and shareholders' equity		**5,271**	4,255	4,630

(i) Restated to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3.

The notes on pages 25 to 41 form part of these condensed interim Financial Statements.

Group Statement of Changes in Equity

Six months ended 30 June 2010	Share capital £m	Share premium £m	Retained earnings £m	Accumulated other comprehensive income/(loss) £m	Other equity £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
	Attributable to equity holders of the parent							
1 January 2010	317	778	3,103	(587)	581	**4,192**	63	**4,255**
Profit for the period	-	-	1,379	-	-	**1,379**	7	**1,386**
Other comprehensive income	-	-	-	120	-	**120**	-	**120**
	317	778	4,482	(467)	581	**5,691**	70	**5,761**
Employee share schemes	1	48	4	-	(16)	**37**	-	**37**
Liquidation of subsidiaries (i)	-	-	-	-	-	**-**	(70)	**(70)**
Dividends	-	-	(470)	-	-	**(470)**	-	**(470)**
Taxation	-	-	-	-	11	**11**	-	**11**
Exchange adjustments	-	-	-	-	2	**2**	-	**2**
30 June 2010	**318**	**826**	**4,016**	**(467)**	578	**5,271**	**-**	**5,271**

Six months ended 30 June 2009	Share capital £m	Share premium £m	Retained earnings £m	Accumulated other comprehensive income/(loss) £m	Other equity £m	Total £m	Non-controlling interests £m	Total equity £m
	Attributable to equity holders of the parent							
1 January 2009 (ii)	315	729	2,759	(40)	549	4,312	60	4,372
Profit for the period	-	-	202	-	-	202	16	218
Other comprehensive income/(loss)	-	-	-	(203)	-	(203)	-	(203)
	315	729	2,961	(243)	549	4,311	76	4,387
Employee share schemes	1	32	6	-	(10)	29	-	29
Amounts arising on consolidation	-	-	-	-	128	128	601	729
Dividends paid by subsidiaries	-	-	-	-	-	-	(11)	(11)
Dividends	-	-	(447)	-	-	(447)	-	(447)
Exchange adjustments	-	-	-	-	(11)	(11)	(46)	(57)
30 June 2009	316	761	2,520	(243)	656	4,010	620	4,630

(i) Non-controlling interests have decreased due to the liquidations of the non trading entities: GF One Limited and GF Two Limited.
(ii) Restated in the Annual Report and Accounts for the year ended 31 December 2009 to reflect the change in British Gas Services Limited's revenue recognition policy, as explained in note 3.

The notes on pages 25 to 41 form part of these condensed interim Financial Statements.

Group Cash Flow Statement

Six months ended 30 June	Notes	2010 £m	2009 £m
Cash generated from continuing operations	14	**1,985**	1,212
Income taxes paid		**(110)**	(199)
Net petroleum revenue tax rebate/(paid)		**9**	(165)
Interest received		**5**	10
Interest paid		**(3)**	(3)
Payments relating to exceptional charges		**(123)**	(148)
Net cash flow from continuing operating activities		**1,763**	707
Net cash flow from discontinued operating activities		**(26)**	(2)
Net cash flow from operating activities		**1,737**	705
Purchase of Venture Production plc		**-**	(258)
Purchase of other businesses net of cash and cash equivalents acquired		**(14)**	(410)
Sale of businesses net of cash and cash equivalents disposed of		**(11)**	2
Purchase of intangible assets	6	**(200)**	(284)
Disposal and surrender of intangible assets		**7**	22
Purchase of property, plant and equipment	6	**(371)**	(335)
Disposal of property, plant and equipment		**-**	1
Investments in joint ventures and associates		**(35)**	(4)
Repayments of loans to, and disposal of investments in, joint ventures and associates		**9**	9
Interest received		**5**	20
Net purchase of securities		**(23)**	(117)
Net cash flow from continuing investing activities		**(633)**	(1,354)
Net cash flow from discontinued investing activities		**(7)**	(248)
Net cash flow from investing activities		**(640)**	(1,602)
Issue of ordinary share capital		**24**	15
Purchase of treasury shares		**(8)**	(3)
Financing interest paid		**(86)**	(42)
Cash inflow from additional debt		**267**	1,537
Cash outflow from payment of capital element of finance leases		**(12)**	(11)
Cash outflow from repayment of other debt		**(277)**	(266)
Net cash flow from (decrease)/increase in debt	14	**(22)**	1,260
Realised net foreign exchange loss on cash settlement of derivative contracts		**(19)**	(91)
Equity dividends paid	10	**(470)**	(447)
Net cash flow from continuing financing activities		**(581)**	692
Net cash flow from discontinued financing activities		**(2)**	168
Net cash flow from financing activities		**(583)**	860
Net increase/(decrease) in cash and cash equivalents		**514**	(37)
Cash and cash equivalents at 1 January		**1,285**	2,904
Effect of foreign exchange rate changes		**(4)**	(36)
Cash and cash equivalents at 30 June		**1,795**	2,831
Included in the following lines of the Group Balance Sheet:			
Cash and cash equivalents		**1,807**	2,659
Bank overdrafts, loans and other borrowings		**(29)**	(31)
Assets of disposal groups classified as held for sale		**17**	203
		1,795	2,831

The notes on pages 25 to 41 form part of these condensed interim Financial Statements.

Notes to the condensed interim Financial Statements

1. General information

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

These condensed interim Financial Statements for the six months ended 30 June 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 28 July 2010. 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 2009 were approved by the Board of Directors on 25 February 2010 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006. The financial information contained in these condensed interim Financial Statements is unaudited. The Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Changes in Equity and Group Cash Flow Statement for the interim period to 30 June 2010, and the Group Balance Sheet as at 30 June 2010 and related notes have been reviewed by the auditors and their report to the Company is set out on page 19.

2. Basis of preparation

These condensed interim Financial Statements for the six months ended 30 June 2010 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, Interim Financial Reporting, as adopted by the European Union. These condensed interim Financial Statements should be read in conjunction with the annual Financial Statements for the year ended 31 December 2009, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

3. Accounting policies

The accounting policies applied in these condensed interim Financial Statements are consistent with those of the annual Financial Statements for the year ended 31 December 2009, as described in those annual Financial Statements, with the exception of standards, amendments and interpretations effective in 2010 as detailed below. Taxes on income in the interim period are accrued using tax rates that would be applicable to expected total annual earnings for each relevant source of income.

(a) Standards, amendments and interpretations effective in 2010
At the date of authorisation of these condensed interim Financial Statements, the following standards and amendments to existing standards were effective for the current period:

- IFRS 3 (revised), Business Combinations. The revised standard applies to business combinations completing on or after 1 January 2010 with no requirement to re-state previous business combinations. The revised standard continues to apply the acquisition method to business combinations with some significant changes. For example, all payments to purchase a business are recorded at fair value at acquisition date, with contingent consideration payments classified as a liability and subsequently re-measured through the Group Income Statement. All acquisition related costs are expensed. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at either fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The Group's business combinations executed during the period are set out in note 16. There has been no material impact to the Group's interim Financial Statements on adopting IFRS 3 (revised).

