Interim results for the period ended 30 June 2021

CHRIS O'SHEA, GROUP CHIEF EXECUTIVE

"Our first half financial performance was broadly as we expected overall, and we continue to make good progress towards the simplification of our company. Although there is still a lot to achieve, our turnaround remains on track, our balance sheet has been significantly strengthened and the recent changes in colleague terms and conditions will enable us to better serve the needs of our customers. We will continue to strengthen our foundations, as we help our customers on the path to net zero."

FIRST HALF FINANCIAL PERFORMANCE BROADLY AS EXPECTED

- Adjusted operating profit from continuing operations (excluding Direct Energy) broadly flat at £262m (2020: £264m) and adjusted basic EPS from continuing operations of 1.7p (2020: 1.6p).
  - Reflects efficiencies across the Group and higher consumption due to colder weather in the energy supply businesses. Higher commodity prices starting to benefit Upstream.
  - Offset by impacts of Covid-19 across the Group and industrial action in British Gas Services, and a loss in Energy Marketing & Trading with increased losses from the legacy gas contract.
- Total Group free cash flow from continuing operations up 4% to £524m, with lower capital expenditure reflecting ongoing capital discipline.
- Net debt down to £0.1bn from £3.0bn over H1 2021, including the impact of proceeds received from the sale of Direct Energy in January 2021.
- £608m post-tax exceptional profit on disposal of Direct Energy. Total post-tax exceptional profit from continuing operations of £248m (2020: loss of £897m) largely due to the write back of E&P assets.
- From continuing operations, statutory operating profit of £1,003m (2020: loss of £338m) and basic EPS of 12.8p (2020: loss of 5.9p) including a profit on certain remeasurements due to rising commodity prices. Statutory net cash flow from operating activities down 12% to £558m.

SIMPLIFYING THE PORTFOLIO AND STRENGTHENING THE BALANCE SHEET

- Sale of Direct Energy improves the long term strength of the Group's balance sheet and allows an increased focus on core UK and Ireland activities.
- Making progress towards pursuing alternative Spirit Energy sale options which will simplify the sale structure to maximise value of assets and de-risk liabilities.
- Triennial pensions valuation process underway. Technical pension deficit on a roll-forward basis in the region of £1.5bn at 30 June 2021, reduced from £1.9bn at 31 December 2020.

CREATING A MORE SUSTAINABLE AND PROFITABLE COMPANY

- Focus remains on improving the long-term quality, sustainability and level of earnings and cash flow.
- Significant Group organisational restructure on track and expected to be completed in 2021.
- New terms and conditions in place for UK colleagues, enabling more modern and flexible approach to serving the needs of our customers.
- Over 250,000 British Gas Energy customers now on more flexible, lower cost, 'software as a service' IT platform.
- H2 priorities remain on 'fixing the basics', including improving employee engagement, increasing customer satisfaction, and driving better commercial, operational and financial performance.
- Capital Markets Event to be held on 16 November 2021 to provide more detail on our longer term strategy and financial framework.

FINANCIAL SUMMARY

Six months ended 30 June	2021	2020	Change
Continuing operations [1]			
EBITDA	**£682m**	£750m	(9%)
Adjusted operating profit	**£262m**	£264m	(1%)
Adjusted profit before tax	**£166m**	£140m	19%
Adjusted earnings attributable to shareholders	**£98m**	£90m	9%
Adjusted basic earnings per share (EPS)	**1.7p**	1.6p	6%
Interim dividend per share (DPS)	**-**	-	nm
Group free cash flow	**£524m**	£504m	4%
Statutory operating profit / (loss)	**£1,003m**	(£338m)	nm
Statutory profit before tax	**£907m**	(£462m)	nm
Statutory earnings attributable to shareholders	**£743m**	(£345m)	nm
Statutory basic earnings per share	**12.8p**	(5.9p)	nm
Statutory net cash flow from operating activities	**£558m**	£634m	(12%)
	30 Jun 2021	31 Dec 2020	Change
Group net debt [2]	**£93m**	£2,998m	(97%)

See notes 3, 4 and 9 to the Financial Statements and pages 65 to 68 for an explanation of the use of adjusted performance measures.
1. Excludes Direct Energy which is classified in discontinued operations. See note 4 for more information on segmental operating profit and free cash flow.
2. Collateral posted/(received) has been removed from the definition of net debt. See note 12.

GROUP PERFORMANCE INDICATORS

	2021	2020	Change
Total recordable injury frequency rate (per 200,000 hours worked) [1]	**1.20**	1.06	13%
Total residential customers ('000) [1, 2]	**9,066**	9,217	(2%)
Group direct headcount [1]	**19,711**	21,239	(7%)
Group employee engagement (%)	**44%**	42%	2ppt

All 2020 comparators are as at 31 December 2020.
1. 2020 excludes Direct Energy.
2. Includes British Gas Energy, British Gas Services and Bord Gáis Energy.

INVESTOR PRESENTATION

A pre-recorded results presentation will be available on Centrica.com at 8am UK time on 22 July 2021 and Centrica will host a conference call for institutional investors and analysts at 09:30am UK time on 22 July 2021. To register for the call please visit:
https://webcasts.centrica.com/centrica116/vip_connect

If you would like to join in listen only mode, please register at:
https://webcasts.centrica.com/centrica116

ENQUIRIES

Investors and Analysts:	tel: +44 (0)1753 494900	email: ir@centrica.com
Media:	tel: +44 (0)1784 843000	email: media@centrica.com

Group Overview

SIMPLIFYING AND MODERNISING CENTRICA

- We continued with the major transformation to turnaround Centrica in the first half of 2021, as we aim to rebuild shareholder value. Our first half financial result was overall broadly as we expected, and we remained focused on protecting our colleagues and our customers, and as a result the business, during the ongoing Covid-19 pandemic.
- We continue to target the simplification of our business through the divestments of non-core assets, with the disposal of Direct Energy completing in January 2021 and alternative options to exit our Spirit Energy E&P assets being pursued.
- We are also focused on improving our customer-facing businesses. Our significant Group restructure is progressing to plan, which will result in empowered colleagues, lower costs and a better customer experience. In addition, the difficult but necessary process to move colleagues onto new terms and conditions in now complete, enabling us to better serve the needs of our customers.
- These changes will provide us with the platform from which to enable growth in customers and in the number of services we offer, and will leave us well placed to capitalise on future opportunities arising from the move towards ‘net zero’ in our core markets, as we look to deliver growth in jobs, profits and shareholder value.

SIMPLIFYING THE BUSINESS THROUGH NON-CORE DIVESTMENTS

Sale of Direct Energy completed

- We completed the $3.6bn sale of Direct Energy to NRG Energy on 5 January 2021. The transaction simplifies our business model, and alongside the significant Group restructure will help create a simpler, leaner Company, focused on our core markets of the UK and Ireland.
- The transaction increases the long-term strength of the Group’s balance sheet, with net cash proceeds to be used to reduce net debt and contribute to the Group’s defined benefit pension schemes. It will also result in a more stable financial profile for the Group, with an increased proportion of cash flows generated from contracted services, and removal of volatility inherent within Direct Energy.

Simplifying the Spirit Energy sales process

- Our intention remains to exit oil and gas production in line with our strategic shift to simplify the Group, focus on the customer and decarbonise the Group’s portfolio.
- In line with this, in 2019 we announced our intention to divest our 69% shareholding in the Spirit Energy E&P business. The disposal process has been impacted by the uncertain backdrop created by the Covid-19 pandemic, and the joint venture structure which limited the number of parties interested in buying the business as a whole. We have now made progress towards pursuing alternative sale options, which will simplify the sale structure and enable us to maximise the value of our assets while de-risking liabilities.
- While we still own Spirit Energy, we will actively manage it. The steps we have taken with our partner and the Spirit management team mean the business was free cash flow positive in H1 2021 and given current commodity prices we expect that to remain the case for the remainder of this year.

Further non-core divestments

- We will also consider further divestments of other smaller assets or businesses if they help to simplify and de-risk the Group and we can realise good value for shareholders.
- In the first half of 2021 we completed or announced the sales of a number of non-core assets including the Peterborough gas-fired power stations and site, the data management business lo-

Tahoe, and the site of the previous British Gas headquarters in Staines. The total proceeds for these sales will total approximately £50m.

SIGNIFICANT GROUP RESTRUCTURE TO IMPROVE CORE BUSINESSES

Creating a simpler, leaner, more modern Company

- In 2020, we announced plans for a significant restructure designed to create a simpler, leaner Group focused on delivering for our customers. This included a proposed new organisational design, and the start of a consultation process to simplify terms and conditions for colleagues in the UK. These changes will help to simplify and modernise the Group and allow us to put customers at the heart of everything we do.

Organisational restructure expected to be completed in 2021

- The reorganisation will lead to a reduction of around 4,000 roles across the Group, with 3,000 roles removed in 2020 and a further 1,000 roles to be removed over the course of 2021.
- The new structure has now been embedded in the organisation. With the number of organisational layers having been reduced from eleven to seven, over half of the total reduction has come from management roles and as a result a significantly higher proportion of colleagues are now in customer-facing roles.
- These changes will result in a more competitive cost structure, in particular in our British Gas businesses, and an improved customer experience, while providing us with a platform to enable growth.
- We are already seeing the benefits of the restructure in British Gas Energy, with the annualised cost per customer falling by £7 to £95 over the first six months.
- The expected cost to complete the restructuring was provided for in 2020. Cash restructuring costs were £48m in H1 2021, plus there were exceptional pensions strain payments of £167m relating to 2019 and 2020 redundancies. The majority of any remaining cash expenditure is expected to occur by the end of 2021.

New terms and conditions in place for all UK colleagues

- The company consulted to simplify colleague terms and conditions in the UK over the second half of 2020. Centrica had over 80 different employee contracts, each with multiple variants, with many of the agreements dating back over 35 years. We needed to modernise these to enable us to best serve the changing expectations of today's customers while retaining the quality of our service.
- The process has been challenging, and we did see industrial action from a portion of our UK services engineer base across Q1 and into Q2. We had contingency plans in place and prioritised emergency visits and vulnerable customers. However, we saw some deterioration in operational performance over the first quarter, which caused a drop in customer satisfaction levels and was a factor in the loss of customers. We saw a number of metrics recovering over the second quarter, with engineer NPS moving up by 3 points between March and June and the number of jobs per day completed by service and repair engineers moving above 2019 levels.
- 98% of our UK colleagues accepted the new terms. The increased productivity and flexibility will improve our competitiveness and levels of customer service, providing a sustainable platform from which to deliver growth in customers and jobs.
- Our focus in the second half of the year is on rebuilding employee engagement levels, driving further improvements in customer service and improving sales and retention performance as we look to return to customer growth.

Flexible, lower cost, 'software as a service' IT platform in British Gas Energy

- Within British Gas Energy, we are now utilising a new low-cost 'software as a service' IT platform and more modern ways of working, in order to compete more effectively with challenger brands.

- The new platform will allow us to launch customer propositions more quickly, improve the customer experience and further reduce our cost to serve.
- We expect to incur some additional operating costs as we run two systems for a period of time. However, we are also reducing capital expenditure on the legacy IT system as we migrate customers onto the new platform.
- We currently have over 250,000 customers on this platform compared to around 100,000 at the start of the year.

BUSINESS UNIT OPERATIONAL, COMMERCIAL AND FINANCIAL PERFORMANCE

- During 2020, the Group's reportable operating segments were amended due to a change in the way management review and make decisions about the business. To reflect additional restructuring and management changes that have occurred, during 2021 the British Gas segment has been further refined and separated into two operating segments, British Gas Energy and British Gas Services and Solutions, and small business customer sites previously reported in Centrica Business Solutions are now reported within British Gas Energy. In addition, 2020 has been restated to reflect the reallocation of corporate costs following the treatment of Direct Energy as a discontinued operation. All prior period comparators relating to adjusted operating profit and cost per customer metrics have been restated accordingly.

British Gas Energy positively impacted by colder weather; focus remains on improving the customer experience and efficiency to return to customer growth

British Gas Energy	**2021**	2020	Change
Residential energy customers ('000) [1]	**6,802**	6,916	(2%)
Small business customer sites ('000) [1, 2]	**450**	450	0%
Energy complaints per customer (%) [3]	**4.0%**	2.8%	1.2ppt
Energy Touchpoint NPS [1, 4]	**12**	9	3pt
Cost per energy customer (£) [1]	**95**	102	(7%)
Adjusted operating profit (£m)	**172**	78	121%

All 2020 comparators are for the 6 months ended 30 June 2020 unless otherwise stated.
1. 2020 KPI comparator based on 31 December 2020.
2. 31 December 2020 restated to reflect the number of small business customers moved across to British Gas Energy.
3. A complaint is an expression of dissatisfaction, in line with submissions made to Ofgem.
4. Measured independently, through individual questionnaires, the customer's willingness to recommend British Gas following contact with an energy call centre.

- British Gas Energy residential customers fell by 114,000 or 2% over the first half of 2021.
  - This reflects the announcement in February of a significant increase in default price cap tariffs from 1 April, which resulted in increased levels of market switching across March and April. In addition, the price comparison website market remained fiercely competitive across H1 2021, with some competitors continuing to price at negative gross margins. Reflecting this, we reduced our activity through this channel, while focusing on customer retention.
  - We also took over supply for 53,000 customers from Simplicity Energy through Ofgem's supplier of last resort process in January and acquired 36,000 customers from Nabuh Energy in March.
- British Gas Energy now includes 450,000 small business customers, with their profile closely matching those of households. These customers were previously included within Centrica Business Solutions. The number of small business customers was broadly flat over the first half of 2021.
- Call volumes and complaints increased as operations returned towards normal, following a fall in 2020 during the first phase of the Covid-19 pandemic when we had encouraged customers to interact with us online so we could prioritise calls from more vulnerable customers. 63% of

transactions were completed online in H1 2021 compared to 70% in H1 2020, although this was still significantly above the levels completed online in 2019.

- Energy Touchpoint NPS increased by 3 points over the first half of the year back to the level seen in June 2020.
- Cost per customer reduced by £7 to £95 reflecting a reduction in overhead costs due to the significant Group restructure largely delivered in 2020. We also benefited from a lower bad debt charge.
- British Gas Energy adjusted operating profit increased by 121% to £172m.
  - This includes the impact of colder than normal weather in H1 2021 which resulted in higher energy consumption compared to a warm H1 2020. This was partly offset by additional costs associated with commodity volatility and balancing.
  - It also includes the benefit of cost efficiencies, reduced Covid-19 impacts including a return to historic levels of bad debt provisioning, and a one-off benefit of around £20m related to an adjustment in the price cap in the period to 31 March 2021, following a successful judicial review in 2019 to allow partial recovery of wholesale costs incurred in the first period of the price cap in Q1 2019.
  - These benefits were partially offset by the impact of higher Energy Company Obligation (ECO) costs, which were up £55m compared to H1 2020, and lower customer numbers.

British Gas Services & Solutions negatively impacted by Covid-19 and industrial action

British Gas Services & Solutions	**2021**	2020	Change
Services customers ('000) [1]	**3,419**	3,563	(4%)
Install and on-demand jobs ('000)	**148**	128	16%
Services complaints per customer (%) [2]	**6.4%**	2.2%	4.2ppt
Services Engineer NPS [1, 3]	**61**	66	(5pt)
Revenue per services customer (£) [1]	**359**	359	0%
Cost per services customer (£) [1]	**315**	299	5%
Adjusted operating profit (£m)	**60**	94	(36%)

All 2020 comparators are for the 6 months ended 30 June 2020 unless otherwise stated.
1. 2020 KPI comparator based on 31 December 2020.
2. A complaint is any oral or written expression of dissatisfaction.
3. Measured independently, through individual questionnaires, the customer's willingness to recommend British Gas following an engineer visit.