- IAS 27 (revised), Consolidated and Separate Financial Statements. As the Group has adopted IFRS 3 (revised) it is required to adopt IAS 27 (revised) at the same time which applies prospectively for transactions occurring after 1 January 2010. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and such transactions no longer result in goodwill or gains and losses arising. The revised standard also specifies the accounting when control is lost. In such instances any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. During the period the Group disposed of a 50% controlling interest in Lincs Windfarm Limited, formerly known as Centrica (Lincs) Limited, as set out in note 17.

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

- IFRIC 17, Distributions of Non-cash Assets to Owners;
- IAS 39 (amendment), Financial Instruments: Recognition and Measurement – Eligible Hedged Items;
- IFRS 1 (revised), First-time Adoption of IFRS;
- IFRS 2 (amendment), Share-based Payment – Group Cash-settled Share-based Payment Transactions; and
- Improvements to IFRSs (2009).

3. Accounting policies continued

(b) Income Statement presentation

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

(i) Certain re-measurements

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

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

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

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

These adjustments represent the significant majority of the items included in certain re-measurements.

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

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

In addition, certain re-measurements includes the effects of unwinding the acquisition-date fair values attributable to forward energy procurement and energy sales contracts arising on the acquisition of Strategic Investments, as described below in section (c). The Group has shown the effect of unwinding the acquisition-date fair values attributable to forward energy procurement and energy sales contracts for these investments separately as a certain re-measurement as the intention is to use these energy supplies in the normal course of business and management believes the ultimate net charge reflected before the unwind of acquisition-date fair values will be consistent with the price of energy agreed within these contracts. Such presentation is consistent with the internal performance measures used by the Group.

(ii) Exceptional items

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

(c) Use of adjusted profit measures

The Directors believe that reporting adjusted profit and adjusted earnings per share measures provides additional useful information on business performance and underlying trends. These measures are used for internal performance and internal reporting 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 operating profit before exceptional items and certain re-measurements and before depreciation resulting from fair value uplifts to property, plant and equipment on the acquisition of Strategic Investments, as described below. Additionally, adjusted operating profit includes the Group's share of the results from joint ventures and associates before interest and taxation. Note 6 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.

3. Accounting policies continued

Adjusted earnings is earnings before exceptional items net of taxation, certain re-measurements net of taxation and depreciation of fair value uplifts to property, plant and equipment on the acquisition of Strategic Investments net of taxation. A reconciliation of earnings to adjusted earnings is provided in note 11.

Depreciation of fair value uplifts to property, plant and equipment on acquiring Strategic Investments
IFRS requires that a fair value exercise is undertaken allocating the cost of acquiring controlling interests and interests in associates to the fair value of the acquired identifiable assets, liabilities and contingent liabilities. Any difference between the cost of acquiring the interest and the fair value of the acquired net assets, which include identified contingent liabilities, is recognised as acquired goodwill. The fair value exercise is performed at the date of acquisition.

The Directors have determined that for Strategic Investments it is important to separately identify the earnings impact of increased depreciation arising from the acquisition-date fair value uplifts made to property plant and equipment over their useful economic lives. As a result of the nature of fair value assessments in the energy industry the value attributed to strategic assets is a subjective judgement based on a wide range of complex variables at a point in time. The subsequent depreciation of the fair value uplifts bears little relationship to current market conditions, operational performance or underlying cash generation. Management therefore reports and monitors the operational performance of Strategic Investments before the impact of depreciation on fair value uplifts to property, plant and equipment and the segmental results are presented on a consistent basis.

The Group has two Strategic Investments for which reported profits before certain re-measurements and exceptional items have been adjusted in arriving at adjusted profit and adjusted earnings per share. These Strategic Investments relate to the acquisition of Venture Production plc ('Venture') the operating results of which are included within the Upstream UK – Upstream gas and oil segment and the acquisition of the 20% interest in Lake Acquisitions Limited ('British Energy'), which owns the British Energy Group, the results net of taxation and interest of which are included within the Upstream UK – Power generation segment.

(i) Venture
The Group acquired a controlling interest in Venture in 2009. Significant adjustments were made to the acquired property, plant and equipment to report the acquired oil and gas field interests at their acquisition-date fair values which are subsequently depreciated through the Group Income Statement over their respective useful economic lives using the unit of production method.

Whilst the impact of unwinding the property, plant and equipment at their acquisition-date fair values is included in overall reported profit for the period, the Directors have reversed the earnings impact of the increased depreciation and related taxation resulting from fair value uplifts to the acquired oil and gas interests in order to arrive at adjusted profit from continuing operations after taxation.

(ii) British Energy
Centrica acquired its 20% interest in Lake Acquisitions Limited and thus British Energy in 2009. The interest is accounted for as an investment in an associate. IAS 28 requires investments in associates to be accounted for using the equity method such that the Group reports its share of the associate's profit or loss, which is net of interest and taxation, within the Group's Income Statement. IAS 28 requires that the Group's share of the associate's profit or loss includes the effects of unwinding the fair value adjustments arising from the notional fair value exercise undertaken at acquisition date.

The most significant fair value adjustments arising on the acquisition of the 20% investment in British Energy relate to the fair value uplifts made to the British Energy nuclear power stations to report the property, plant and equipment at their acquisition-date fair values and fair value uplifts made to British Energy's energy procurement contracts and energy sales contracts to report these at their acquisition-date fair values.

Whilst the impact of increased depreciation and related taxation through unwinding the fair value uplifts to the nuclear power stations is included in the share of associate's post-acquisition result reported in overall Group profit for the period, the Directors have reversed these impacts in arriving at adjusted profit from continuing operations for the period. The impact of unwinding the acquisition-date fair values attributable to the acquired energy procurement and energy sales contracts is presented as a certain re-measurement as explained above.

(d) British Gas Services Limited – revenue recognition
In the annual Financial Statements for the year ended 31 December 2009, information was provided on the change in revenue recognition accounting policy within British Gas Services Limited (BGSL), included within the Downstream UK – Residential services segment. As set out in those annual Financial Statements, the impact of the change in accounting policy was to reduce brought forward reserves by £31 million at 1 January 2009 with an offsetting £31 million credit to deferred income. The corresponding tax effect was to reduce the tax creditor by £8 million and increase brought forward reserves by £8 million. There has been no impact to the Group Income Statement for the first half of 2009 and accordingly the 30 June 2009 Group Balance Sheet has been restated to reflect the above.

4. Financial risk management

During the first six months of 2010, the markets continued to experience high volatility in commodity prices as a result of significant change in the global gas supply fundamentals, uncertain economic conditions and structural concerns in major economies. The Group continued to manage risks by monitoring its current and emerging risks and implementation of its financial risk management policies and procedures.

Financial risk management is overseen by the Group Financial Risk Management Committee (GFRMC) according to objectives, targets and policies set by the Board. Commodity price risk management is carried out in accordance with individual business unit financial risk management policies, as approved by the GFRMC and the Board. Treasury risk management, including management of currency risk, interest rate risk, equity price risk and liquidity risk is carried out by a central Group Treasury function in accordance with the Group's financing and treasury policy, as approved by the Board. The credit risks associated with commodity trading and treasury positions are managed in accordance with the Group's credit risk policy. Downstream credit risk management is carried out in accordance with individual business unit credit policies.

Commodity price risk management

The net gain of £666 million from continuing operations during the six months ended 30 June 2010 (six months ended 30 June 2009: loss of £233 million) on the re-measurement of energy contracts largely represents the unwinding of mark-to-market positions created by gas and power purchase contracts which were priced below or above the current wholesale market value of energy at the start of the period. This position is calculated with reference to forward energy prices and therefore the extent of the economic gain or loss arising over the life of these contracts is uncertain, and entirely dependent upon the level of future wholesale energy prices. Generally, subject to short-term balancing, the ultimate net charge to cost of sales will be consistent with the price of energy agreed in these contracts and the fair value adjustments will reverse as the energy is supplied over the life of the contract.

Counterparty credit risk management

During the six months ended 30 June 2010, counterparty credit exposure issues remained a focal point, despite some improvement in the economic background. The Group continues to manage counterparty relationships in accordance with financial risk management policies, which were tightened in response to the recession and general decline in the economic and business environment.

Liquidity risk management and going concern

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

Six months ended 30 June	2010 £m	2009 £m
Cash pledged as collateral at 1 January	**(631)**	(626)
Net cash inflow/(outflow)	**410**	(82)
Transferred to discontinued operations	**-**	15
Foreign exchange (losses)/gains	**(15)**	70
Cash pledged as collateral at 30 June (i)	**(236)**	(623)

(i) Within discontinued operations there was a net £23 million cash outflow of collateral in the period (period to 30 June 2009: £nil million).

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

At 30 June 2010, the Group held £1,807 million (31 December 2009: £1,294 million, 30 June 2009: £2,659 million) of cash and cash equivalents and had undrawn committed credit facilities of £2,237 million (31 December 2009: £2,083 million, 30 June 2009: £1,478 million). 172% (31 December 2009: 148%, 30 June 2009: 272%) 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 9.8 years (31 December 2009: 9.6 years, 30 June 2009: 10.0 years).

The relatively high level of available cash resources and undrawn committed bank borrowing facilities has enabled the Directors to conclude that the Group has sufficient headroom to continue as a going concern.

5. Capital management

At 30 June 2010, the Group's long-term credit rating was A3 stable outlook for Moody's Investor Services Inc. (31 December 2009: A3 stable outlook, 30 June 2009: A3 stable outlook) and A- stable outlook for Standard & Poor's Rating Services (31 December 2009: A- stable outlook, 30 June 2009: A- stable outlook).

The Group monitors capital, using a medium-term view of three to five years, on the basis of a number of financial ratios generally used by industry and by the credit rating agencies. This includes monitoring gearing ratios, interest cover and cash flow to debt ratios. The Group's capital structure is managed against these ratios as required to maintain strong credit ratings.

The Group is not subject to externally-imposed capital requirements but, as is common for most companies, the level of debt that can be raised is restricted by the Company's Articles of Association. Net debt is limited to the greater of £5 billion and a gearing ratio of three times adjusted capital and reserves. This restriction can be amended or removed by the shareholders of the Company passing a special resolution.

6. Segmental analysis

Six months ended 30 June		2010			2009 (restated) (i)	
(a) Revenue	Gross segment revenue £m	Less inter-segment revenue (ii) £m	Group revenue £m	Gross segment revenue £m	Less inter-segment revenue (ii) £m	Group revenue £m
Continuing operations:						
Residential energy supply (i)	4,448	-	4,448	4,384	-	4,384
Residential services	726	-	726	688	-	688
Business energy supply and services (ii)	1,560	(1)	1,559	1,805	-	1,805
Downstream UK	6,734	(1)	6,733	6,877	-	6,877
Upstream gas and oil (ii)	817	(389)	428	655	(460)	195
Power generation (ii)	594	(2)	592	600	(151)	449
Industrial and commercial (i), (ii)	1,029	(246)	783	888	(236)	652
Proprietary energy trading (iii)	6	(8)	(2)	44	(6)	38
Upstream UK	2,446	(645)	1,801	2,187	(853)	1,334
Storage UK (ii)	148	(20)	128	124	(29)	95
Residential energy supply	1,369	-	1,369	1,454	-	1,454
Business energy supply	1,319	-	1,319	1,311	-	1,311
Residential and business services	208	-	208	201	-	201
Upstream and wholesale energy (ii)	187	(38)	149	430	(45)	385
North America (i)	3,083	(38)	3,045	3,396	(45)	3,351
	12,411	(704)	11,707	12,584	(927)	11,657
Discontinued operations:						
European Energy (note 17) (i) (ii)	345	(1)	344	1,353	-	1,353

(i) Restated to present the revenues of British Gas New Energy within Downstream UK Residential energy supply and to split North America into four segments. Also restated to present the Group's operations in Germany within the Industrial and commercial segment.
(ii) Inter-segment revenue reflects the level of revenue generated on sales to other Group segments on an arm's length basis. Inter-segment revenue is subject to period on period fluctuations due to changes in the mix of internal and external energy sales by Upstream UK.
(iii) The external revenue presented for Proprietary energy trading comprises both realised (settled) and unrealised (fair value changes) from trading in physical and financial energy contracts. Inter-segment revenue arising in Proprietary energy trading represents the recharge of brokerage fees to other Group segments.