- British Gas services customers fell by 144,000, or 4% over the first half of 2021. Proactive selling and marketing were reduced in Q1 due to the impact of Covid-19 and industrial action, while fiercely competitive pricing on energy supply switching sites reduced sales of energy products bundled with services. Customer retention remained around 80%, while the number of services products per customer improved slightly to 2.24 from 2.22 at the start of the year.
- The total number of installs and on demand jobs for the half year was up 16% compared to H1 2020, with fewer Covid-19 restrictions in place over H1 2021 than in H1 2020. Within this, boiler installations were up 39%.
- Service levels were impacted by the combined impacts of Covid-19 and industrial action in Q1 2021, with reduced appointment availability and higher job reschedule levels than in H1 2020. As a result, the number of customer complaints increased and engineer NPS reduced to +61. However, both of these metrics improved over Q2 2021.
- Revenue per services customer was flat at £359, however cost per services customer increased despite benefits from operating cost efficiencies, due to additional costs related to Covid-19 and industrial action.

- British Gas Services & Solutions adjusted operating profit fell by 36% to £60m. This reflects approximately £50m of negative impact compared to H1 2020 from the combination of Covid-19 and industrial action, which resulted in additional costs due to the increased use of third party labour and refunds to some customers for annual service visits not completed. There was also an impact from lower customer numbers and a change in product mix towards lower priced products, however this was more than offset by cost efficiency benefits and lower depreciation resulting from the decision to write down some Home Solutions IT assets at the end of 2020.

Robust performance from Bord Gáis Energy; financial result impacted by Whitegate outage

Bord Gáis Energy	**2021**	2020	Change
Customers ('000) [1]	**479**	483	(1%)
Complaints per customer (%) [2]	**0.8%**	0.8%	0.0ppt
Journey NPS [1, 3]	**35**	38	(3pt)
Adjusted operating profit (£m)	**19**	29	(34%)

All 2020 comparators are for the 6 months ended 30 June 2020 unless otherwise stated.
1. 2020 KPI comparator based on 31 December 2020.
2. Total consumer complaints of all types.
3. Weighted NPS for the main customer interaction channels.

- The number of Bord Gáis Energy customers fell by 4,000 in the first half of 2021 in a competitive pricing environment. However, products per customer increased and as a result the number of accounts was broadly stable.
- Customer complaints remained low, and Journey NPS remained relatively high at +35, albeit fell by 3 points over the first half of the year reflecting continued operational challenges caused by Covid-19.
- The Whitegate CCGT was offline for all the first half of the year and is currently expected back on towards the end of the year.
- Bord Gáis Energy adjusted operating profit reduced by 34% to £19m, largely reflecting the impact of the Whitegate power station outage, partly offset by a benefit from cost efficiencies and lower bad debt costs, with 2020 having been impacted by higher Covid-19 related provisions.

Weaker Energy Marketing & Trading performance and increased legacy gas contract loss

Energy Marketing & Trading (EM&T)	**2021**	2020	Change
Renewable capacity under management (GW) [1]	**11.0**	10.7	3%
Total EM&T adjusted operating (loss) / profit (£m)	**(40)**	111	nm

All 2020 comparators are for the 6 months ended 30 June 2020 unless otherwise stated.
1. 2020 KPI comparator based on 31 December 2020.

- Volatile and unpredictable commodity markets created a challenging environment for our core EM&T trading and optimisation activities. When combined with a return to a more historic level of LNG performance compared to an exceptionally strong 2020, this resulted in a significant year-on-year reduction in adjusted operating profit from core EM&T activities.
- In addition, the remaining legacy gas contract relating to the Sole Pit gas field, which runs until 2025, remains out of the money at current commodity prices. Losses from the contract increased by £30m, from £27m to £57m, reflecting unfavourable movements in the pricing mechanism relative to the achieved UK NBP gas price.
- EM&T renewable route-to-market capacity under management increased by 3% from 10.7GW to 11.0GW. This continues to be a focus area for growth as more renewable capacity comes online across Europe.

- EM&T reported an adjusted operating loss of £40m (2020: profit of £111m), as the £57m loss on the legacy contract more than offset a positive contribution from core trading and optimisation activities.

Covid-19 recovery in Centrica Business Solutions

Centrica Business Solutions	2021	2020	Change
Energy supply total gas and electricity volume (TWh)	**11.8**	9.8	21%
Energy supply complaints per customer (%) [2]	**3.0%**	4.0%	(1.0ppt)
Energy supply Touchpoint NPS [1, 3]	**8**	nm	nm
New Energy Services order intake (£m)	**221**	154	44%
New Energy Services order book (£m) [1]	**747**	697	7%
Adjusted operating (loss) (£m)	**(24)**	(67)	(64%)

All 2020 comparators are for the 6 months ended 30 June 2020 unless otherwise stated.
1. 2020 KPI comparator based on 31 December 2020.
2. Any oral or written expression of dissatisfaction where the customer claims to have suffered financial loss, material distress or material inconvenience.
3. Measured independently, through individual questionnaires, the customer's willingness to recommend. This was measured by CBS for the first time in H1 2021 to align to British Gas Energy methodology, therefore no comparative data is available for 2020.

- In Centrica Business Solutions energy supply, which now consists of medium-sized entities and Commercial and Industrial (C&I) customers:
  - The total amount of energy supplied in the period was 21% higher than in H1 2020, reflecting the addition over the past 12 months of new, larger C&I customers. The impact of Covid-19 on volumes was largely similar to H1 2020, although the phasing was different with the impact in 2020 mainly in Q2 and the impact in 2021 mainly in Q1.
  - Customer complaints reduced while Touchpoint NPS was positive at +8.
- In Centrica Business Solutions New Energy Services:
  - Order intake of £221m was 44% higher than in H1 2020 with Brexit uncertainty reducing and Covid-19 restrictions beginning to be lifted in core markets. The order book of £747m was £50m higher than at the end of 2020.
- Centrica Business Solutions reported a reduced adjusted operating loss of £24m (2020: £67m).
  - Business energy supply reported an adjusted operating profit of £3m (2020: loss of £33m), with no repeat of having to sell back excess commodity volumes at a loss due to Covid-19 demand reductions as seen in 2020, benefits from colder weather, a lower bad debt charge and efficiency benefits.
  - New Energy Services reported a reduced adjusted operating loss of £27m (2020: £34m), reflecting growth in revenue and gross margin from increased solutions and optimisation activity.

Lower volumes but higher prices in Upstream

Upstream	2021	2020	Change
E&P total production volumes (mmboe)	**18.5**	25.4	(27%)
Nuclear power generated (GWh)	**4,171**	4,537	(8%)
Adjusted operating profit (£m)	**75**	19	295%

All 2020 comparators are for the 6 months ended 30 June 2020 unless otherwise stated.

- Spirit Energy volumes fell 28% to 17.1mmboe, reflecting natural decline in the portfolio, production issues at a number of fields and a number of planned outages having been brought forward to H1 2021 from later in the year. Therefore, production is forecast to be higher in in H2 2021 than H1 2021. However, full year production is expected to be around 15-20% lower for the full year than 2020 production of 44.9mmboe, compared to an expected 10% decline at the start of the year.

- Production volumes from CSL's Rough field fell by 17% to 1.4mmboe, reflecting the natural decline in the late life field.
- Centrica's share of nuclear generation volumes of 4.2TWh was 8% lower than in H1 2020, reflecting outages at the Sizewell B, Heysham 2 and Torness power stations, partially offset by Hunterston B returning to service in advance of the scheduled closure by 2022. Having been offline since 2018, it was announced in June that the de-fuelling process would commence immediately at Dungeness B.
- Upstream adjusted operating profit increased to £75m (2020: £19m).
  - Spirit Energy adjusted operating profit increased from £34m to £104m, with the effect of higher wholesale commodity prices beginning to flow through to achieved oil and gas prices. This more than offset the impacts of lower production volumes.
  - CSL adjusted operating profit was £9m (2020: nil) with the lower production volumes offset by higher achieved gas prices resulting from the higher wholesale commodity environment.
  - Nuclear reported an increased adjusted operating loss of £38m (2020: £16m), reflecting the lower generation volumes and a reduction in the achieved price versus 2020.
- E&P free cash flow increased 89% to £266m (2020 £141m), reflecting increased operating profit, tax rebates and lower capex.

SUMMARY GROUP FINANCIAL PERFORMANCE

Operating profit and earnings from continuing operations broadly stable

- EBITDA from continuing operations decreased by £68m, or 9%, to £682m, largely reflecting the movements in business unit adjusted operating profit as described in the previous section.
- Adjusted operating profit from continuing operations was down £2m, or 1%, to £262m, with the difference to the EBITDA movement due to lower depreciation in Upstream resulting from lower production and impairments recognised at the end of 2020.
- The net finance charge fell to £96m (2020: £124m) reflecting a lower interest rate environment and the redemption of a €750m hybrid bond at its first call date of 10 April 2021. The adjusted tax rate fell to 35% (2020: 41%), with the impact of a change in profit mix towards more highly taxed E&P activities being more than offset by an increase in a deferred tax balances in respect of CSL decommissioning liabilities and an announced change in the UK corporation tax rate from 2023. Earnings attributable to Spirit Energy minority partners increased to £11m (2020: £4m), reflecting the increased E&P profit.
- Reflecting the above, adjusted earnings from continuing operations attributable to shareholders of £98m was up slightly on last year (2020: £90m) and adjusted EPS from continuing operations was 1.7p (2020: 1.6p).

Exceptional profit from continuing operations largely reflects E&P write backs

- A pre-tax exceptional profit of £373m was recognised in continuing operations in H1 2021, largely relating to write backs of exploration and production assets due to the increase in near term liquid commodity prices. After tax, the total net exceptional profit recognised in continuing operations was £248m, compared to a loss of £897m in H1 2020 which included impairments of Upstream assets and restructuring costs.
- When also including a total pre-tax gain from certain net re-measurements of £368m (2020: £442m) and a related tax credit of £28m (2020: charge of £69m), the statutory profit from continuing operations after taxation was £753m. After non-controlling interests, statutory basic earnings from continuing operations was £743m (2020: loss of £345m) with a basic EPS of 12.8p (2020: loss of 5.9p). When including a £608m profit from discontinued operations relating to the sale of Direct

Energy, the statutory profit attributable to shareholders was £1,351m (2020: loss of £193m) and basic statutory EPS was 23.2p (2020: loss of 3.3p).

Dividend

- No 2021 interim dividend is being declared. We recognise the importance of dividends to shareholders and intend to recommence dividends to shareholders when it is prudent to do so.

Further evidence of the Group's robust cash flow generation

- Free cash flow from continuing operations of £524m was £20m, or 4%, higher than in H1 2020, despite the reduction in EBITDA. This increase reflects us receiving net tax refunds of £41m in H1 2021, having paid net tax of £43m in H1 2020, and reduced capital expenditure of £187m (2020: £285m) as we maintained tight capital discipline and reduced IT spend in British Gas Energy. These more than offset the impact of lower divestment proceeds. Exceptional cash payments of £48m were similar to H1 2020.
- After including net interest payments of £109m (2020: £80m), pension deficit payments of £243m (2020: £76m), which include £167m of pension strain payments related to redundancies in prior years, positive movements in margin cash, proceeds from the sale of Direct Energy and non-cash decreases to net debt of £21m, net debt at the end of June 2021 was £93m compared to £2,998bn at the end of 2020.

Balance sheet restructuring remains a focus

- Net cash proceeds of £2.6bn from the sale of Direct Energy were received on 5 January 2021 and although a portion of these proceeds are expected to be used to contribute to the Group's defined benefit pension schemes, the Group's long-term leverage outlook is much improved.
- We redeemed a €750m hybrid bond at its first call date of 10 April 2021 and have no plans to replace this with new hybrid capital. However, we still have a legacy of long-dated and relatively expensive debt. We have some maturities due next year, which we currently don't expect to have to refinance. We will also consider retiring gross debt over time should it be in the economic interests of the Group, once we have reached agreement with the pension trustees on the size of any contribution from the Direct Energy proceeds.
- We also retain significant access to liquidity. As at the end of June 2021, the Company had £3.2bn of unrestricted cash and cash equivalents (net of bank overdrafts) and £3.2bn of undrawn credit facilities.

Pension deficit conversations underway

- The IAS19 net pension deficit decreased by £471m in the year to £130m, reflecting an increase in the discount rate due to a rise in interest rates and deficit payments made since the start of the year.
- The technical pension deficit is based on more conservative discount rate and inflation assumptions, and determines the level of cash contributions into the schemes.
- On a roll-forward basis using the same methodology and consequent assumptions from the last valuation date in 2018, this technical provision deficit would be in the region of £1.5bn as at 30 June 2021, lower than the £1.9bn figure at 31 December 2020. This reflects an increase in real gilt rates over H1 2021. This includes the £243m of deficit contributions made during the first half of the year but is before taking into account any additional contributions we intend to make from the Direct Energy proceeds.
- The triennial valuation date was 31 March 2021. Under UK pensions regulations we have 15 months from this date to reach agreement with the pension trustees on the level of the deficit and any repair plan. Conversations with the trustees have already commenced.

2021 OUTLOOK BROADLY UNCHANGED

- The factors we set out in our Preliminary Results in February that we expect to impact our 2021 full year outlook remain relevant.
  - Bord Gáis Energy's Whitegate CCGT remains offline having experienced a forced outage in December 2020, and it is currently expected the power station will be back online towards the end of 2021. Adjusted operating profit is expected to be negatively impacted by up to £40m, at the upper end of the previously guided £25m-£40m range, due to lost revenue and higher market power price exposure to meet customer demand.
  - We still forecast that ECO costs in British Gas Energy will be around £80m higher for the full year than in 2020, and this level of spend is projected to continue into 2022.
  - We also still expect to benefit materially from our significant restructuring programme, with year-on-year operating cost savings of more than £100m. Combined with the impact of colder weather conditions in the UK, we continue to expect to see some margin recovery in British Gas Energy in 2021 when compared to 2020 despite a fall in underlying consumption, a reduction in customer numbers and the higher ECO costs.
- The increase in wholesale commodity prices are starting to benefit our Upstream businesses, however full year Spirit Energy gas and oil production volumes are now expected to be around 15%-20% lower in 2021 than in 2020. We also expect to see additional depreciation of around £40m in H2 2021 as a result of the write-backs on Spirit Energy assets. On Nuclear, we have greater clarity on the future of some stations, however nuclear generation is expected to be lower in 2021 than in 2020 given H1 2021 output and current plant outages.
- The remaining legacy gas contract in Energy Marketing and Trading is now expected to make a full year operating loss in 2021 around the upper end of the previously provided £50m-£100m per annum range, reflecting recent commodity price moves. We expect annual losses for the remaining four years of the contract to fall back within the £50m-£100m range.
- Although Covid-19 had a material impact on the financial result in H1 2021, the easing of restrictions is expected to result in some recovery in business energy demand in H2 2021. In addition, we expect to see a return to more normal levels of services and solutions workload. However, we remain cautious on the potential for incremental working capital outflow and higher bad debt costs due to an uncertain economic outlook and the end of various government support schemes.
- We will continue with our strong focus on free cash flow, in particular a tight discipline on operating costs, cash restructuring and capital expenditure.

CREATING A MORE SUSTAINABLE AND PROFITABLE COMPANY

- The sale of Direct Energy allows a greater focus on the core markets of the UK and Ireland, where we retain leading positions in energy supply and services. These businesses will be further strengthened by the actions we are taking to simplify the Group, improve the customer experience and reduce operating costs. This should position us to deliver longer-term customer-facing growth and add value for shareholders.
- In addition to navigating the remaining Covid-19 related uncertainties, a major priority in the remainder of 2021 will be continuing the operational transformation of the Group through completion of the restructure, helping to improve our competitiveness and drive further improvements in customer experience and customer retention.
- We will also continue to work with colleagues to improve engagement across the Group. We've learnt a lot during Covid-19 about how we can work more flexibly and efficiently. As a result, we will be embedding a flexible approach to working for all colleagues, while ensuring we continue to best serve our customers' needs.

- Looking further out, the drive to net zero presents a significant opportunity for Centrica. We have the largest services field force in the UK, which we are looking to grow through the recruitment of both qualified engineers and apprentices. We are on track to recruit 1,000 new apprentices in British Gas across 2021 and 2022, and our training academies provide us with a competitive advantage, allowing us to upskill our engineers to install newer technologies such as electric vehicle charging points and heat pumps.
- We have been re-considering whether Nuclear can play a role for Centrica in the future, having announced in 2018 that we intended to divest of 20% interest in the UK's operating nuclear fleet. Our focus remains on the customer, and as we look to help our customers reduce their carbon emissions, our Nuclear stake provides us with an important source of zero carbon electricity. Therefore, we may decide to retain our 20% interest.
- We are also engaged in a number of hydrogen initiatives, and in January this year joined the Hydrogen Taskforce coalition of companies. We are looking at the possibility of repurposing the Rough field so it can act as a hydrogen storage facility. Any development would be dependent on a regulated support model allowing appropriate and stable returns. But we continue to view it as an interesting option for Centrica should the economic model look attractive.
- The significant changes we are making position us well for the future, and we intend to set out more detail around our longer-term strategy at a Capital Markets Event on 16 November 2021.

Group Financial Review

REVENUE

- Group revenue from continuing operations included in business performance increased by 6% to £8.2bn (2020: £7.7bn).
- Gross segment revenue from continuing operations, which includes revenue generated from the sale of products and services between segments, increased by 8% to £8.7bn (2020: £8.1bn). This was driven largely by the impact of higher commodity prices and colder weather on British Gas Energy, with the higher commodity prices also resulting in higher Energy Marketing & Trading revenue.
- A table reconciling different revenue measures is shown in the table below:

			2021			2020 (restated)
Period ended 30 June	**Gross segment revenue £m**	**Less inter-segment revenue £m**	**Group revenue £m**	Gross segment revenue £m	Less inter-segment revenue £m	Group revenue £m
Continuing operations						
British Gas Energy	**3,840**	**–**	**3,840**	3,710	–	3,710
British Gas Services and Solutions	**722**	**(32)**	**690**	736	(40)	696
Bord Gáis Energy	**484**	**–**	**484**	416	–	416
Energy Marketing & Trading	**1,991**	**(151)**	**1,840**	1,482	(109)	1,373
Centrica Business Solutions	**871**	**(9)**	**862**	802	(3)	799
Upstream	**838**	**(400)**	**438**	982	(250)	732
Group revenue included in business performance	**8,746**	**(592)**	**8,154**	8,128	(402)	7,726
Discontinued operations						
Direct Energy	**–**	**–**	**–**	4,795	–	4,795
Business performance revenue arising from continuing and discontinued operations	**8,746**	**(592)**	**8,154**	12,923	(402)	12,521
Less: revenue arising on contracts in scope of IFRS 9 included in business performance			**(1,236)**			(1,394)
Less: Discontinued operations			**–**			(4,795)
Group statutory revenue			**6,918**			6,332

Segmental revenues have been restated to reflect the new operating structure of the Group, and to treat Direct Energy as a discontinued operation. As a result of the change in segments, gross segment revenue has been restated to reflect the updated inter-segment trading.

OPERATING PROFIT / (LOSS)

- Adjusted operating profit from continuing operations decreased by 1% to £262m (2020: £264m). The statutory operating profit from continuing operations was £1,003m (2020: loss of £338m). The difference between the two measures of profit relates to exceptional items and certain remeasurements. A table reconciling the different profit measures is shown below:

Six months ended 30 June	Notes	**2021** Business performance £m	**2021** Exceptional items and certain re-measurements £m	**2021** Statutory result £m	2020 Business performance £m	2020 Exceptional items and certain re-measurements £m	2020 Statutory result £m
Continuing operations							
British Gas Energy		**172**			78		
British Gas Services & Solutions		**60**			94		
Bord Gáis Energy		**19**			29		
Energy Marketing & Trading		**(40)**			111		
Core EM&T		***17***			*138*		
Legacy gas contract		***(57)***			*(27)*		
Centrica Business Solutions		**(24)**			(67)		
Upstream		**75**			19		
Spirit Energy		***104***			*34*		
CSL		***9***			-		
Nuclear		***(38)***			*(16)*		
Group operating profit/(loss)	4(c)	**262**	**741**	**1,003**	264	(602)	(338)
Net finance cost	7	**(96)**	**–**	**(96)**	(124)	–	(124)
Taxation	8	**(57)**	**(97)**	**(154)**	(46)	78	32
Profit/(loss) from continuing operations		**109**	**644**	**753**	94	(524)	(430)
Profit attributable to non-controlling interests		**(11)**	**1**	**(10)**	(4)	89	85
Adjusted earnings from continuing operations		**98**	**645**	**743**	90	(435)	(345)
Discontinued operations		**–**	**608**	**608**	57	95	152
Adjusted earnings attributable to shareholders		**98**	**1,253**	**1,351**	**147**	**(340)**	**(193)**

Adjusted operating profit broadly flat

- The combined net negative impact of Covid-19 across the Group and the industrial action in British Gas Services & Solutions was estimated at £87m in H1 2021, compared to an estimated net impact of £29m in H1 2020 which included a number of mitigating actions not repeated in H1 2021, including £27m under the UK Government's Coronavirus Job Retention Scheme.
- Colder than normal weather positively impacted our energy supply businesses, mainly British Gas Energy, partially offset by the impact of having to buy incremental gas and power volumes at higher prices, and higher balancing costs. The net positive impact was an estimated £59m.
- An outage at the Whitegate gas-fired power station in Ireland negatively impacted Bord Gáis Energy adjusted operating profit by £28m. However, British Gas Energy, British Gas Services & Solutions, Bord Gáis Energy and Centrica Business Solutions all saw improved underlying performance, including benefit from cost efficiencies.
- Energy Marketing & Trading adjusted operating profit fell, with exceptionally strong trading and optimisation performance in 2019 and 2020 not repeated and an increased loss from the remaining legacy gas contract.

- Upstream adjusted operating profit increased, with the impact of higher gas, oil and power prices and lower depreciation more than offsetting the impact of lower gas and oil production and nuclear generation.
- More detail on specific business unit adjusted operating profit performance is provided in the Group Overview on pages 5 to 9.

GROUP FINANCE CHARGE AND TAXATION

Finance costs

- Net finance costs for continuing operations decreased to £96m (2020: £124m), with reduced interest costs on bonds, bank loans and overdrafts reflecting the impact of lower interest rates on floating debt and our decision to redeem the €750m hybrid bond at its first call date of April 2021.

Taxation

- Business performance taxation on profit from continuing operations increased to £57m (2020: £46m). After taking account of tax on joint ventures and associates, the adjusted tax charge was £59m (2020: £64m).
- The resultant adjusted effective tax rate for the Group was 35% (2020: 41%), with a changed profit mix towards more highly taxed E&P activities offset by the impact of a £22m one off increase in deferred tax balances in respect of decommissioning liabilities and a one off £20m increase in deferred tax balances relating to the change in the UK corporation tax rate from 19% to 25% on 1 April 2023.
- The adjusted effective tax rate calculation is shown below:

Six months ended 30 June	**2021 £m**	2020 £m
Adjusted operating profit from continuing operations before impacts of taxation	**262**	264
Add: JV/associate taxation included in adjusted operating profit	**2**	18
Net finance cost from continuing operations	**(96)**	(124)
Adjusted profit before taxation	**168**	158
Taxation on profit from continuing operations	**(57)**	(46)
Share of JV/associate taxation	**(2)**	(18)
Adjusted tax charge	**(59)**	(64)
Adjusted effective tax rate	**35%**	41%

EXCEPTIONAL ITEMS

- An exceptional pre-tax credit of £373m was included within the statutory Group operating profit from continuing operations in H1 2021 (2020: charge of £1,044m) including:
  - A credit of £366m relating to the write-back of E&P assets, predominantly due to the increase in near-term liquid commodity prices.
  - A credit of £7m of relating to the reversal of a portion of 2020 restructuring charges relating to pension strain estimates.
- These generated a taxation charge of £125m (2020: credit of £147m). As a result, the total net exceptional profit recognised in continuing operations after taxation was £248m (2020: charge £897m).
- Further details on exceptional items, including on impairment accounting policy, process and sensitivities can be found in notes 6(b) and 6(c).

CERTAIN RE-MEASUREMENTS

- The Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair valued under IFRS 9.
- The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued.
- The operating profit in the statutory results includes a net pre-tax profit for continuing operations of £368m (2020: £442m) relating to these re-measurements. With the Group generally a net purchaser of commodity, the gain was due to the positive revaluation of contracts due for delivery in future periods as commodity prices rose over the first half of 2021, offset by the unwind of in-the-money positions from December 2020. These re-measurements generated a taxation credit of £28m (2020: charge of £69m). As a result, the total profit from net re-measurements after taxation for continuing operations was £396m (2020: £373m).
- The Group recognises the realised gains and losses on these contracts when the underlying transaction occurs. The business performance profits arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements.
- Further details can be found in note 6(a).

DISCONTINUED OPERATIONS

- The sale of Direct Energy was announced on 24 July 2020 and completed on 5 January 2021. As such its activities are treated as a discontinued operation in the financial results.
- There was no adjusted operating profit or adjusted earnings from discontinued operations in H1 2021. Statutory earnings of £608m from discontinued operations are entirely related to the profit on disposal and release of a tax provision related to the disposal of Direct Energy.

GROUP EARNINGS

Adjusted earnings

- Profit for the year from business performance from continuing operations after taxation was £109m (2020: £94m). After adjusting for non-controlling interests, adjusted earnings were £98m (2020: £90m).
- Adjusted basic EPS from continuing operations was 1.7p (2020: 1.6p).

Statutory earnings

- After including exceptional items, certain re-measurements and earnings from discontinued operations, the statutory profit attributable to shareholders for the period was £1,351m (2020: loss of £193m).
- The Group reported a statutory basic EPS of 23.2p (2020: loss of 3.3p). The statutory EPS from continuing operations was 12.8p (2020: loss of 5.9p).

Dividend

- The Group is proposing no 2021 interim dividend.

GROUP CASH FLOW, NET DEBT AND BALANCE SHEET

Group cash flow

- Free cash flow is the Group's primary measure of cash flow as management believe it provides relevant information to show the cash generation of the business after taking account of the need to maintain its capital asset base. Free cash flow is reconciled to statutory net cash flow from operating and investing activities in the table below. See the explanatory note in note 4(f) for further details.

Six months ended 30 June	2021 £m	2020 £m
Statutory cash flow from continuing operating activities	**558**	634
Statutory cash flow from continuing investing activities	**(146)**	(26)
Statutory cash flow from continuing operating and investing activities		
Add back/(deduct):		
Sale and settlement of securities	**-**	(122)
Interest received	**(2)**	(3)
Movements in collateral and margin cash included in net debt	**(129)**	(55)
Defined benefit pension deficit payment	**243**	76
Free cash flow from continuing operations	**524**	504
Discontinued operations free cash flow	**2,582**	245
Free cash flow	**3,106**	749

- Net cash flow from continuing operating activities of £558m was down 12% (2020: £634m), reflecting lower EBITDA. Higher pension deficit payments were largely offset by tax refunds in H1 2021 compared to tax payments in H1 2020.
- Net cash outflow from continuing investing activities increased to £146m (2020: £26m), largely due to lower divestment proceeds and no settlement and sale of securities in H1 2021.
- Group total free cash flow from continuing operations was £524m (2020: £504m). When including £2,582m of free cash flow from discontinuing operations which relates to the sale of Direct Energy on 5 January 2021, Group free cash flow was £3,106m (2020: £749m).
- Net cash outflow from continuing financing activities increased to £740m in 2021 (2020: £161m) reflecting the repayment of the hybrid bond in April 2021.

Net debt

- All of the above resulted in a £2,254m increase in cash and cash equivalents over the year, and when including the impact of reduced gross debt resulting from the hybrid bond repayment, non-cash movements and exchange adjustments, net debt at the end of June 2021 was £93m, down from £2,998m as at 31 December 2020.
- Further details on the Group's net debt are included in note 12.

Pension deficit

- The Group's IAS 19 net pension deficit decreased by £471m to £130m in the period, with deficit contributions and an increase in the discount rate due to rising interest rates decreasing obligations.
- Further details on the post-retirement benefits are included in note 13.

Balance sheet

- Net assets increased to £2,878m (31 December 2020: £1,382m), reflecting the statutory profit in the period and the decrease in retirement benefit obligations.

2021 ACQUISITIONS AND DISPOSALS

- On 24 July 2020, the Group announced it had agreed to dispose of its North American supply, services and trading business, Direct Energy, to NRG for headline consideration of $3.6 billion on a

debt free, cash free basis. The transaction received all necessary approvals prior to 31 December 2020 and completed on 5 January 2021. This resulted in a profit on disposal of £0.6bn.

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

EVENTS AFTER BALANCE SHEET DATE

- Details of events after the balance sheet date are described in note 17.

RISKS AND CAPITAL MANAGEMENT

- The nature of the Group's principal risks and uncertainties are broadly unchanged from those set out in its 2020 Annual Report, although the Group has actively responded to those risks heightened by Covid-19, with Centrica's approach to risk management enabling a rapid mobilisation of resources to react to the challenges caused by the pandemic. The extent to which the Group may continue to be impacted by the consequences of Covid-19 will in part depend on the degree of government support, in the form of direct aid and stimulus programmes, which are likely to be a factor in the degree of customer bad debt we see and in the speed of recovery in the commercial sector.
- Our top three Principal Risks are Political & Regulatory Intervention, Commodity Risk and Asset Production. Capability of People, Processes and Systems risk is also intensified as we progress through our programmes of change.
- Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note 19. Details of the Group's capital management processes are provided under sources of finance in note 12(a).

ACCOUNTING POLICIES

- The Group's accounting policies and specific accounting measures, including changes of accounting presentation and selected key sources of estimation uncertainty, are explained in notes 1, 2 and 3.