6. Segmental analysis continued

Six months ended 30 June

(b) Operating profit	**2010 £m**	2009 (restated) (i) £m
Continuing operations:		
Residential energy supply (i)	**585**	295
Residential services	**109**	112
Business energy supply and services	**148**	65
Downstream UK	**842**	472
Upstream gas and oil (ii)	**314**	346
Power generation (i), (ii)	**127**	43
Industrial and commercial	**46**	(89)
Proprietary energy trading	**(2)**	34
Upstream UK	**485**	334
Storage UK	**97**	73
Residential energy supply	**110**	46
Business energy supply	**44**	20
Residential and business services	**8**	3
Upstream and wholesale energy	**(23)**	(3)
North America (i)	**139**	66
Adjusted operating profit – segment operating profit before exceptional items, certain re-measurements and impact of fair value uplifts from Strategic Investments (iii)	**1,563**	945
Share of joint ventures/associates' interest	**(29)**	(1)
Share of joint ventures/associates' taxation	**(15)**	(2)
Other	**-**	(6)
Depreciation of fair value uplifts to property, plant and equipment - Venture (ii)	**(33)**	-
Depreciation of fair value uplifts to property, plant and equipment (net of taxation) - associates - British Energy (ii)	**(35)**	-
	1,451	936
Exceptional items (note 7)	**-**	(194)
Certain re-measurements included within gross profit (note 7)	**678**	(233)
Certain re-measurements of associates' energy contracts (net of taxation) (note 7)	**(12)**	-
Operating profit after exceptional items and certain re-measurements	**2,117**	509
Discontinued operations:		
European Energy (note 17) (iv)	**(8)**	-

(i) Restated to present the operating profit of British Gas New Energy within Downstream UK Residential energy supply, to split North America into four segments and to include the operating profit of joint ventures and associates pre-interest and tax.
(ii) See note 3 for explanation of the depreciation on fair value uplifts to property, plant and equipment on acquiring Strategic Investments.
(iii) Includes results of equity-accounted interests before interest, taxation, certain re-measurements and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments.
(iv) Represents loss after taxation and before exceptional items and certain re-measurements attributable to equity holders of the parent. This is the measure of results of discontinued operations that is reported regularly to the Group's Executive Committee.

6. Segmental analysis continued

Six months ended 30 June	Capital expenditure on property, plant and equipment		Capital expenditure on intangible assets other than goodwill	
(c) Capital expenditure	**2010 £m**	2009 (restated) (i) £m	**2010 £m**	2009 (restated) (i) £m
Continuing operations:				
Residential energy supply (i)	**1**	-	**87**	10
Residential services	**3**	12	**2**	3
Business energy supply and services	**1**	-	**2**	2
Downstream UK	**5**	12	**91**	15
Upstream gas and oil	**202**	129	**72**	33
Power generation	**71**	73	**-**	34
Industrial and commercial	**-**	5	**4**	36
Proprietary energy trading	**-**	-	**-**	-
Upstream UK	**273**	207	**76**	103
Storage UK	**34**	28	**-**	-
Residential energy supply	**-**	-	**1**	2
Business energy supply	**1**	-	**7**	4
Residential and business services	**1**	2	**3**	-
Upstream and wholesale energy	**10**	66	**6**	3
North America (i)	**12**	68	**17**	9
Other	6	-	7	8
Capital expenditure on continuing operations	**330**	315	**191**	135
Increase/(decrease) in prepayments related to capital expenditure	**14**	(2)	**-**	-
Unrealised gains on cash flow hedges transferred from reserves	**-**	3	**1**	-
Capitalised borrowing costs	**(21)**	-	**-**	-
Decrease in trade payables related to capital expenditure	**48**	19	**8**	149
Net cash outflow	**371**	335	**200**	284

(i) Restated to present the capital expenditure of British Gas New Energy within Residential energy supply. North America has been restated to be split into four segments and transfer corporate asset purchases to Other.

7. Exceptional items and certain re-measurements

(a) Exceptional items for the six months ended 30 June	2010 £m	2009 £m
Continuing operations:		
Termination of energy sales contract (i)	-	(139)
Provision for North American wind power purchase agreements (ii)	-	(55)
Exceptional items from continuing operations included within Group operating profit	-	(194)
Taxation on exceptional items	-	60
Net exceptional items from continuing operations after taxation	-	(134)

(b) Certain re-measurements for the six months ended 30 June	2010 £m	2009 £m
Continuing operations:		
Certain re-measurements recognised in relation to energy contracts		
Net gains arising on delivery/settlement of contracts	641	688
Net gains/(losses) arising on market price movements and new contracts	16	(1,039)
Net gains/(losses) arising on positions in relation to cross-border transportation or capacity contracts	21	(17)
Reversal of certain re-measurements in relation to the termination of energy sales contracts (i)	-	135
Net re-measurements from continuing operations included within gross profit	678	(233)
Net losses arising on re-measurement of associates' energy contracts (net of taxation)	(12)	-
Net re-measurements included within Group operating profit	666	(233)
Taxation on certain re-measurements	(184)	62
Net re-measurements from continuing operations after taxation	482	(171)
Discontinued operations:		
Net re-measurements on energy contracts of discontinued operations after taxation	62	(37)
Total re-measurements after taxation	544	(208)

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

8. Net interest

Six months ended 30 June	2010			2009		
	Interest expense £m	Interest income £m	Total £m	Interest expense £m	Interest income £m	Total £m
Continuing operations:						
Cost of servicing net debt						
Interest income	-	16	16	-	35	35
Interest expense on bonds, bank loans and overdrafts	(114)	-	(114)	(123)	-	(123)
Interest expense on finance leases	(11)	-	(11)	(11)	-	(11)
	(125)	16	(109)	(134)	35	(99)
(Losses)/gains on revaluation						
(Losses)/gains on fair value hedges	(69)	71	2	(35)	36	1
Fair value (losses)/gains on other derivatives (i)	(171)	38	(133)	(5)	218	213
Fair value gains on other securities measured at fair value	-	7	7	-	-	-
Net foreign exchange translation of monetary assets and liabilities (ii)	-	103	103	(198)	-	(198)
	(240)	219	(21)	(238)	254	16
Other interest						
Notional interest arising on discounted items	(18)	12	(6)	(9)	13	4
Interest on cash collateral balances	-	1	1	-	4	4
Interest on supplier early payment arrangements	-	1	1	-	3	3
	(18)	14	(4)	(9)	20	11
	(383)	249	(134)	(381)	309	(72)
Capitalised borrowing costs (iii)	21	-	21	11	-	11
Interest (expense)/income	(362)	249	(113)	(370)	309	(61)

(i) Primarily reflects changes in the fair value of derivatives used to hedge the foreign exchange exposure associated with inter-company loans denominated in foreign currencies.
(ii) Primarily reflects foreign exchange gains on inter-company loans denominated in foreign currencies.
(iii) Borrowing costs on qualifying assets have been capitalised using an average rate of 4.69% (2009: 5.78%).

9. Taxation

Six months ended 30 June			2010			2009
	Business performance £m	Exceptional items and certain re-measurements £m	Results for the period £m	Business performance £m	Exceptional items and certain re-measurements £m	Results for the period £m
The tax charge comprises:						
UK Corporation tax (including adjustments in respect of prior years)	**366**	**169**	**535**	245	(75)	170
UK petroleum revenue tax	**93**	**-**	**93**	70	-	70
Foreign tax (including adjustments in respect of prior years)	**29**	**15**	**44**	22	(47)	(25)
Taxation on profit from continuing operations (i)	**488**	**184**	**672**	337	(122)	215

(i) Taxation on profit from continuing operations excludes taxation on the Group's share of profits/(losses) from joint ventures and associates. See note 12 for details of joint venture and associate taxation.