Appendix: Upstream performance metrics

Nuclear

Six months ended 30 June	2021	2020	Change
Nuclear power generated (GWh)	**4,171**	4,537	(8%)
Nuclear achieved power price (£/MWh)	**46.5**	53.0	(12%)

Exploration & Production

Six months ended 30 June	2021	2020	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.22**	0.28	(21%)
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)	**0.09**	0.00	nm
Gas production volumes (mmth)			
Spirit Energy	**637**	930	(32%)
CSL	**84**	104	(19%)
Total gas production volumes (mmth)	**721**	1,034	(30%)
Liquids production volumes (mmboe)			
Spirit Energy	**6.7**	8.5	(21%)
CSL	**0.1**	0.0	nm
Total liquids production volumes (mmboe)	**6.7**	8.5	(21%)
Total production volumes (mmboe)			
Spirit Energy	**17.1**	23.7	(28%)
CSL	**1.4**	1.7	(18%)
Total production volumes (mmboe)	**18.5**	25.4	(27%)
Average achieved gas sales prices (p/therm)			
Spirit Energy	**44.4**	33.9	31%
CSL	**55.9**	45.0	24%
Average achieved liquid sales prices (£/boe)			
Spirit Energy	**38.7**	34.6	12%
CSL	**26.8**	18.4	46%
Lifting and other cash production costs (£/boe) [1]			
Spirit Energy	**16.4**	12.3	33%
CSL	**20.4**	21.0	(3%)
Gas and liquids realisations (£m) [2]	**575**	667	(14%)
Unit DDA rate (£/boe)			
Spirit Energy	**11.5**	11.7	(2%)
CSL	**5.4**	3.9	38%
Net investment (£m) [3]			
Capital expenditure (including small acquisitions)	**122**	204	(40%)
Net disposals	**-**	(9)	nm
Net investment (£m)	**122**	195	(37%)
Free cash flow (£m) [3]	**266**	141	89%

1. Lifting and other cash production costs are total operating costs and cost of sales excluding depreciation and amortisation, dry hole costs, exploration costs and profit on disposal.
2. Realisations are total revenues from sales of gas and liquids including hedging and net of Spirit NTS costs.
3. See pages 65 to 68 for an explanation of the use of adjusted performance measures.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Interim Results for the six-month period ended 30 June 2021 in accordance with applicable law, regulations and accounting standards. In preparing the condensed interim Financial Statements, the Directors are responsible for ensuring that they give a true and fair view of the state of affairs of the Group at the end of the period and the profit or loss of the Group for that period.

The Directors confirm that the condensed interim Financial Statements have been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting", 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 2020 Annual Report and Accounts. A list of current Directors is maintained on the Centrica plc website which can be found at www.centrica.com.

On behalf of the Board on 21 July 2021

Chris O'Shea	**Kate Ringrose**
Group Chief Executive	**Group Chief Financial Officer**

Independent Review Report to Centrica plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Cash Flow Statement and related notes 1 to 20. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group will be prepared in accordance with United Kingdom adopted International Financial Reporting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom

21 July 2021

Group Income Statement

Six months ended 30 June	Notes	2021 Business performance £m	2021 Exceptional items and certain re-measurements £m	2021 Results for the period £m	2020 (restated) (i) Business performance £m	2020 (restated) (i) Exceptional items and certain re-measurements £m	2020 (restated) (i) Results for the period £m
Continuing operations							
Group revenue	4	**8,154**	**(1,236)**	**6,918**	7,726	(1,394)	6,332
Cost of sales	6	**(7,000)**	**2,244**	**(4,756)**	(6,541)	2,362	(4,179)
Re-measurement and settlement of energy contracts	6	**–**	**(640)**	**(640)**	–	(528)	(528)
Gross profit	4, 6	**1,154**	**368**	**1,522**	1,185	440	1,625
Operating costs before exceptional items and credit losses on financial assets		**(790)**	**–**	**(790)**	(821)	–	(821)
Credit losses on financial assets		**(66)**	**–**	**(66)**	(98)	–	(98)
Exceptional items – write-back/(impairments)	6	**–**	**366**	**366**	–	(785)	(785)
Exceptional items – restructuring credit/(costs)	6	**–**	**7**	**7**	–	(259)	(259)
Operating costs		**(856)**	**373**	**(483)**	(919)	(1,044)	(1,963)
Share of (losses)/profits of joint ventures and associates, net of interest and taxation	5	**(36)**	**–**	**(36)**	(2)	2	–
Group operating profit/(loss)	4	**262**	**741**	**1,003**	264	(602)	(338)
Net finance cost	7	**(96)**	**–**	**(96)**	(124)	–	(124)
Profit/(loss) from continuing operations before taxation		**166**	**741**	**907**	140	(602)	(462)
Taxation on profit/(loss) from continuing operations	8	**(57)**	**(97)**	**(154)**	(46)	78	32
Profit/(loss) from continuing operations after taxation		**109**	**644**	**753**	94	(524)	(430)
Discontinued operations (ii)	6	**–**	**608**	**608**	57	95	152
Profit/(loss) for the period		**109**	**1,252**	**1,361**	151	(429)	(278)
Attributable to:							
Owners of the parent		**98**	**1,253**	**1,351**	147	(340)	(193)
Non-controlling interests		**11**	**(1)**	**10**	4	(89)	(85)

Earnings per ordinary share	Notes	2021	2020 (restated) (i)
From continuing and discontinued operations			
Basic	9	**23.2**	(3.3)
Diluted	9	**22.9**	(3.3)
From continuing operations			
Basic	9	**12.8**	(5.9)
Diluted	9	**12.6**	(5.9)
Interim dividend paid per ordinary share	10	**–**	–
Final dividend per ordinary share	10	**–**	–

(i) Prior period results have been restated to remove the Direct Energy business from continuing operations, as the business has been classified as a discontinued operation. See note 3.
(ii) Profit from discontinued operations is entirely attributable to equity holders of the parent.

The notes on pages 27 to 64 form part of these condensed interim Financial Statements.

Group Statement of Comprehensive Income

Six months ended 30 June	2021 £m	2020 £m
Profit/(loss) for the period	**1,361**	(278)
Other comprehensive (loss)/income		
Items that will be or have been reclassified to the Group Income Statement:		
Impact of cash flow hedging (net of taxation)	**(8)**	8
Exchange differences on translation of foreign operations	**(32)**	108
Exchange differences reclassified to Group Income Statement on disposal	**(20)**	–
Gains on net investment hedging (net of taxation) reclassified to the Group Income Statement on disposal	**(40)**	–
Items that will not be reclassified to the Group Income Statement:		
Net actuarial gains/(losses) on defined benefit pension schemes (net of taxation)	**184**	(238)
Gains/(losses) on revaluation of equity instruments measured at fair value through other comprehensive income (net of taxation)	**1**	(3)
Share of other comprehensive income of joint ventures and associates (net of taxation)	**42**	–
Other comprehensive income/(loss) (net of taxation)	**127**	(125)
Total comprehensive income/(loss) for the period	**1,488**	(403)
Attributable to:		
Owners of the parent	**1,481**	(311)
Non-controlling interests	**7**	(92)
Total comprehensive income/(loss) attributable to owners of the parent arises from:		
Continuing operations	**933**	(559)
Discontinued operations	**548**	248
	1,481	(311)

The notes on pages 27 to 64 form part of these condensed interim Financial Statements.

Group Statement of Changes in Equity

	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
1 January 2021	361	2,347	(836)	(915)	**957**	425	**1,382**
Profit for the period	–	–	1,351	–	**1,351**	10	**1,361**
Other comprehensive profit/(loss)	–	–	–	130	**130**	(3)	**127**
Employee share schemes	2	30	1	(25)	**8**	–	**8**
30 June 2021	**363**	**2,377**	**516**	**(810)**	**2,446**	**432**	**2,878**

	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	Total £m	Non-controlling interests £m	Total equity £m
1 January 2020	360	2,330	(869)	(609)	1,212	583	1,795
Loss for the period	–	–	(193)	–	(193)	(85)	(278)
Other comprehensive loss	–	–	–	(118)	(118)	(7)	(125)
Employee share schemes	–	15	(12)	24	27	–	27
30 June 2020	360	2,345	(1,074)	(703)	928	491	1,419

The notes on pages 27 to 64 form part of these condensed interim Financial Statements.

Group Balance Sheet

	Notes	30 June 2021 £m	31 December 2020 £m
Non-current assets			
Property, plant and equipment		**2,858**	2,643
Interests in joint ventures and associates		**840**	843
Other intangible assets		**1,036**	1,011
Goodwill		**915**	929
Deferred tax assets		**713**	636
Trade and other receivables, and contract-related assets	14	**135**	145
Derivative financial instruments	15	**413**	366
Retirement benefit assets	13	**111**	–
Securities	12, 15	**135**	134
		7,156	6,707
Current assets			
Trade and other receivables, and contract-related assets	14	**2,926**	2,801
Inventories		**320**	324
Derivative financial instruments	15	**2,731**	1,224
Current tax assets		**116**	132
Cash and cash equivalents	12	**3,733**	1,820
		9,826	6,301
Assets of disposal groups classified as held for sale	11	**–**	4,111
		9,826	10,412
Total assets		**16,982**	17,119
Current liabilities			
Derivative financial instruments	15	**(2,115)**	(747)
Trade and other payables, and contract-related liabilities		**(3,817)**	(3,722)
Current tax liabilities		**(201)**	(235)
Provisions for other liabilities and charges		**(139)**	(188)
Bank overdrafts, loans and other borrowings	12	**(605)**	(787)
		(6,877)	(5,679)
Liabilities of disposal groups classified as held for sale	11	**–**	(1,986)
		(6,877)	(7,665)
Non-current liabilities			
Deferred tax liabilities		**(453)**	(149)
Derivative financial instruments	15	**(365)**	(181)
Trade and other payables, and contract-related liabilities		**(277)**	(114)
Provisions for other liabilities and charges		**(2,394)**	(2,438)
Retirement benefit obligations	13	**(241)**	(601)
Bank loans and other borrowings	12	**(3,497)**	(4,589)
		(7,227)	(8,072)
Total liabilities		**(14,104)**	(15,737)
Net assets		**2,878**	1,382
Share capital		**363**	361
Share premium		**2,377**	2,347
Retained earnings		**516**	(836)
Other equity		**(810)**	(915)
Total shareholders' equity		**2,446**	957
Non-controlling interests		**432**	425
Total shareholders' equity and non-controlling interests		**2,878**	1,382

The notes on pages 27 to 64 form part of these condensed interim Financial Statements.

Group Cash Flow Statement

Six months ended 30 June	Notes	2021 £m	2020 (restated) (i) £m
Continuing operations:			
Group operating profit/(loss) including share of results of joint ventures and associates		**1,003**	(338)
Add back share of losses of joint ventures and associates, net of interest and taxation	5	**36**	–
Group operating profit/(loss) before share of results of joint ventures and associates		**1,039**	(338)
Add back/(deduct):			
Depreciation, amortisation, write-downs, impairments and write-backs		**(13)**	1,275
Loss/(profit) on disposals		**27**	(3)
(Decrease)/increase in provisions		**(47)**	69
Cash contributions to defined benefit schemes (in excess of)/less than service cost income statement charge		**(243)**	37
Employee share scheme costs		**3**	23
Unrealised gains arising from re-measurement of energy contracts		**(239)**	(425)
Exceptional charges reflected directly in operating profit		**5**	23
Operating cash flows before movements in working capital relating to business performance and payments relating to taxes and exceptional charges		**532**	661
Decrease in inventories		**2**	22
(Increase)/decrease in trade and other receivables and contract-related assets relating to business performance		**(122)**	679
Increase/(decrease) in trade and other payables and contract-related liabilities relating to business performance		**153**	(635)
Operating cash flows before payments relating to taxes and exceptional charges		**565**	727
Taxes refunded/(paid)		**41**	(43)
Payments relating to exceptional charges in operating costs		**(48)**	(50)
Net cash flow from continuing operating activities		**558**	634
Net cash flow from discontinued operating activities		**–**	269
Net cash flow from operating activities		**558**	903
Continuing operations:			
Purchase of businesses, net of cash acquired		**(13)**	–
Sale of businesses		**4**	108
Purchase of property, plant and equipment and intangible assets	4	**(174)**	(285)
Sale of property, plant and equipment and intangible assets		**32**	2
Disposal of joint ventures and associates		**2**	–
Dividends received from joint ventures and associates		**1**	23
Receipt of sub-lease capital payments	12	**–**	1
Interest received		**2**	3
Settlement and sale of securities	12	**–**	122
Net cash flow from continuing investing activities		**(146)**	(26)
Net cash flow from discontinued investing activities		**2,582**	(13)
Net cash flow from investing activities		**2,436**	(39)
Continuing operations:			
Payments for own shares		**–**	(1)
Proceeds from sale of forfeited share capital		**1**	–
Financing interest paid	12	**(111)**	(83)
Repayment of borrowings and capital element of leases	12	**(630)**	(77)
Net cash flow from continuing financing activities		**(740)**	(161)
Net cash flow from discontinued financing activities		**–**	(8)
Net cash flow from financing activities		**(740)**	(169)
Net increase in cash and cash equivalents		**2,254**	695
Cash and cash equivalents including overdrafts, and including cash classified as held for sale at 1 January		**1,393**	794
Effect of foreign exchange rate changes	12	**(10)**	14
Cash and cash equivalents including overdrafts at 30 June	12	**3,637**	1,503
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents		**3,733**	1,603
Overdrafts included within current bank overdrafts, loans and other borrowings		**(96)**	(100)

(i) Prior period results have been restated to remove the Direct Energy business from continuing operations, as the business has been classified as a discontinued operation. See note 3 and 11.

The notes on pages 27 to 64 form part of these condensed interim Financial Statements.

Notes to the condensed interim Financial Statements

Notes to the condensed interim Financial Statements provide additional information required by statute, accounting standards or Listing Rules to explain a particular feature of the condensed interim Financial Statements. These condensed interim Financial Statements should be read in conjunction with the information that was released in the Group's consolidated Financial Statements for the year ended 31 December 2020.

1. General information

Centrica plc (the 'Company') is a public company limited by shares, domiciled and incorporated in the UK, and registered in England and Wales. The address of the registered office is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD. The Company has its listing on the London Stock Exchange. The Company, together with its subsidiaries comprise the 'Group'.

The condensed interim Financial Statements for the six months ended 30 June 2021 included in this announcement were authorised for issue in accordance with a resolution of the Board of Directors on 21 July 2021.

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 2020 were approved by the Board of Directors on 24 February 2021 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006. The financial information contained in these condensed interim Financial Statements is unaudited. The Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Changes in Equity, Group Cash Flow Statement for the interim period to 30 June 2021, the Group Balance Sheet as at 30 June 2021, and the related notes have been reviewed by the auditors and their report to the Company is set out on page 21.

2. Basis of preparation

These condensed interim Financial Statements for the six months ended 30 June 2021 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34: 'Interim financial reporting', as adopted by the United Kingdom.

These condensed interim Financial Statements should be read in conjunction with the Group's consolidated Financial Statements for the year ended 31 December 2020, which were prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, and applied by the Group at the time. The Group's consolidated Financial Statements for the year ended 31 December 2021 will be prepared in accordance with the United Kingdom adopted International Financial Reporting Standards.

Preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense. Actual amounts may differ from these estimates. In preparing these condensed interim Financial Statements, the significant judgements, estimates and assumptions made by management in applying the Group's accounting policies were consistent with those applied in the Group's consolidated Financial Statements for the year ended 31 December 2020, unless amended by the application of new accounting policies, standards or interpretations, or as a result of changes in estimation uncertainty or judgements as described in note 3.

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

In the context of the continuing economic uncertainty caused by COVID-19, the Directors have updated their going concern assessment to factor in the Group's updated principal risks, strategy and forecasts, together with modelling further downside sensitivities. The going concern assessment has considered the financial impact on the Group's credit and liquidity headroom of certain stress events impacting the Group's key risks: commodity price, weather, regulatory, liquidity and potential further impacts of COVID-19, over a 12-18 month horizon. The Group's forecasts show that the Group will maintain sufficient headroom, underpinned by unrestricted cash and cash equivalents, net of bank overdrafts, of c.£3.2bn as at 30 June 2021, and c.£3.2bn of undrawn committed facilities, which remain committed until at least 2024. Accordingly, the Directors continue to believe it is appropriate to adopt the going concern basis of accounting in preparing the condensed interim Financial Statements.

3. Accounting policies

This section details new accounting policies, standards, amendments and interpretations, whether these are effective in 2021 or later years, and if and how these are expected to impact the financial position and performance of the Group. In addition, this section sets out the Group's specific accounting measures applied in the preparation of the condensed interim Financial Statements. These measures enable the users of the accounts to understand the Group's underlying and statutory business performance separately.

The accounting policies applied in these condensed interim Financial Statements are consistent with those used in the preparation of the Group's consolidated Financial Statements for the year ended 31 December 2020, as described in those annual Financial Statements, with the exception of policies, standards, amendments and interpretations effective as of 1 January 2021 and other changes detailed below.

(a) New accounting policies, standards, amendments and interpretations effective or adopted in 2021

From 1 January 2021, the following standards and amendments are effective in the Group's consolidated Financial Statements:

- 'Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 17, IFRS 14 and IFRS 16'; and
- Amendments to IFRS 17 and IFRS 4 Insurance Contracts – deferral of IFRS 9.

Phase 2 of the Interest Rate Benchmark Reform became effective on 1 January 2021 and reliefs available under Phase 1 will cease to apply once the uncertainty regarding the timing and the amount of interest rate benchmark-based cash flows is no longer present. Under Phase 2, to the extent that modifications are made to financial instruments that are necessary to implement Interest Rate Benchmark Reform, reliefs from the discontinuation of hedge accounting or immediate recognition of any gains or losses in the income statement are available on transition to alternative rates, provided that the new basis for calculating cash flows is economically equivalent to the previous basis. Reliefs permit hedge accounting relationships to continue unaffected. The Group is applying these reliefs and expects to amend the formal designation of hedge relationships; hedge accounting is expected to continue. The amendments to IFRS 17 and IFRS 4 defer the date of application of IFRS 17 to 1 January 2023 and change the fixed date of the temporary exemption in IFRS 4 from applying IFRS 9 until 1 January 2023.

None of the changes to IFRS described above have a material impact on the Group's consolidated Financial Statements.

Change in accounting treatment of deferred tax movements arising from pension balances

IAS 12 allows for the reasonable allocation of current and deferred tax charges and credits in respect of items where the movements in those items are recognised outside of the Income Statement, such as movements on the Group's pension assets and liabilities. The Group previously allocated all deferred tax movements arising on the pension schemes, including those associated with a change in the rate of deferred tax, to the Income Statement and the Statement of Other Comprehensive Income, on the basis of the cumulative charges and credits to those statements. However, the Group has now simplified its policy, and all movements on deferred tax associated with the Group's pension schemes are now recognised in the Statement of Other Comprehensive Income, including in respect of tax rate changes, as the majority of timing differences arise from actuarial movements which are dealt with in the Statement of Other Comprehensive Income.

The Group has therefore recognised a £10 million credit in the period in the Statement of Other Comprehensive Income, representing all temporary differences in respect of the pension scheme balance. This approach will be consistently applied to all future remeasurement of the deferred tax balances in respect of the pension scheme as a result of tax rate changes.

In 2020, the Group recognised part of the difference arising from the remeasurement of the deferred tax balance in respect of pension scheme balances through the income statement giving rise to a tax charge of £22 million. The Group has not restated the prior year comparatives as the amount is not material.

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

The following standards and amendments have been issued and will be applied to the Group in future periods:

- IFRS 17: 'Insurance Contracts', effective from 1 January 2023;
- Amendments to IAS 37: 'Provisions, contingent assets and contingent liabilities' are effective from 1 January 2022, subject to UK endorsement. The amendments specify which costs an entity should include when assessing whether a contract is onerous and therefore requires a provision;
- Amendments to IAS 1: 'Presentation of Financial Statements' relating to the classification of financial liabilities are effective from 1 January 2023, subject to UK endorsement. The amendments clarify the meaning of settlement in the context of liabilities, and the circumstances in which liabilities are classified as current or non-current;
- Annual Improvements to IFRS 2018-2020', effective from 1 January 2022;
- Amendments to IAS 1 relating to the disclosure of accounting policy and materiality judgements, effective from 1 January 2023; and
- Amendments to IAS 8: 'Accounting policies, change in accounting estimates and errors' relating to the definition of accounting estimates, effective from 1 January 2023.

The Group is assessing the impact these changes will have on its consolidated Financial Statements.

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

3. Accounting policies

(c) Restatements

During 2020 the Group's reportable operating segments were amended due to a change in the way management review and make decisions about the business. During 2021 the British Gas segment has been further refined and separated into two operating segments, British Gas Energy and British Gas Services and Solutions, reflecting additional restructuring and management changes that have occurred. At the same time the small business customer result has been moved to British Gas Energy from Centrica Business Solutions to more accurately reflect how these customers are managed.

The operating segments are now defined as:

- British Gas Energy
- British Gas Services and Solutions
- Bord Gáis Energy
- Energy Marketing & Trading
- Centrica Business Solutions
- Upstream
- Direct Energy (Discontinued operation)

The disposal of the Group's North American Direct Energy business, which completed on 5 January 2021, has led to the classification of Direct Energy as a discontinued operation. Comparatives in the Group Income Statement and Group Cash Flow Statement have been restated accordingly.

Collateral posted/(received) has been removed from the definition of net debt. See note 12.

(d) Centrica specific accounting measures

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

Management uses adjusted revenue, adjusted gross margin and adjusted operating profit to evaluate segment performance. They are defined as revenue/gross margin/operating profit before:

- exceptional items; and
- certain re-measurements.

Exceptional items and certain re-measurements are excluded because these items are considered by the Directors to distort the Group's underlying business performance.

Adjusted earnings is defined as earnings before:

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

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

Free cash flow is used by management to assess the cash generating performance of each segment. Segmental free cash flow is defined as net cash flow from operating and investing activities before:

- deficit reduction payments made to the UK defined benefit schemes;
- movements in variation margin and collateral;
- interest received;
- sale, settlement and purchase of securities; and
- taxes paid and refunded.

Segmental free cash flow as assessed by management excludes cash flows relating to tax. This is because the effect of group relief and similar reliefs could distort the measure of segment performance. As a Group-wide measure, free cash flow includes taxes paid and refunded.

Free cash flow gives a measure of the cash generation performance of the business after taking account of the need to maintain its capital asset base. By excluding pension deficit reduction payments and movements in variation margin and collateral, which are predominantly triggered by wider market factors and, in the case of collateral and margin movements, represent timing differences, free cash flow gives a measure of the underlying performance of the Group.

Interest received and cash flows from the sale, settlement and purchase of securities are excluded from free cash flow as these items are included in the Group's net debt measure, and are therefore viewed by the Directors as related to the manner in which the Group finances its operations.

3. Accounting policies

Exceptional items and certain re-measurements

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

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

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

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

The effects of these certain re-measurements are presented within either revenue or cost of sales when recognised in business performance depending on the nature of the contract. They 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 revenue in the business performance column of the Group Income Statement.

The Group's result for the period presents both realised and unrealised fair value movements on all derivative energy contracts, including those within the 'Re-measurement and settlement of energy contracts' line item.

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

The Group distinguishes between business performance asset impairments/write-backs and exceptional impairments/write-backs on the basis of the underlying driver of the impairment, as well as the magnitude of the impairment. Drivers that are deemed to be outside of the control of the Group (e.g. commodity price changes) give rise to exceptional impairments. Additionally, impairment charges that are of a one-off nature (e.g. reserve downgrades or one-time change in intended use of an asset) and significant enough value to distort the underlying results of the business are considered to be exceptional. Other impairments that would be expected in the normal course of business, such as unsuccessful exploration activity (dry holes), are reflected in business performance.

(e) Key sources of estimation uncertainty and critical accounting judgements

With the exception of the items noted below, key areas of critical accounting judgement and estimation uncertainty that have the most significant effect on the consolidated Group Financial Statements remain as disclosed in note 3(a) and 3(b) of the Annual Report and Accounts for the year ended 31 December 2020.

COVID-19

The COVID-19 pandemic has had a profoundly negative impact on the global economy, and there is significant uncertainty around the timing and shape of any economic recovery. Although restrictions have been gradually eased following the full lockdown in the first two months of the year, significant uncertainty still exists. Economic recovery is expected, but this is balanced against vulnerabilities such as potential COVID-19 resurgences and withdrawal of government support schemes; the recovery is likely to be uneven. This has given rise to estimation uncertainty for the Group, particularly regarding the matters noted below.

3. Accounting policies

Impairment/write-back of long-lived assets

Upstream gas and oil assets

Forward prices for gas and liquids are a key input in the determination of the recoverable amount of the Group's gas and oil assets. The first half of 2021 has seen a recovery in the prices for such commodities, both in terms of observable market prices and forecast forward prices in periods in which market prices are not available. This recovery is as a result of the global economic rebound and improved growth prospects.

Details of impairment reversals of gas and oil assets along with associated sensitivities, are provided in note 6.

Nuclear investment

The recoverable amount of the Nuclear investment is based on the value of the existing UK nuclear fleet operated by EDF. Forward prices for baseload power are a key input in determining the recoverable amount. The first half of 2021 has seen a significant recovery in prices in the observable market period, although there was a reduction in the longer-term price forecasts. At the same time output assumptions have also been impacted by issues at a number of stations.

Details of impairment/write-back assessment of the Nuclear investment along with associated sensitivities, are provided in note 6.

Credit provisions for trade and other receivables

The economic effects of the COVID-19 pandemic have impacted the ability of the Group's customers to pay amounts due. While the impact on customers has been mitigated by a number of government support and stimulus schemes, the level of estimation uncertainty in determining the credit provisions required for customers in different sectors and geographies has increased. Details of the approach taken to determining the level of credit provision and associated sensitivities are provided in note 14.

Discontinued operations

On 24 July 2020, the Group announced that it had agreed to dispose of its North American energy supply, services and trading business, Direct Energy, to NRG Energy Inc. for headline consideration of $3.6 billion (£2.7 billion) on a debt free, cash free basis. At the time of the announcement, the disposal was subject to shareholder and regulatory approvals, all of which were obtained before 31 December 2020. Direct Energy was not classified as held-for-sale at 30 June 2020. The transaction completed on 5 January 2021.

The disposal group represents a separate major line of business and geographical operations and therefore its results have been presented as discontinued operations in the Group Income Statement, Group Statement of Other Comprehensive Income and Group Cash Flow Statement, and related notes.

4. Segmental analysis

The Group's reporting segments are those used internally by management to run the business and make decisions. The Group's segments are based on products and services as well as the major factors that influence the performance of these products and services across the geographical locations in which the Group operates.

(a) Segmental structure

During 2020 the Group's reportable operating segments were amended due to a change in the way management review and make decisions about the business. During 2021 the British Gas segment has been further refined and separated into two operating segments, British Gas Energy and British Gas Services and Solutions, reflecting additional restructuring and management changes that have occurred. At the same time the small business customer result has been moved to British Gas Energy from Centrica Business Solutions to more accurately reflect how these customers are managed.

The types of products and services from which each reportable segment derived its income during the period are detailed below. Income sources are reflected in Group revenue unless otherwise stated:

Segment	Description
British Gas Energy	(i) The supply of gas and electricity to residential and small business customers in the UK.
British Gas Services and Solutions	(i) The installation, repair and maintenance of domestic central heating and related appliances, installation of smart meters, and the provision of fixed-fee maintenance/breakdown service and insurance contracts in the UK; and (ii) the supply of new technologies and energy efficiency solutions in the UK.
Bord Gáis Energy	(i) The supply of gas and electricity to residential and commercial and industrial customers in the Republic of Ireland; (ii) the installation, repair and maintenance of domestic central heating and related appliances in the Republic of Ireland; and (iii) power generation in the Republic of Ireland [(i)].
Energy Marketing & Trading	(i) The procurement, trading and optimisation of energy in the UK and Europe [(i)]; (ii) the global procurement and sale of LNG; and (iii) the generation of power from the Spalding combined cycle gas turbine tolling contract.
Centrica Business Solutions	(i) The supply of gas and electricity and provision of energy-related services to medium and large business customers in the UK [(i)]; and (ii) the supply of energy efficiency solutions, flexible generation and new technologies to commercial and industrial customers in all geographies in which the Group operates. Flexible merchant generation is also provided to the UK system operator.
Upstream	(i) The production and processing of gas and oil and the development of new fields, principally within Spirit Energy, to maintain reserves in the UK and Europe [(i)]; and (ii) the sale of power generated from nuclear assets in the UK [(i)].
Direct Energy (Discontinued operation)	(i) The supply of gas and electricity, and provision of energy-related services to residential and business customers in North America; (ii) the installation, repair and maintenance of domestic central heating and cooling systems and related appliances, and the provision of fixed-fee maintenance/breakdown service and insurance contracts in North America; and (iii) the procurement, trading and optimisation of energy in North America [(i)].

(i) Where income is generated from contracts in the scope of IFRS 9, this is included in re-measurement and settlement of energy contracts.

4. Segmental analysis

(b) Revenue

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

	2021			2020 (restated) (i)		
Six months ended 30 June	**Gross segment revenue £m**	**Less inter-segment revenue £m**	**Group revenue £m**	Gross segment revenue £m	Less inter-segment revenue £m	Group revenue £m
Continuing operations						
British Gas Energy	**3,840**	**–**	**3,840**	3,710	–	3,710
British Gas Services and Solutions	**722**	**(32)**	**690**	736	(40)	696
Bord Gáis Energy	**484**	**–**	**484**	416	–	416
Energy Marketing & Trading	**1,991**	**(151)**	**1,840**	1,482	(109)	1,373
Centrica Business Solutions	**871**	**(9)**	**862**	802	(3)	799
Upstream	**838**	**(400)**	**438**	982	(250)	732
Group revenue included in business performance	**8,746**	**(592)**	**8,154**	8,128	(402)	7,726
Discontinued operations						
Direct Energy	**–**	**–**	**–**	4,795	–	4,795
Business performance revenue arising from continuing and discontinued operations	**8,746**	**(592)**	**8,154**	12,923	(402)	12,521
Less: revenue arising from contracts in scope of IFRS 9 included in business performance			**(1,236)**			(1,394)
Less: Discontinued operations			**–**			(4,795)
Group Revenue			**6,918**			6,332

(i) Segmental revenues have been restated to reflect the new operating structure of the Group, and to treat Direct Energy as a discontinued operation (see note 3). As a result of the change in segments, gross segment revenue has been restated to reflect the updated inter-segment trading.

4. Segmental analysis

The table below shows the Group revenue arising from contracts with customers, and therefore in the scope of IFRS 15, and revenue arising from contracts in the scope of other standards. The key economic factors impacting the nature, timing and uncertainty of revenue and cash flows are considered to be driven by the type and broad geographical location of the customer. The analysis of IFRS 15 revenue below reflects these factors.

	2021				
Six months ended 30 June	**Revenue from contracts with customers in scope of IFRS 15 £m**	**Revenue from fixed-fee service and insurance contracts in scope of IFRS 4, and leasing contracts in scope of IFRS 16 £m**	**Group Revenue £m**	**Revenue in business performance arising from contracts in scope of IFRS 9 £m**	**Group Revenue included in business performance £m**
Continuing operations					
Energy supply – UK	**3,840**				
British Gas Energy	**3,840**	**–**	**3,840**	**–**	**3,840**
Energy services and solutions	**240**				
British Gas Services and Solutions	**240**	**450**	**690**	**–**	**690**
Energy supply – Republic of Ireland	**406**				
Bord Gáis Energy	**406**	**–**	**406**	**78**	**484**
Energy sales to trading and energy procurement counterparties	**1,042**				
Energy Marketing & Trading	**1,042**	**7**	**1,049**	**791**	**1,840**
Energy supply – UK	**484**				
Energy services and solutions	**129**				
Centrica Business Solutions	**613**	**1**	**614**	**248**	**862**
Gas and oil production	**319**				
Upstream	**319**	**–**	**319**	**119**	**438**
	6,460	**458**	**6,918**	**1,236**	**8,154**

	2020 (restated) (i)				
Six months ended 30 June	Revenue from contracts with customers in scope of IFRS 15 £m	Revenue from fixed-fee service and insurance contracts in scope of IFRS 4, and leasing contracts in scope of IFRS 16 £m	Group Revenue £m	Revenue in business performance arising from contracts in scope of IFRS 9 £m	Group Revenue included in business performance £m
Continuing operations					
Energy supply – UK	3,710				
British Gas Energy	3,710	–	3,710	–	3,710
Energy services and solutions	200				
British Gas Services and Solutions	200	496	696	–	696
Energy supply – Republic of Ireland	367				
Bord Gáis Energy	367	–	367	49	416
Energy sales to trading and energy procurement counterparties	651				
Energy Marketing & Trading	651	–	651	722	1,373
Energy supply – UK	461				
Energy services and solutions	105				
Centrica Business Solutions	566	2	568	231	799
Gas and oil production	340				
Upstream	340	–	340	392	732
	5,834	498	6,332	1,394	7,726

(i) Segmental revenues have been restated to reflect the new operating structure of the Group, and to treat Direct Energy as a discontinued operation (see note 3).