The Group's effective tax rate on a continuing basis before exceptional items and certain re-measurements decreased to 36% for the six months to 30 June 2010 (2009: 39%) mainly as a result of the change in profit mix towards greater downstream contributions.

In June 2010, the UK government announced its intention to propose Parliament reduce the main rate of UK corporation tax from 28% to 24% by 1 April 2014. At 30 June 2010 no change to the main UK corporation tax rate had been substantively enacted so the current and deferred tax charges, assets and liabilities included within these condensed interim Financial Statements have been based on the current UK corporation tax rates. No changes have been proposed to the rates applicable to UK oil and gas production activities.

The effect of the above proposed reductions in rate by 2014 would be to decrease the net deferred tax liability by £28 million.

10. Dividends

The prior year final dividend of 9.14 pence (2009: 8.73 pence) per ordinary share was paid on 16 June 2010 (2009: paid on 10 June 2009) totalling £470 million (2009: £447 million).

An interim dividend of 3.84 pence (2009: 3.66 pence) per ordinary share, totalling £198 million (2009: £188 million), will be paid on 17 November 2010 (2009: paid on 11 November 2009) to shareholders on the register on 1 October 2010.

11. Earnings per ordinary share

Basic earnings per ordinary share has been calculated by dividing the earnings attributable to equity holders of the Company for the period of £1,379 million (2009: £202 million) by the weighted average number of ordinary shares in issue during the period of 5,140 million (2009: 5,113 million). The Directors believe that the presentation of adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for certain re-measurements, exceptional items and the impact of Strategic Investments, assists with understanding the underlying performance of the Group. The reconciliation of basic to adjusted basic earnings per ordinary share is as follows:

Six months ended 30 June		2010		2009
(a) Continuing and discontinued operations	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings – basic	**1,379**	**26.8**	202	4.0
Net exceptional items after taxation (notes 3 and 7)	**-**	**-**	134	2.6
Certain re-measurement (gains)/losses after taxation (notes 3 and 7) (i)	**(544)**	**(10.6)**	201	3.9
Depreciation of fair value uplifts to property, plant and equipment from Strategic Investments, after taxation	**51**	**1.0**	-	-
Earnings – adjusted basic	**886**	**17.2**	537	10.5
Earnings – diluted	**1,379**	**26.7**	202	3.9
Earnings – adjusted diluted	**886**	**17.1**	537	10.4

(i) Excludes non-controlling interests of £7 million in 2009.

Venture

The Group obtained a controlling interest in the Venture Group on 27 August 2009. As explained in note 3, the depreciation relating to fair value uplifts relating to the acquired property, plant and equipment and related taxation is reversed in arriving at adjusted profit for the period, which amounted to £33 million depreciation and a taxation credit of £17 million in the period.

11. Earnings per ordinary share continued

British Energy

The Group acquired a 20% interest in British Energy on 26 November 2009 and accounts for its interest as an investment in associate. As explained in note 3, the impact of depreciation arising on fair value uplifts attributed to the nuclear power stations and related taxation included within the Group's share of the post-tax results of the associate is excluded in arriving at adjusted earnings for the period, which amounted to £35 million net of taxation.

Six months ended 30 June	**2010**		2009	
(b) Continuing operations	**£m**	**Pence per ordinary share**	£m	Pence per ordinary share
Earnings – basic	**1,325**	**25.8**	232	4.5
Net exceptional items after taxation (notes 3 and 7)	**-**	**-**	134	2.6
Certain re-measurement (gains)/losses after taxation (notes 3 and 7)	**(482)**	**(9.4)**	171	3.4
Depreciation of fair value uplifts to property, plant and equipment from Strategic Investments, after taxation	**51**	**1.0**	-	-
Earnings – adjusted basic	**894**	**17.4**	537	10.5
Earnings – diluted	**1,325**	**25.7**	232	4.5
Earnings – adjusted diluted	**894**	**17.3**	537	10.4

Six months ended 30 June	**2010**		2009	
(c) Discontinued operations	**£m**	**Pence per ordinary share**	£m	Pence per ordinary share
Earnings/(loss) – basic	**54**	**1.0**	(30)	(0.5)
Earnings/(loss) – diluted	**54**	**1.0**	(30)	(0.6)

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

12. Interests in joint ventures and associates

(a) Share of joint ventures' and associates' profits/(losses)

The Group's share of joint ventures' and associates' profits/(losses) at 30 June 2010 principally arise from its interests in nuclear associates (Lake Acquisitions Limited (British Energy) and NNB Holding Company Limited) and joint ventures (Braes of Doune Wind Farm (Scotland) Limited, Barrow Offshore Wind Limited, GLID Wind Farms TopCo Limited, Lincs Windfarm Limited and North Sea Infrastructure Partners Limited). The results of North Sea Infrastructure Partners Limited are included within the Upstream UK Upstream gas and oil segment and the results of all of the other entities listed above are included within the Upstream UK Power generation segment.

Six months ended 30 June	Joint ventures				Associates		**2010**	2009
	Braes of Doune Wind Farm (Scotland) Limited £m	Barrow Offshore Wind Limited £m	GLID Wind Farms TopCo Limited £m	Other £m	Lake Acquisitions Limited (British Energy) £m	NNB Holding Company Limited £m	**Total £m**	Total £m
Income	2	3	11	1	217	-	**234**	9
Expenses excluding certain re-measurements (i)	(1)	(4)	(8)	(2)	(192)	(1)	**(208)**	(3)
Certain re-measurements	-	-	-	-	(24)	-	**(24)**	-
	1	(1)	3	(1)	1	(1)	**2**	6
Interest	-	-	(9)	-	(20)	-	**(29)**	(1)
Taxation excluding certain re-measurements (i)	-	-	2	-	(4)	-	**(2)**	(2)
Taxation on certain re-measurements	-	-	-	-	12	-	**12**	-
Share of post-taxation results of joint ventures and associates	1	(1)	(4)	(1)	(11)	(1)	**(17)**	3

(i) Includes £48 million (2009: £nil million) relating to depreciation of fair value uplifts to property, plant and equipment on acquiring the British Energy investments. The associated tax impact is £13 million credit (2009: £nil million).

12. Interests in joint ventures and associates continued

British Energy

The Group's share of loss arising from its investment in British Energy for the period, as set out in the table above, includes the effect of unwinding the fair value adjustments. As explained in note 3, the depreciation, net of taxation, arising on fair value uplifts attributed to the nuclear power stations is reversed in arriving at adjusted profit for the period as shown in the reconciliation table below and as set out in notes 6 and 11. Upon acquiring its interest in British Energy, the Group undertook a provisional fair value exercise to allocate the cost of the investment to the individual assets, liabilities and contingent liabilities at their acquisition fair values. The attributed fair values are provisional at 30 June 2010 and the Directors will finalise all aspects of the fair value exercise by November 2010.