4. Segmental analysis

(c) Adjusted gross margin and adjusted operating profit

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

This note also details adjusted gross margin. Both measures are reconciled to their statutory equivalents.

	Adjusted gross margin		Adjusted operating profit	
Six months ended 30 June	**2021 £m**	2020 (restated) (i) £m	**2021 £m**	2020 (restated) (i) £m
Continuing operations				
British Gas Energy	**530**	497	**172**	78
British Gas Services and Solutions	**266**	325	**60**	94
Bord Gáis Energy	**69**	83	**19**	29
Energy Marketing & Trading	**26**	148	**(40)**	111
Centrica Business Solutions	**75**	36	**(24)**	(67)
Upstream	**188**	96	**75**	19
Adjusted gross margin/adjusted operating profit	**1,154**	1,185	**262**	264
Discontinued operations				
Direct Energy	**–**	396	**–**	79
Total Group adjusted gross margin/adjusted operating profit	**1,154**	1,581	**262**	343
Less Discontinued operations	**–**	(396)	**–**	(79)
Business performance gross margin/operating profit from continuing operations	**1,154**	1,185	**262**	264
Certain re-measurements (continuing operations)	**368**	440	**368**	440
Share of re-measurement of certain associates' contracts (net of taxation)	**–**	–	**–**	2
Gross profit	**1,522**	1,625		
Exceptional items in operating profit (continuing operations)			**373**	(1,044)
Operating profit/(loss) after exceptional items and certain re-measurements			**1,003**	(338)

(i) Segmental results have been restated to reflect the current operating structure of the Group, and to treat Direct Energy as a discontinued operation (see note 3).

4. Segmental analysis

(d) Included within adjusted operating profit

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

	Depreciation and impairments of PP&E		Amortisation, write-downs and impairments of intangibles	
Six months ended 30 June	**2021 £m**	2020 (restated) (i) £m	**2021 £m**	2020 (restated) (i) £m
Continuing operations				
British Gas Energy	**(3)**	(5)	**(45)**	(42)
British Gas Services and Solutions	**(15)**	(19)	**(7)**	(17)
Bord Gáis Energy	**(2)**	(3)	**(6)**	(6)
Energy Marketing & Trading	**(20)**	(13)	**(6)**	(6)
Centrica Business Solutions	**(6)**	(6)	**(19)**	(19)
Upstream	**(204)**	(283)	**(21)**	(16)
Other (ii)	**(15)**	(21)	**(15)**	(28)
	(265)	(350)	**(119)**	(134)
Discontinued operations				
Direct Energy	**–**	(13)	**–**	(27)

(i) Segmental results have been restated to reflect the current operating structure of the Group, and to treat Direct Energy as a discontinued operation (see note 3).
(ii) The Other segment includes corporate functions, subsequently recharged.

Impairments of PP&E

No impairments of PP&E were recognised within business performance during the six months ended 30 June 2021 or 30 June 2020.

Write-downs and impairments of intangible assets

During the six months ended 30 June 2021, £21 million of write-downs (2020: £15 million) relating to exploration and evaluation assets were recognised in the Upstream segment. All such current and prior period write-downs were recognised within business performance as they were not deemed exceptional in nature. During 2021, £3 million of other intangible assets were impaired within business performance in Centrica Business Solutions and Other (2020: £nil).

The recoverable amount of these assets was £nil.

4. Segmental analysis

(e) Capital expenditure

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

	Capital expenditure on property, plant and equipment		Capital expenditure on intangible assets other than goodwill	
Six months ended 30 June	**2021 £m**	2020 (restated) (i) £m	**2021 £m**	2020 (restated) (i) £m
Continuing operations				
British Gas Energy	**–**	–	**97**	114
British Gas Services and Solutions	**11**	6	**9**	11
Bord Gáis Energy	**–**	2	**4**	5
Energy Marketing & Trading (ii)	**–**	103	**3**	23
Centrica Business Solutions	**6**	10	**46**	49
Upstream	**129**	140	**10**	57
Other	**2**	4	**–**	4
	148	265	**169**	263
Discontinued operations				
Direct Energy	**–**	4	**–**	154
Group total capital expenditure	**148**	269	**169**	417
Less Discontinued operations	**–**	(4)	**–**	(154)
Related to continuing operations:				
Capitalised borrowing costs (note 7)	**(4)**	(3)	**–**	(3)
Inception of new leases and movements in payables and prepayments related to capital expenditure	**(13)**	(111)	**13**	37
Purchases of emissions allowances and renewable obligation certificates (iii)	**–**	–	**(139)**	(163)
Net cash outflow (continuing operations)	**131**	151	**43**	134

(i) Segmental results have been restated to reflect the current operating structure of the Group, and to treat Direct Energy as a discontinued operation (see note 3).
(ii) During the comparative period, the Group commenced the lease of one new LNG vessel.
(iii) Purchases of emissions allowances and renewable obligation certificates of £97 million (2020: £105 million) in British Gas Energy, £nil (2020: £19 million) in Energy Marketing & Trading, and £42 million (2020: £39 million) in Centrica Business Solutions.

4. Segmental analysis

(f) Free cash flow

Free cash flow is used by management to assess the cash generating performance of each segment, after taking account of the need to maintain its capital asset base. By excluding pension deficit reduction payments and movements in collateral and margin cash, which are predominantly triggered by wider market factors, and in the case of collateral and margin movements, represent timing movements, free cash flow gives a measure of the underlying cash generation of the business. Free cash flow excludes investing cash flows that are related to net debt. This measure is reconciled to the net cash flow from operating and investing activities.

Six months ended 30 June	2021 £m	2020 £m
Continuing operations		
British Gas Energy	**(58)**	(37)
British Gas Services and Solutions	**46**	80
Bord Gáis Energy	**(7)**	26
Energy Marketing & Trading	**121**	211
Centrica Business Solutions	**72**	93
Upstream	**255**	150
Other (i)	**54**	24
Segmental free cash flow excluding tax	**483**	547
Discontinued operations		
Direct Energy (ii)	**2,582**	251
Group total segmental free cash flow excluding tax	**3,065**	798
Taxes refunded/(paid) from continuing operations	**41**	(43)
Taxes paid from discontinued operations	**–**	(6)
Group total free cash flow	**3,106**	749
Less Discontinued operations free cash flow (including tax)	**(2,582)**	(245)
Free cash flow from continuing operations	**524**	504
UK Pension deficit payments	**(243)**	(76)
Movements in variation margin and collateral (iii)	**129**	55
Interest received	**2**	3
Sale and settlement of securities	**–**	122
	412	608
Net cash flow from continuing operating activities	**558**	634
Net cash flow used in continuing investing activities	**(146)**	(26)
Total cash flow from continuing operating and investing activities	**412**	608

(i) The Other segment includes corporate functions.
(ii) Free cash flow from discontinued operations includes net proceeds from the sale of Direct Energy. See note 11.
(iii) Excludes movement in variation margin and collateral from discontinued operations of £nil (2020: £11 million).

5. Joint ventures and associates

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

Share of results of joint ventures and associates

The Group's share of results of joint ventures and associates for the six months ended 30 June 2021 principally arises from its interest in Nuclear – Lake Acquisitions Limited, an associate, reported in the Upstream segment.

	2021			2020		
Six months ended 30 June	**Share of business performance £m**	**Share of exceptional items and certain re-measurements £m**	**Share of results for the period £m**	Share of business performance £m	Share of exceptional items and certain re-measurements £m	Share of results for the period £m
Income	**208**	**–**	**208**	275	–	275
Expenses before exceptional items and re-measurements of certain contracts	**(241)**	**–**	**(241)**	(255)	–	(255)
Exceptional items and re-measurement of certain contracts	**–**	**–**	**–**	–	3	3
Operating (loss)/profit	**(33)**	**–**	**(33)**	20	3	23
Financing costs	**(1)**	**–**	**(1)**	(4)	–	(4)
Taxation on (loss)/profit	**(2)**	**–**	**(2)**	(18)	(1)	(19)
Share of post-taxation results of joint ventures and associates	**(36)**	**–**	**(36)**	(2)	2	–

6. Exceptional items and certain re-measurements

(a) Certain re-measurements

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

Six months ended 30 June	2021 £m	2020 £m
Certain re-measurements recognised in relation to energy contracts:		
Net (losses)/gains arising on delivery of contracts	**(232)**	441
Net gains/(losses) arising on market price movements and new contracts	**600**	(1)
Net re-measurements included within gross profit	**368**	440
Net gains arising on re-measurement of certain associates' contracts (net of taxation)	**–**	2
Net re-measurements included within Group operating profit	**368**	442
Taxation on certain re-measurements (note 8)	**28**	(69)
Net re-measurements after taxation for continuing operations	**396**	373
Discontinued operations		
Net re-measurements from discontinued operations before taxation	**–**	116
Taxation on certain re-measurements in discontinued operations	**–**	(30)
Net re-measurements after taxation from discontinued operations	**–**	86
Total certain re-measurements	**396**	459

Six months ended 30 June	2021 £m	2020 £m
Total re-measurement and settlement of derivative energy contracts excluding:	**(640)**	(528)
IFRS 9 business performance revenue	**(1,236)**	(1,394)
IFRS 9 business performance cost of sales	**2,244**	2,362
Unrealised certain re-measurements recognised in relation to energy contracts included in gross profit	**368**	440

6. Exceptional items and certain re-measurements

(b) Exceptional items

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

Six months ended 30 June	2021 £m	2020 £m
Exceptional items recognised in continuing operations		
Write-back/(impairment) of exploration and production assets (including field disposals) (i)	**366**	(381)
Impairment of power assets	**–**	(404)
Restructuring credit/(cost) (ii)	**7**	(259)
Exceptional items included within Group operating profit	**373**	(1,044)
Net taxation on exceptional items (note 8)	**(125)**	147
Net exceptional items recognised in continuing operations after taxation	**248**	(897)
Net exceptional items recognised in discontinued operations after taxation	**608**	9
Total exceptional items recognised after taxation	**856**	(888)

Exceptional items recognised in discontinued operations		
Profit on disposal of Direct Energy (iii)	**597**	–
Restructuring credit	**–**	8
Exceptional items before taxation	**597**	8
Net taxation on exceptional items (iv)	**11**	1
Net exceptional items recognised in discontinued operations after taxation	**608**	9

(i) In the Upstream segment, net impairment write-backs of exploration and production assets have been booked relating to the value of certain UK and Norwegian gas and oil fields. This amounted to £397 million (post-tax £216 million) and was predominantly due to the increase in near-term liquid commodity prices, partially offset by an update to the field production and outage levels. Separately, in the taxation line, a credit of £49 million has been recorded associated with deferred tax positions related to exploration and production tax losses and decommissioning carry-back, due to the increase in forecast prices. The farm-down of the Pegasus field and an update to the prior year Danish gas and oil asset disposal amounted to a loss on disposal (including related asset impairments) of £31 million (post-tax £22 million).

(ii) The net restructuring credit relates to the reversal of a prior year provision predominantly related to pension strain estimates, partially offset by the run-off costs of projects from the Group's restructuring programme (post-tax £5 million).

(iii) The disposal of Direct Energy completed on 5 January 2021. See note 11 for further details.

(iv) Taxation on exceptional items in discontinued operations predominantly relates to the release of an uncertain tax provision associated with North American transfer pricing.

6. Exceptional items and certain re-measurements

(c) Impairment accounting policy, process and sensitivities

The information provided below relates to the assets and CGUs (or groups of CGUs) that have been subject to impairment write-backs during the period.

Exceptional impairment write-back of assets measured on a FVLCD basis

Segment	Asset/CGU (or group of CGUs)	Basis for impairment write-back	Recoverable amount (i) £m	FV hierarchy	Write-back £m
Upstream	UK and Norwegian fields (ii)	Increase in liquid commodity prices	230	L3	397

(i) The recoverable amounts are for the specific assets written-back (including the impact of decommissioning and tax).
(ii) Relates to 6 individual fields or cash-generating units that were subject to impairment/write-back. Recoverable amount disclosed relates to those 6 fields.

Fair value less costs of disposal (FVLCD) is determined by discounting the post-tax cash flows expected to be generated by the assets or CGU, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows used in the FVLCD calculation are based on the Group's Board-approved business plans and strategic shape assumptions, together with, where relevant, long-term production and cash flow forecasts.

Upstream gas and oil assets

For Upstream gas and oil assets post-tax cash flows are derived from projected production profiles of each field, taking into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available (i.e. outside the active period for each commodity), prices are determined based on the median of third-party market comparator curves. The date of cessation of production depends on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, production costs, the contractual duration of the licence area and the selling price of the gas and liquids produced. As each field has specific reservoir characteristics and economic circumstances, the post-tax cash flows for each field are computed using individual economic models. Price assumptions are critical and use liquid market prices for mid-2021 to mid-2025, blended over a one-year period to long-term price forecasts. Long-term price assumptions derived from third-party market comparator median curves are deemed best aligned with pricing that a reasonable market participant would use.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 10.0% (2020: 10.0%).

A number of the field calculations are sensitive to assumptions around production levels and outages. This has been made particularly acute during the period because liquid commodity prices are very high for the remainder of 2021 and 2022 but tail off thereafter. The impairment tests have taken this into account when considering the base case production profiles and possible outages. The most material assumptions are:

The Rough field valuation is dependent on the modifications currently being undertaken to improve the extraction rate, and the successful restart in production after completion of these modifications. Some level of outage has been factored into the base case valuation but a three-month delay to restarting production would indicate no change to the asset's value. With no delays or issues, a post-tax impairment write-back of c.£50 million would ensue. No impairment or write-back has been booked at half-year for Rough.

The Morecambe field valuation is dependent on production efficiency and the repair of a sealine valve, and forecast output has been reduced accordingly. Were production levels to increase by 20% (with no change to cessation of production date) a post-tax write-back of £52 million would be required. Note that a £85 million pre-tax write-back was already booked for Morecambe during the period (included in the £397 million above) due to the increase in commodity prices.

The Greater Markham Area cash generating unit is also dependent on production levels and in-fill wells. Were production levels to increase by 20% a post-tax write-back of £40 million would be required. No impairment or write-back has been booked at half-year for the Greater Markham Area.

As forward commodity prices are a key assumption in these valuations, average prices and associated impairment sensitivities for the Group's upstream gas and oil assets (including Goodwill) for the relevant periods are shown below.

	Five-year liquid and blended-period price (i)		Ten-year long-term average price (i)		Change in post-tax write-back/(impairment) (ii)			
					+10%		-10%	
	2021-2025	2021-2025	2026-2035	2026-2035				
	30 June 2021	31December 2020	**30 June 2021**	31 December 2020	**30 June 2021 £m**	31 December 2020 £m	**30 June 2021 £m**	31 December 2020 (iii) £m
NBP (p/th)	**52**	40	**47**	47	**168**	289	**(183)**	(266)
Brent ($/bbl)	**60**	47	**68**	68				

(i) Prices are shown in 2020 real terms.
(ii) Sensitivity relates to Upstream exploration and production assets and CGUs. A 10% change is deemed to represent a reasonably possible variation across the entire period covered by both the liquid market and longer-term comparator curves used in upstream gas and oil impairment tests.
(iii) 31 December 2020 sensitivity includes £199 million of goodwill (2021: £nil).

6. Exceptional items and certain re-measurements

Exceptional impairments/write-back assessments of assets measured on a VIU basis

Segment	Asset/CGU (or group of CGUs)	Basis for impairment/write-back assessment	Recoverable amount £m	Impairment /Write-back £m
Upstream	Nuclear	Increase in short-term baseload power prices entirely offset by a fall in forecast longer-term baseload power prices and the reduction in volumes following the closure of Dungeness and other generation issues	837	–

Nuclear

A VIU calculation has been used to determine the recoverable amount of the Group's investment in Nuclear. The cash flows incorporated in the valuation are based on detailed business forecasts in the short term, extrapolated to future years to account for the expected generation profile of the fleet for its remaining life. Assumptions include forward commodity prices, capacity rates, fuel and network costs, operating and capital expenditure requirements. Price assumptions are based on liquid market prices for mid-2021 to mid-2025 which are then blended over a one-year period to long-term price forecasts. Long-term price assumptions derived from third-party market comparator median curves are used due to alignment with pricing that a reasonable market participant would use, and the inclusion of certain data points (e.g. impact of climate change).

The VIU calculation assumes that the Sizewell plant operates until 2055, reflecting a 20-year extension beyond its original design life. In the absence of this extension, the Group's investment in Nuclear would be impaired by £139 million.

The VIU calculation is also sensitive to changes in outage assumptions, and the base level generation volumes assumed for the fleet were reduced during the period. A further 1% increase in the unplanned outages rate applied to volume across the nuclear fleet would lead to impairment of £29 million.

The future pre-tax cash flows generated by the investment in the associate are discounted using a pre-tax nominal discount rate 9.2% (2020: 8.0%). This equated to a post-tax rate of 5.7% (2020: 6.5%). A 1% increase in the post-tax discount rate would lead to an impairment of £37 million. A 1% reduction in the post-tax discount rate would lead to an impairment write-back of £45 million.

The asset is particularly sensitive to changes in commodity price and the table below details average prices for the relevant periods and associated sensitivities.

	Five-year liquid and blended-period price (i)		Ten-year long-term average price (i)		Change in pre/post-tax write-back/(impairment) (ii)			
					+10%		-10%	
	2021-2025	2021-2025	2026-2035	2026-2035				
	30 June 2021 £/MWh	31 December 2020 £/MWh	**30 June 2021 £/MWh**	31 December 2020 £/MWh	**30 June 2021 £m**	31 December 2020 £m	**30 June 2021 £m**	31 December 2020 £m
Baseload power	**60**	48	**44**	53	**271**	295	**(263)**	(293)

(i) Prices are shown in 2020 real terms.
(ii) A 10% change is deemed to represent a reasonably possible variation across the entire period covered by the liquid market and comparator curves used in the nuclear impairment test.

7. Net finance cost

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

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

Continuing operations

	2021			2020 (restated) (i)		
Six months ended 30 June	**Financing costs £m**	**Investment income £m**	**Total £m**	Financing costs £m	Investment income £m	Total £m
Cost of servicing net debt:						
Interest income	**–**	**4**	**4**	–	5	5
Interest cost on bonds, bank loans and overdrafts	**(93)**	**–**	**(93)**	(106)	–	(106)
Interest cost on lease liabilities	**(4)**	**–**	**(4)**	(5)	–	(5)
	(97)	**4**	**(93)**	(111)	5	(106)
Net losses on revaluation	**(4)**	**–**	**(4)**	(10)	–	(10)
Notional interest arising from discounting	**(3)**	**–**	**(3)**	(14)	–	(14)
	(104)	**4**	**(100)**	(135)	5	(130)
Capitalised borrowing costs (ii)	**4**	**–**	**4**	6	–	6
Financing (cost)/income	**(100)**	**4**	**(96)**	(129)	5	(124)

(i) Comparatives have been restated to present the Direct Energy business as a discontinued operation. See note 3 for details.
(ii) Borrowing costs have been capitalised using an average rate of 4.37% (2020: 4.55%).

8. Taxation

The taxation note details the different tax charges arising in the Group. This tax charge excludes the Group's share of taxation on the results of joint ventures and associates.

The tax charge for the period has been calculated based on an estimate of the annual effective tax rate expected for the full financial year applied to the interim pre-tax accounting profits for each relevant source of income.

Analysis of tax charge

	2021			2020 (restated) (i)		
Six months ended 30 June	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
Continuing operations:						
The taxation (charge)/credit comprises						
UK corporation tax	**26**	**(41)**	**(15)**	(78)	45	(33)
UK petroleum revenue tax	**5**	**–**	**5**	27	27	54
Non-UK tax	**(88)**	**(56)**	**(144)**	5	6	11
Total taxation on profit/(loss) (ii)	**(57)**	**(97)**	**(154)**	(46)	78	32

(i) Prior period results have been restated to remove the Direct Energy business from continuing operations, as the business has been classified as a discontinued operation. See note 3.
(ii) Total taxation on profit/(loss) excludes taxation on the Group's share of profits of joint ventures and associates.

The Group's adjusted effective tax rate for the six months ended 30 June 2021 was 35% (2020: 41%). This is reconciled to this note in the Group Financial Review on page 13.

The tax charge in respect of the business performance was reduced by £22 million as a result of an increase in the deferred tax asset recognised in respect of decommissioning liabilities in the Upstream business.

The UK corporation tax rate will increase from 19% to 25% on 1 April 2023. As a result, the Group's downstream deferred tax balances are required to be remeasured to reflect the change in the corporation tax rate. The remeasurement of the Group's deferred tax balances resulted in a tax credit of £21 million, of which a credit of £12 million is reflected in taxation in the Business performance column, and a credit of £9 million in the Statement of Other Comprehensive Income.

Separately, there is a £8 million debit in respect of the Group's share of associated companies' and joint ventures' deferred tax balances, from this rate change. This is reported within the Share of (losses)/profits of joint ventures and associates, net of interest and taxation line item within the Group Income Statement, and a £14 million debit is reported as part of the Group's share of other comprehensive income of joint ventures and associates in the Group Statement of Other Comprehensive Income.

9. Earnings per ordinary share

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

Basic earnings per ordinary share has been calculated by dividing the profit attributable to equity holders of the Company for the period of £1,351 million (2020: loss of £193 million) by the weighted average number of ordinary shares in issue during the period of 5,825 million (2020: 5,824 million). The number of shares excludes 37 million ordinary shares (2020: 10 million), being the weighted average number of the Company's own shares held in the employee share trust and treasury shares purchased by the Group as part of share repurchase programmes.

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

Information presented for diluted and adjusted diluted earnings per ordinary share uses the weighted average number of shares as adjusted for 74 million (2020: 57 million) potentially dilutive ordinary shares as the denominator, unless it has the effect of increasing the profit or decreasing the loss attributable to each share.

Continuing and discontinued operations

	2021		2020	
Six months ended 30 June	**£m**	**Pence per ordinary share**	£m	Pence per ordinary share
Earnings – basic	**1,351**	**23.2**	(193)	(3.3)
Net exceptional items after taxation (notes 3 and 6) [(i)]	**(780)**	**(13.4)**	799	13.7
Certain re-measurement gains after taxation (notes 3 and 6) [(i)]	**(473)**	**(8.1)**	(459)	(7.9)
Earnings – adjusted basic	**98**	**1.7**	147	2.5
Earnings – diluted	**1,351**	**22.9**	(193)	(3.3)
Earnings – adjusted diluted	**98**	**1.7**	147	2.5

Continuing operations

	2021		2020	
Six months ended 30 June	**£m**	**Pence per ordinary share**	£m	Pence per ordinary share
Earnings – basic	**743**	**12.8**	(345)	(5.9)
Net exceptional items after taxation (notes 3 and 6) [(i)]	**(172)**	**(3.0)**	808	13.9
Certain re-measurement gains after taxation (notes 3 and 6) [(i)]	**(473)**	**(8.1)**	(373)	(6.4)
Earnings – adjusted basic	**98**	**1.7**	90	1.6
Earnings – diluted [(ii)]	**743**	**12.6**	(345)	(5.9)
Earnings – adjusted diluted	**98**	**1.7**	90	1.6

Discontinued operations

	2021		2020	
Six months ended 30 June	**£m**	**Pence per ordinary share**	£m	Pence per ordinary share
Earnings – basic	**608**	**10.4**	152	2.6
Net exceptional items after taxation (notes 3 and 6)	**(608)**	**(10.4)**	(9)	(0.2)
Certain re-measurement gains after taxation (notes 3 and 6)	**–**	**–**	(86)	(1.5)
Earnings – adjusted basic	**–**	**–**	57	0.9
Earnings – diluted	**608**	**10.3**	152	2.6
Earnings – adjusted diluted	**–**	**–**	57	0.9

(i) Net exceptional items after taxation and certain re-measurement (gains)/losses after taxation are adjusted to reflect the share attributable to non-controlling interests, a gain of £76 million and a loss of £77 million are included respectively.

(ii) Potential ordinary shares are not treated as dilutive when they would decrease a loss per share.

10. Dividends

Dividends represent the return of profits to shareholders. Dividends are paid as an amount per ordinary share held. The Group retains part of the profits generated to meet future investment plans or to fund share repurchase programmes.

	2021			2020		
Six months ended 30 June	£m	Pence per share	Date of payment	£m	Pence per share	Date of payment
Prior year final dividend	–	–	–	–	–	–

On 2 April 2020 the Directors announced that the Board had taken the decision to cancel the 2019 final dividend payment of 3.5p per share, or £204 million, which was due to be paid in June 2020. The Directors do not propose the payment of an interim dividend.

11. Acquisitions, disposals and disposal groups classified as held for sale

This section details business combinations, asset acquisitions and disposals made by the Group.

(a) Business combinations and asset acquisitions

There have been no material acquisitions during the period. No material measurement period adjustments have been made to acquisitions completed in prior periods.

(b) Disposals

On 24 July 2020, the Group announced that it had agreed to sell its North American energy supply, services and trading business, Direct Energy, to NRG Energy Inc, for $3.6 billion in cash on a debt free, cash free basis. The transaction received all necessary approvals prior to 31 December 2020 and completed on 5 January 2021. As at the period end, a small element of the working capital adjustment that fed into the final consideration, was in dispute with NRG. The range of potential outcomes goes from a payment back to NRG of $38 million up to a further receipt of $45 million. This is expected to be finalised later in 2021 but no adjustment has been made in the Interim accounts for the potential outcome of this dispute.

Details of the assets and liabilities of the disposal group at 5 January 2021 are shown below.

	Direct Energy £m
Non-current assets	
Property, plant and equipment	82
Other intangible assets	228
Goodwill	1,490
Deferred tax assets	342
Derivative financial instruments	93
Other non-current financial assets	14
	2,249
Current assets	
Trade and other receivables, and contract-related assets	1,543
Inventories	79
Derivative financial instruments	67
Current tax assets	79
Cash and cash equivalents	132
	1,900
Assets of disposal groups classified as held for sale	**4,149**
Current liabilities	
Derivative financial instruments	(181)
Trade and other payables, and contract-related liabilities	(1,236)
Current tax liabilities	(20)
Provisions for other liabilities and charges	(21)
Lease liabilities	(12)
	(1,470)
Non-current liabilities	
Deferred tax liabilities	(404)
Derivative financial instruments	(59)
Provisions for other liabilities and charges	(12)
Retirement benefit obligations	(21)
Lease liabilities	(24)
	(520)
Liabilities of disposal groups classified as held for sale	**(1,990)**
Net assets of disposal groups classified as held for sale	**2,159**
Consideration received (net of transaction costs of £31 million) (i)	**2,687**
Recycling of foreign currency translation and net investment hedge reserves on disposal	**69**
Gain on disposal before taxation	**597**

(i) The net cash inflow from the disposal of Direct Energy of £2,582 million reported in the Group Cash Flow Statement is stated net of cash disposed of £132 million and hedging receipts of £27 million.

11. Acquisitions, disposals and disposal groups classified as held for sale

Because the disposal group represents a separate major line of business and geographical operations, its results have been presented as discontinued operations in the Group Income Statement, Group Statement of Other Comprehensive Income and Group Cash Flow Statement.

Set out below are the cash flows arising from discontinued operations, which have been presented net within the Group Cash Flow Statement.

Six months ended 30 June	**2021 £m**	2020 £m
Group operating profit including share of results of joint ventures and associates	**–**	203
Add back/(deduct):		
Depreciation, amortisation, write-downs, impairments and write-backs	**–**	37
Decrease in provisions	**–**	(9)
Employee share scheme costs	**–**	5
Unrealised gains arising from re-measurement of energy contracts	**–**	(136)
Exceptional charges reflected directly in operating profit	**–**	2
Operating cash flows before movements in working capital relating to business performance and payments relating to taxes and exceptional charges	**–**	102
Decrease in inventories	**–**	17
Decrease in trade and other receivables and contract-related assets relating to business performance	**–**	365
Decrease in trade and other payables and contract-related liabilities relating to business performance	**–**	(198)
Operating cash flows before payments relating to taxes and exceptional charges	**–**	286
Taxes paid	**–**	(6)
Payments relating to exceptional charges in operating costs	**–**	(11)
Net cash flow from operating activities	**–**	269
Purchase of property, plant and equipment and intangible assets	**–**	(13)
Sale of businesses	**2,582**	–
Net cash flow from investing activities	**2,582**	(13)
Financing interest paid	**–**	(2)
Repayment of borrowings and capital element of leases	**–**	(6)
Net cash flow from financing activities	**–**	(8)
Net increase in cash and cash equivalents	**2,582**	248

All other disposals undertaken by the Group were immaterial, both individually and in aggregate.

12. Sources of Finance

(a) Capital structure

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

	30 June 2021 £m	31 December 2020 (restated) (i) £m
Net debt	**93**	2,998
Shareholders' equity	**2,446**	957
Capital	**2,539**	3,955

(i) Net debt has been restated to remove the adjustment for collateral posted/(received). See part (b) of this note.

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

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

The level of debt that can be raised by the Group is restricted by the Company's Articles of Association. Borrowings is limited to the higher of £10 billion and a gearing ratio of three times adjusted capital and reserves. The Group funds its long-term debt requirements through issuing bonds in capital markets and taking bank debt. Short-term debt requirements are met primarily through commercial paper or short-term bank borrowings.

The Group maintains substantial committed facilities and uses these to provide liquidity for general corporate purposes, including short-term business requirements and back-up for commercial paper.

British Gas Insurance Limited (BGIL) is required under PRA regulations to hold a minimum capital amount and has complied with this requirement in 2021 (and 2020). BGIL's capital management policy and plan is subject to review and approval by the BGIL board. Reporting processes provide relevant and timely capital information to management and the board. A medium-term capital management plan forms part of BGIL's planning and forecasting process, embedded into approved timelines, management reviews and board approvals.