(b) Reconciliation of share of profits/(losses) of joint ventures and associates to share of adjusted profits/(losses) of joint ventures and associates

Six months ended 30 June	Joint ventures				Associates		**2010**	2009
	Braes of Doune Wind Farm (Scotland) Limited £m	Barrow Offshore Wind Limited £m	GLID Wind Farms TopCo Limited £m	Other £m	Lake Acquisitions Limited (British Energy) £m	NNB Holding Company Limited £m	**Total £m**	Total £m
Share of post-taxation profits/(losses) of joint ventures and associates	1	(1)	(4)	(1)	(11)	(1)	**(17)**	3
Certain re-measurements (net of taxation)	-	-	-	-	12	-	**12**	-
Depreciation – British Energy (net of taxation) (i)	-	-	-	-	35	-	**35**	-
	1	(1)	(4)	(1)	36	(1)	**30**	3
Interest	-	-	9	-	20	-	**29**	1
Taxation (excluding certain re-measurements and British Energy depreciation)	-	-	(2)	-	17	-	**15**	2
Share of adjusted profits/(losses) of joint ventures and associates	1	(1)	3	(1)	73	(1)	**74**	6

(i) Relates to depreciation of fair value uplifts to property, plant and equipment on acquiring the British Energy investments.

13. Bank overdrafts, loans and other borrowings

	Interest rate %	Principal m	**30 June 2010** Current £m	Non-current £m	Total £m	31 December 2009 Current £m	Non-current £m	Total £m
Bank overdrafts and loans			**65**	**382**	**447**	63	384	447
Bonds (by maturity date)								
2 November 2012	6.103	£400	**-**	**434**	**434**	-	415	415
27 February 2013	1.045	Y3,000	**-**	**23**	**23**	-	21	21
9 December 2013	7.307	€750	**-**	**655**	**655**	-	678	678
4 November 2014	Floating	$100	**-**	**67**	**67**	-	62	62
10 December 2014	5.297	£350	**-**	**376**	**376**	-	353	353
31 March 2015 (i)	Floating	$70	**-**	**47**	**47**	-	-	-
24 October 2016	5.706	£300	**-**	**331**	**331**	-	311	311
19 September 2018	7.038	£400	**-**	**463**	**463**	-	428	428
10 March 2022 (ii)	6.565	£500	**-**	**511**	**511**	-	414	414
4 September 2026 (iii)	6.400	£200	**-**	**210**	**210**	-	149	149
16 April 2027 (iv)	6.083	$70	**-**	**47**	**47**	-	-	-
19 September 2033	7.100	£770	**-**	**803**	**803**	-	777	777
			-	**3,967**	**3,967**	-	3,608	3,608
Other borrowings	Floating	£250	**-**	**-**	**-**	-	250	250
Obligations under finance leases			**24**	**340**	**364**	23	352	375
			89	**4,689**	**4,778**	86	4,594	4,680

(i) Issued for $70 million on 31 March 2010.
(ii) Principal was increased by £40 million on 12 March 2010 and by an additional £60 million on 15 March 2010.
(iii) Principal amount was increased by £50 million on 24 March 2010.
(iv) Issued for $70 million on 16 April 2010.

13. Bank overdrafts, loans and other borrowings continued

	Interest rate %	Principal m	Current £m	Non-current £m	Total £m
					30 June 2009
Bank overdrafts and loans			38	401	439
Bonds (by maturity date)					
9 September 2009	1.000	£100	100	-	100
2 November 2012	6.103	£400	-	426	426
27 February 2013	1.045	Y3,000	-	20	20
9 December 2013	7.307	€750	-	671	671
10 December 2014	5.274	£350	-	352	352
24 October 2016	5.706	£300	-	317	317
19 September 2018	7.038	£400	-	438	438
10 March 2022	6.565	£400	-	401	401
4 September 2026	6.400	£150	-	148	148
19 September 2033	7.100	£770	-	803	803
			100	3,576	3,676
Other borrowings	Floating	£250	-	250	250
Commercial paper			20	-	20
Obligations under finance leases			22	364	386
			180	4,591	4,771

14. Notes to the Group Cash Flow Statement

(a) Reconciliation of Group operating profit to cash generated from continuing operations for the six months ended 30 June

	2010 £m	2009 £m
Continuing operations:		
Group operating profit including share of result of joint ventures and associates	**2,117**	509
Add back share of losses/(profits) of joint ventures and associates	**17**	(3)
Group operating profit before share of profits of joint ventures and associates	**2,134**	506
Add back/(deduct):		
Amortisation and write-down of intangible assets	**71**	46
Depreciation and write-down of property, plant and equipment	**426**	275
Write down of investment in associates	**4**	-
Employee share scheme costs	**20**	17
Profit on sale of businesses	**-**	(4)
Movement in provisions	**15**	54
Pension service cost	**65**	41
Pension contributions	**(272)**	(141)
Re-measurement of energy contracts (i)	**(607)**	256
Unrealised foreign exchange losses/(gains) on operating cash and cash equivalents	**-**	1
Operating cash flows before movements in working capital	**1,856**	1,051
Decrease in inventories	**37**	35
Decrease in trade and other receivables (ii)	**720**	1,068
Decrease in trade and other payables (ii)	**(628)**	(942)
Cash generated from continuing operations	**1,985**	1,212

(i) Adds back unrealised (gains)/losses arising from re-measurement of energy contracts, including those related to proprietary trading activities.
(ii) Includes net inflow of £410 million of cash collateral in 2010 (2009: net outflow of £74 million).

(b) Net debt	30 June 2010 £m	31 December 2009 £m	30 June 2009 £m
Current borrowings (note 13)	**(89)**	(86)	(180)
Non-current borrowings (note 13)	**(4,689)**	(4,594)	(4,591)
Less:			
Cash and cash equivalents	**1,807**	1,294	2,659
Securities – current (i)	**42**	74	71
Securities – non-current	**176**	176	152
	(2,753)	(3,136)	(1,889)

(i) At 30 June 2009 Securities – current excluded the £288 million carrying value of the investment in Venture Production as this was not held to manage the Group's liquidity position.

14. Notes to the Group Cash Flow Statement continued

(c) Reconciliation of net increase in cash and cash equivalents to movement in net debt for the six months ended 30 June

	2010 £m	2009 £m
Net increase/(decrease) in cash and cash equivalents	**514**	(37)
Increase/(decrease) in cash and cash equivalents of disposal groups classified as held for sale	**2**	(203)
	516	(240)
Add back/(deduct):		
Net purchase of securities	**23**	117
Cash inflow from additional debt	**(267)**	(1,537)
Cash outflow from payment of capital element of finance leases	**12**	11
Cash outflow from repayment of other debt	**277**	266
	561	(1,383)
Revaluation of:		
Securities	**1**	9
Loans and other borrowings	**(68)**	32
	494	(1,342)
Increase in interest payable on loans and other borrowings	**(79)**	(99)
Distributions to non-controlling interests on liquidation	**(56)**	-
Exchange adjustments	**24**	64
Other non-cash movements	**-**	(1)
Movement in net debt	**383**	(1,378)
Net debt at 1 January	**(3,136)**	(511)
Net debt at end of period	**(2,753)**	(1,889)

Cash and debt balances associated with discontinued operations are classified as held for sale within the Group Balance Sheet and hence are not included in the above reconciliation. The net debt of discontinued operations at 30 June 2010 was £197 million (30 June 2009: net cash £14 million), including £214 million finance lease liability relating to the Rijnmond tolling contract in the Netherlands (30 June 2009: £nil million).

15. Pensions

Pension schemes

The majority of the Group's UK employees at 30 June 2010 were members of one of the three main schemes: the Centrica Pension Scheme, the Centrica Engineers Pension Scheme and the Centrica Pension Plan (formerly known as the Centrica Management Pension Scheme) (together the 'registered pension schemes'). The Centrica Unapproved Pension Scheme is an unfunded arrangement which provides benefits to certain employees whose benefits under the main schemes would otherwise be limited by the earnings cap. The Group also has a commitment to provide certain pension and post-retirement benefits to employees of Direct Energy Marketing Limited (Canada) under a defined benefit scheme. Further information on the registered pension schemes and other pension schemes is provided in the Group's Annual Report and Accounts 2009.

The latest full actuarial valuations were carried out at the following dates: the registered pension schemes at 31 March 2009; the Unapproved Pension Scheme at 6 April 2009 and the Direct Energy Marketing Limited pension plan at 31 December 2007. These have been updated to 30 June 2010 for the purposes of meeting the requirements of IAS 19.

Based on the triennial valuation at 31 March 2009, the Company and the trustees of the registered pension schemes agreed a schedule for deficit payments. An amount of £207 million has been paid in the 6 months to 30 June 2010 and the following further deficit payments will be made: £106 million in 2011 and £57 million per annum from 2012 to 2016. In addition, a charge over the Humber power station has been provided as additional security for the trustees.

Major assumptions used for the actuarial valuation	30 June 2010 %	31 December 2009 %	30 June 2009 %
Rate of increase in employee earnings	**4.5**	4.8	4.6
Rate of increase in pensions in payment and deferred pensions	**3.5**	3.8	3.6
Discount rate	**5.8**	6.0	6.9
Inflation assumption	**3.5**	3.8	3.6

Demographic assumptions remain unchanged from 31 December 2009.

15. Pensions continued

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

	30 June 2010 Valuation £m	31 December 2009 Valuation £m	30 June 2009 Valuation £m
Total fair value of plan assets	**3,792**	3,533	2,774
Present value of defined benefit obligation	**(4,142)**	(4,098)	(2,951)
Net liability recognised in the Group Balance Sheet	**(350)**	(565)	(177)
Associated deferred tax asset recognised in the Group Balance Sheet	**98**	158	51
Net pension liability	**(252)**	(407)	(126)
Net liability recognised in the Group Balance Sheet comprises:			
Surpluses	**-**	-	5
Deficits	**(350)**	(565)	(182)
	(350)	(565)	(177)

Included within the schemes' liabilities above are £30 million (31 December 2009: £31 million, 30 June 2009: £25 million) relating to unfunded pension arrangements. Included within non-current securities are £49 million (31 December 2009: £48 million, 30 June 2009: £33 million) of investments, held by the Law Debenture Trust on behalf of the Company, as security in respect of the Centrica Unapproved Pension Scheme.

16. Business combinations

During the interim period the following acquisitions occurred as described below. Collectively the acquisitions are immaterial to the Group's condensed interim Financial Statements. The fair values are provisional unless stated otherwise.

On 12 April 2010, the Group acquired 100% of the shares in Hillserve Limited for total cash consideration of £5 million. Goodwill of £3 million arose on the acquisition. Hillserve Limited is a regional installer of insulation based in North-West England. The acquisition supports the Group's intentions to develop its own insulation business within the UK. The acquisition is included within the Downstream UK – Residential energy supply segment.

On 28 April 2010, the Group acquired the business and net assets of REPower for total cash consideration of $5 million (£3 million). Goodwill of £nil million arose on the acquisition. REPower is engaged in the development of prepayment software, processes and systems. The acquisition supports the Group's intentions of launching and commercialising pre-paid retail electricity in the North American electricity market. The acquisition is included within the North America – Residential energy supply segment.

On 29 March 2010, the Group acquired a number of producing gas assets in Craigmyle, Canada for total cash consideration of C$4 million (£2 million). Goodwill of £nil million arose on the acquisition. The acquisition increases the gas reserves of the Group and creates operational synergies within Canada. The acquisition is included within the North America – Upstream and wholesale energy segment.

2009 acquisitions – fair value updates

During 2009, the Group acquired 100% of the issued share capital of Venture Production Plc (Venture) for total consideration of £1,253 million in a series of transactions occurring between 18 March 2009 and 9 November 2009. The Group obtained a controlling interest in Venture on 27 August 2009 and Venture was consolidated as a subsidiary of the Group from this date. The fair values disclosed in the 2009 Annual Report and Accounts were provisional as the Directors had not yet reached a final determination on all aspects of the fair value exercise at that time.

During the period the Directors have refined certain aspects of the fair value exercise. A number of revisions to the fair values disclosed in the 2009 Annual Report and Accounts were made however the fair values remain provisional at the half year. The key factors that led to these fair value revisions are described below. The revisions resulted in an overall decrease in the fair value of net assets of Venture and associated increase in goodwill at the date of acquisition of £24 million. These revisions are immaterial and so have not been adjusted in the prior period and accordingly have been reflected in the Group Balance Sheet at 30 June 2010.

	Key factors	Increase/(decrease) in fair value of net assets of Venture at acquisition date £m
Property, plant and equipment	Updated assumptions and estimates in respect of key inputs used in the valuation models for future contractual payments.	(9)
Current liabilities	Updated assumptions and expectations in respect of key inputs used in the valuation of certain tax related liability positions.	(4)
Provisions for other liabilities and charges	Updated assumptions and expectations in respect of key inputs used in the valuation of decommissioning liabilities.	(7)
Net deferred tax liabilities	Updated assumptions and expectations in respect of the deferred tax arising plus the deferred tax affect of the above adjustments.	(4)

17. Disposals and discontinued operations

(a) Discontinued operations

The European segment was classified as a discontinued operation from 30 June 2009 following the Group's decision to dispose of its 100% interests in Segebel S.A. (Segebel), Oxxio B.V. (Oxxio) in the Netherlands and its Spanish subsidiary Centrica Energía S.L. (Centrica Energía).The disposal of the Group's 100% interest in Segebel to EDF was completed on 26 November 2009 and on 20 July 2010, Centrica signed an agreement to sell Centrica Energía to Villar Mir Energía S.L. (VME). Including a dividend taken out of the business prior to sale, the proceeds will be approximately €35 million (approximately £29 million) in cash. The transaction is expected to complete in September 2010.

The Group intends to dispose of Oxxio as soon as practical. Certain systems and reporting issues have been identified and are being addressed prior to the launch of an auction process for the planned sale of the business. Accordingly Oxxio continues to be reported within discontinued operations at 30 June 2010.

(b) Disposals

On 5 February 2010, 50% of the issued share capital and 50% of the shareholder debt of Lincs Windfarm Limited (Lincs), formerly known as Centrica (Lincs) Limited, was sold to Dong Wind (UK) Limited and Siemens Project Ventures GmbH for £55 million. Centrica has retained 50% of its interests in Lincs, which owns a wind farm which is under construction off the Lincolnshire coast. Centrica's investment in Lincs is now being treated as a joint venture due to the joint control that arises from this transaction.

	Lincs £m
Non-current assets (i)	42
Current assets (ii)	63
Current liabilities	(2)
Non-current liabilities	(103)
Total net assets disposed	**-**
Cash consideration for issued share capital (iii)	5
Hedging reserve released upon transfer of derivatives	(9)
Revaluation of retained interest	6
Disposal costs	(2)
Profit on disposal before and after taxation	-

(i) Includes property, plant and equipment of £42 million and intangible assets of £nil million.
(ii) Includes cash and cash equivalents of £63 million.
(iii) £50 million of total cash consideration was paid by Dong Wind (UK) Limited and Siemens Project Ventures GmbH to assume 50% of the shareholder debt.

18. Commitments

Commitments in relation to the acquisition of property, plant and equipment	**30 June 2010 £m**	31 December 2009 £m	30 June 2009 £m
Construction of a power station at Langage	**-**	43	46
Construction of Lincs wind farm (i)	**-**	385	6
Redevelopment of Statfjord gas field	**58**	80	77
Other gas field developments	**30**	36	49
Other power station capital expenditure	**52**	16	18
Other	**19**	3	10
	159	563	206

(i) The Lincs wind farm was disposed on 5 February 2010, as described in note 17.

Commitments in relation to the acquisition of intangible assets	**30 June 2010 £m**	31 December 2009 £m	30 June 2009 £m
Renewable obligation certificates to be purchased from:			
Joint ventures (i)	**1,144**	578	205
Other parties	**922**	868	920
Carbon emissions certificates	**385**	326	426
Certified emission reduction certificates	**100**	110	118
Exploration activity	**94**	205	83
Other	**36**	40	44
	2,681	2,127	1,796

(i) Renewable obligation certificates are purchased from several joint ventures which produce power from wind energy. The commitments disclosed above are the gross contractual commitments and do not take into account the Group's economic interest in the joint venture.

19. Related party transactions

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

Six months ended 30 June			2010			2009
	Sale of goods and services £m	**Purchase of goods and services £m**	**Other transactions £m**	Sale of goods and services £m	Purchase of goods and services £m	Other transactions £m
Joint ventures:						
GLID Wind Farms TopCo Limited and subsidiaries	**-**	**15**	**4**	-	-	-
Lincs Windfarm Limited (ii)	**-**	**-**	**11**	-	-	-
Other	**-**	**10**	**-**	-	16	1
Associates:						
Lake Acquisitions Limited	**85**	**86**	**-**	-	-	-
	85	**111**	**15**	-	16	1

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

		30 June 2010		31 December 2009		30 June 2009
	Amounts owed from related parties (i) £m	**Amounts owed to related parties £m**	Amounts owed from related parties (i) £m	Amounts owed to related parties £m	Amounts owed from related parties (i) £m	Amounts owed to related parties £m
Joint ventures:						
GLID Wind Farms TopCo Limited and subsidiaries	**44**	**25**	41	26	-	-
Lincs Windfarm Limited (ii)	**67**	**-**	-	-	-	-
Other	**35**	**5**	34	8	41	7
Associates:						
Lake Acquisitions Limited	**44**	**27**	-	-	-	-
Other	**-**	**-**	-	3	-	-
	190	**57**	75	37	41	7

(i) No provision for bad or doubtful debts relating to amounts owed from related parties was required in any of the periods disclosed above.
(ii) Formerly known as Centrica (Lincs) Limited.

20. Seasonality of operations

Certain activities of the Group are affected by weather and temperature conditions. As a result of this, amounts reported for the six months ended 30 June 2010 may not be indicative of the amounts that would be reported for a full year due to seasonal fluctuations in customer demand for gas, electricity and services, the impact of weather on demand and commodity prices, market changes in commodity prices and changes in retail tariffs.

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

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

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

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

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

21. Events after the balance sheet date

Clockwork

On 1 July 2010, the Group acquired the business and net assets of Clockwork Home Services Inc and 100% of the shares of Air Time Canada Inc, together known as Clockwork. The total cash consideration for the acquisition was $182 million (£122 million), which includes deferred consideration of $17 million (£11 million).

Clockwork provides heating, air-conditioning, ventilation, plumbing and electrical services in the US and Canada. The acquisition supports the Group's existing home services business in the US and Canada by providing increased geographical coverage, as well as expanding our shared expertise. The acquisition will be reported as part of the North America – Residential and business services segment.

Information on the assets and liabilities acquired as at the acquisition date, as well as information on goodwill and the fair value of acquired receivables, has not been provided in these condensed interim Financial Statements as management are still determining the fair values of the assets and liabilities acquired.

Spain

On 20 July 2010, Centrica signed an agreement to sell its Spanish business, Centrica Energía S.L., to Villar Mir Energía S.L. (VME). Including a dividend taken out of the business prior to sale, the proceeds will be approximately €35 million (approximately £29 million) in cash. The transaction is expected to complete in September 2010.

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 2010 Interim Results presentation for analysts and institutional investors at 9.30am (UK) on Wednesday 28 July 2010. There will be a live audio webcast of the presentation and slides from 9.30am at www.centrica.com/investors.

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

+44 (0)20 3059 5754

The call title is "Centrica plc half year results announcement 2010" and the conference password is "Results".

An archived webcast and full transcript of the presentation and the question and answer session will be available on the website from Friday 30 July.

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Financial Calendar

Ex-dividend date for 2010 interim dividend	29 September 2010
Record date for 2010 interim dividend	1 October 2010
2010 interim dividend payment date	17 November 2010
Interim Management Statement	17 November 2010
2010 preliminary results announcement	24 February 2011

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