12. Sources of Finance

(b) Net debt summary

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

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

				Other assets and liabilities			
	Current and non-current borrowings, leases and interest accruals £m	Derivatives £m	Gross debt £m	Cash and cash equivalents, net of bank overdrafts (i) (ii) £m	Current and non-current securities (iii) £m	Sub-lease assets £m	Net debt (vi) £m
1 January 2021	(4,877)	346	**(4,531)**	1,393	138	2	**(2,998)**
Disposal of business (iv)	36	–	**36**	(132)	(4)	–	**(100)**
Cash outflow for payment of capital element of leases	86	–	**86**	(86)	–	–	**–**
Cash outflow for repayment of borrowings (v)	650	(106)	**544**	(544)	–	–	**–**
Remaining cash inflow, and movement in collateral cash posted/received under margin and collateral agreements (iv)	–	–	**–**	3,127	–	–	**3,127**
Revaluation	74	(93)	**(19)**	–	1	–	**(18)**
Financing interest paid	93	(8)	**85**	(111)	–	–	**(26)**
Increase in interest payable and amortisation of borrowings	(100)	–	**(100)**	–	–	–	**(100)**
New lease agreements and re-measurement of existing lease liabilities	(7)	–	**(7)**	–	–	–	**(7)**
Exchange adjustments	39	–	**39**	(10)	–	–	**29**
30 June 2021	**(4,006)**	**139**	**(3,867)**	**3,637**	**135**	**2**	**(93)**

				Other assets and liabilities			
	Current and non-current borrowings, leases and interest accruals £m	Derivatives £m	Gross debt £m	Cash and cash equivalents, net of bank overdrafts (i) (ii) £m	Current and non-current securities (iii) £m	Sub-lease assets £m	Net debt (vi) £m
1 January 2020	(4,795)	234	(4,561)	794	255	5	(3,507)
Net cash inflow from sale and settlement of securities	–	–	–	122	(122)	–	–
Cash outflow from payment of capital element of leases	83	–	83	(83)	–	–	–
Remaining cash inflow, and movement in collateral and margin cash posted/received	–	–	–	741	–	(1)	740
Revaluation	(94)	148	54	–	(2)	–	52
Financing interest paid	98	(28)	70	(85)	–	–	(15)
Increase in interest payable and amortisation of borrowings	(109)	–	(109)	–	–	–	(109)
New lease agreements and re-measurement of existing lease liabilities	(124)	–	(124)	–	–	–	(124)
Exchange adjustments	(119)	–	(119)	14	3	–	(102)
30 June 2020	(5,060)	354	(4,706)	1,503	134	4	(3,065)

(i) Cash and cash equivalents includes £400 million (2020: £174 million) of restricted cash, of which £250 million relates to cash on escrow in favour of the UK defined benefit pension schemes. See note 13. Restricted cash also includes £8 million (2020: £46 million) within the Spirit Energy business that is not restricted by regulation, but is managed by Spirit Energy's own treasury department.
(ii) Cash and cash equivalents are net of £96 million bank overdrafts (2020: £100 million).
(iii) Securities balances include £83 million (2020: £78 million) of debt instruments and £52 million (2020: £56 million) of equity instruments, all measured at fair value.
(iv) Disposal of business represents the net debt items disposed of as part of the sale of Direct Energy, and the cash received for the sale is shown as part of remaining cash inflow (see note 11)
(v) Bond repayment comprises £650 million repayment of a 3% Euro bond which the group had the right to repay at par on 10 April 2021 net of £106 million FX gain on a euro bond derivative.
(vi) Net debt has been restated to remove the adjustment for collateral posted/(received). Following the disposal of Direct Energy collateral is significantly lower and less volatile, and is no longer included in the definition of net debt.

12. Sources of Finance

Collateral is posted or received to support energy trading and procurement activities. It is posted when contracts with marginable counterparties are out of the money and received when contracts are in the money. These positions reverse when contracts are settled and the collateral is returned. Collateral received or posted is included in the following lines of the Group Balance Sheet:

	30 June 2021 £m	31 December 2020 £m
Collateral (received)/posted included within:		
Trade and other payables	**(101)**	(68)
Trade and other receivables	**81**	56
Net derivative liabilities	**(36)**	86
Net collateral (received)/posted	**(56)**	74
Discontinued operations collateral (received)/posted	**–**	155
Group collateral (received)/posted	**(56)**	229

Disclosed net debt at 31 December 2020:	**2,769**	
Remove collateral posted	**229**	
Restated net debt at 31 December 2020:	**2,998**	

(c) Borrowings, leases and interest accruals summary

	Coupon rate %	Principal m	**30 June 2021** Current £m	Non-current £m	Total £m	31 December 2020 Current £m	Non-current £m	Total £m
Bank overdrafts			**(96)**	**–**	**(96)**	(534)	–	(534)
Bank loans (> 5 year maturity)				**(137)**	**(137)**	–	(144)	(144)
Bonds (by maturity date):								
22 February 2022	3.680	HK$450	**(42)**	**–**	**(42)**	–	(42)	(42)
10 March 2022 (i)	6.375	£246	**(250)**	**–**	**(250)**	–	(253)	(253)
16 October 2023 (i)	4.000	US$302	**–**	**(228)**	**(228)**	–	(233)	(233)
4 September 2026 (i)	6.400	£52	**–**	**(57)**	**(57)**	–	(59)	(59)
16 April 2027	5.900	US$70	**–**	**(50)**	**(50)**	–	(51)	(51)
13 March 2029 (i)	4.375	£552	**–**	**(578)**	**(578)**	–	(604)	(604)
5 January 2032 (ii)	Zero	€50	**–**	**(63)**	**(63)**	–	(65)	(65)
19 September 2033 (i)	7.000	£770	**–**	**(793)**	**(793)**	–	(823)	(823)
16 October 2043	5.375	US$367	**–**	**(262)**	**(262)**	–	(264)	(264)
12 September 2044	4.250	£550	**–**	**(538)**	**(538)**	–	(538)	(538)
25 September 2045	5.250	US$50	**–**	**(36)**	**(36)**	–	(36)	(36)
10 April 2075 (i) (iii)	5.250	£450	**–**	**(462)**	**(462)**	–	(472)	(472)
10 April 2076 (iv)	3.000	€750	**–**	**–**	**–**	–	(671)	(671)
			(292)	**(3,067)**	**(3,359)**	–	(4,111)	(4,111)
Obligations under lease arrangements			**(130)**	**(293)**	**(423)**	(171)	(334)	(505)
Interest accruals			**(87)**	**–**	**(87)**	(82)	–	(82)
			(605)	**(3,497)**	**(4,102)**	(787)	(4,589)	(5,376)

(i) Bonds or portions of bonds maturing in 2022, 2023, 2026, 2029, 2033 and 2075 have been designated in a fair value hedge relationship.
(ii) €50 million of zero coupon notes have an accrual yield of 4.200%, which will result in a €114 million repayment on maturity.
(iii) The Group has the right to repay at par on 10 April 2025 and every interest payment date thereafter.
(iv) The Group had the right to repay at par on 10 April 2021 and that right was exercised.

13. Post-retirement benefits

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

(a) Summary of main post-retirement benefit schemes

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

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

Independent valuations

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

The technical provisions deficit for the Registered Pension Schemes was £1,402 million at the date of the last agreed actuarial valuation as at 31 March 2018. The Group has committed to additional annual cash contributions to fund this pension deficit. The overall deficit contributions, including the previously disclosed asset-backed contribution arrangements, amounts to £175 million per annum from 2020 to 2025, with a balancing payment of £93 million in 2026. The Trustees security package over the Group's equity shareholding in the Direct Energy business was released in January 2021, as part of the Direct Energy disposal. In exchange, the Group provided replacement security of £745 million of letters of credit and £250 million cash in escrow. The current triennial review as at 31 March 2021 is currently being considered and negotiated with the Pension Trustees. The valuation methodology and assumptions may differ from those previously used. The latest full actuarial valuations for the Bord Gáis Energy Company Defined Benefit Pension Scheme was 1 January 2020.

For the purpose of meeting the requirements of IAS 19: 'Employee benefits' all valuations have been updated to 30 June 2021 using the accounting assumptions disclosed in section (b) of this note. Investments held in all schemes have been valued for this purpose at market value.

Governance

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

Under the terms of the Pensions Act 2004, Centrica plc and each trustee board must agree the funding rate for its defined benefit pension scheme and a recovery plan to fund any deficit against the scheme-specific statutory funding objective. This approach was first adopted for the triennial valuations completed at 31 March 2006, and has been reflected in subsequent valuations, including the 31 March 2018 valuation.

13. Post-retirement benefits

(b) Accounting assumptions

The accounting assumptions for the Registered Pension Schemes are given below:

Major assumptions used for the actuarial valuation	**30 June 2021 %**	31 December 2020 %
Rate of increase in employee earnings:		
Subject to 2% cap	**1.7**	1.6
Other not subject to cap	**2.5**	2.2
Rate of increase in pensions in payment	**3.1**	2.8
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	**2.3**	2.0
In line with RPI	**3.1**	2.8
Discount rate	**1.9**	1.5

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

For the Registered Pension Schemes, marginal adjustments to the assumptions used to calculate the pension liability, or significant swings in bond yields or stock markets, can have a large impact in absolute terms on the net assets of the Group. Reasonably possible changes to one of the actuarial assumptions would have affected the scheme liabilities as set out below:

Impact of changing material assumptions	**30 June 2021**		31 December 2020	
	Increase/ decrease in assumption	**Indicative effect on scheme liabilities %**	Increase/ decrease in assumption	Indicative effect on scheme liabilities %
Rate of increase in employee earnings subject to 2% cap	**0.25%**	**+/-0**	0.25%	+/-0
Rate of increase in pensions in payment and deferred pensions	**0.25%**	**+/-4**	0.25%	+/-4
Discount rate	**0.25%**	**-/+6**	0.25%	-/+6
Inflation assumption	**0.25%**	**+/-5**	0.25%	+/-5
Longevity assumption	**1 year**	**+/-4**	1 year	+/-4

The indicative effects on scheme liabilities have been calculated by changing each assumption in isolation and assessing the impact on the liabilities. For the reasonably possible change in the inflation assumption, it has been assumed that a change to the inflation assumption would lead to corresponding changes in the assumed rates of increase in uncapped pensionable pay, pensions in payment and deferred pensions.

(c) Amounts included in the Group Balance Sheet

	30 June 2021 £m	31 December 2020 £m
Fair value of plan assets	**10,088**	10,070
Present value of defined benefit obligation	**(10,218)**	(10,671)
Net liability recognised in the Group Balance Sheet	**(130)**	(601)
Pension liability presented in the Group Balance Sheet as:		
Retirement benefit assets	**111**	–
Retirement benefit liabilities	**(241)**	(601)

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

Included in the Group Balance Sheet within non-current securities are £110 million (31 December 2020: £108 million) of investments, held in trust on behalf of the Group as security in respect of the Centrica Unfunded Pension Scheme. Of the pension scheme liabilities above, £65 million (31 December 2020: £66 million) relates to this scheme.

14. Trade and other receivables, and contract-related assets

Trade and other receivables include accrued income and are amounts owed by our customers for goods we have delivered or services we have provided. These balances are valued net of provisions for bad debt. Other receivables include payments made in advance to our suppliers. Contract-related assets are balances arising as a result of the Group's contracts with customers in the scope of IFRS 15.

	30 June 2021		31 December 2020	
	Current £m	**Non-current £m**	Current £m	Non-current £m
Financial assets:				
Trade receivables	**1,552**	**–**	1,379	–
Unbilled downstream energy income	**478**	**–**	532	–
Other accrued energy income	**778**	**–**	791	–
Other accrued income	**108**	**–**	114	–
Cash collateral posted	**81**	**–**	56	–
Other receivables (including loans and contract assets)	**204**	**29**	219	31
	3,201	**29**	3,091	31
Less: provision for credit losses	**(625)**	**–**	(591)	–
	2,576	**29**	2,500	31
Non-financial assets: prepayments, other receivables and costs to obtain or fulfill a contract with a customer	**350**	**106**	301	114
	2,926	**135**	2,801	145

The amounts above include gross amounts arising from the Group's IFRS 15 contracts with customers of £1,454 million (31 December 2020: £1,302 million). Additionally, accrued income of £666 million (31 December 2020: £624 million) arising under IFRS 15 contracts is included.

Trade and other receivables include financial assets representing the contractual right to receive cash or other financial assets from residential customers, business customers and treasury, trading and energy procurement counterparties as follows:

	30 June 2021		31 December 2020	
	Current £m	**Non-current £m**	Current £m	Non-current £m
Financial assets by class:				
Residential customers	**1,450**	**–**	1,249	–
Business customers	**843**	**25**	930	25
Treasury, trading and energy procurement counterparties	**908**	**4**	912	6
	3,201	**29**	3,091	31
Less: provision for credit losses	**(625)**	**–**	(591)	–
	2,576	**29**	2,500	31

14. Trade and other receivables, and contract-related assets

Credit losses and provisions for Trade and other receivables

Receivables from residential and business customers are generally considered to be credit impaired when the payment is past the contractual due date. The Group applies different definitions of default for different groups of customers, ranging from 60 days past the due date to six to twelve months from the issuance of a final bill. Receivables are generally written off only once a period of time has elapsed since the final bill. Contractual due dates range from falling due upon receipt to falling due in 30 days from receipt.

The table below shows credit impaired balances in gross receivables (those that are past due) and those that are not yet due and therefore not considered to be credit impaired. The comparative disclosure includes trade and other receivables in the Direct Energy business which are presented as assets held for sale on the face of the Group Balance Sheet.

Gross trade and other receivables (including those classified as assets held for sale)	30 June 2021 £m	31 December 2020 £m
Balances that are not past due		
Included in trade and other receivables	**2,003**	2,029
Included in assets held for sale	**–**	1,276
	2,003	3,305
Balances that are past due		
Included in trade and other receivables	**1,198**	1,062
Included in assets held for sale	**–**	238
	1,198	1,300
Total gross financial assets within trade and other receivables and assets held for sale	**3,201**	4,605
Included in:		
Trade and other receivables	**3,201**	3,091
Assets held for sale	**–**	1,514

The IFRS 9 impairment model is applicable to the Group's financial assets including trade receivables, contract assets and other financial assets. As the majority of the relevant balances are trade receivables and contract assets to which the simplified model applies, this disclosure focuses on these balances.

The provision for credit losses for trade receivables and contract assets is based on an expected credit loss model that calculates the expected loss applicable to the receivable balance over its lifetime. Expected credit losses on receivables due from treasury, trading and energy procurement counterparties are not significant. For residential and business customers default rates are calculated initially by operating segment considering historical loss experience and applied to trade receivables within a provision matrix. The matrix approach allows application of different default rates to different groups of customers with similar characteristics. These groups are determined by a number of factors including; the nature of the customer, the payment method selected and where relevant, the sector in which they operate. The characteristics used to determine the groupings of receivables are the factors that have the greatest impact on the likelihood of default. The rate of default increases once the balance is 30 days past due.

Concentration of credit risk in Trade and other receivables

Treasury, trading and energy procurement counterparty receivables are typically with customers with external, published credit ratings. Such receivables have typically much lower credit risk than downstream counterparties, and that risk is assessed primarily by reference to the credit ratings rather than to the ageing of the relevant balance.

The majority of the Group's credit exposure arises in the British Gas Energy and Centrica Business Solutions segments and relates to residential and business energy customers. The credit risk associated with these customers is assessed as described above, using a combination of the age of the receivable in question, internal ratings based on a customer's payment history, and external data from credit rating agencies. The disclosures below reflect the information that is reported internally for credit risk management purposes in these segments.

14. Trade and other receivables, and contract-related assets

British Gas Energy credit risk

Of the Group total of £1,552 million billed trade receivables, the British Gas Energy reporting segment contributes £1,078 million. British Gas Energy now includes small business customers previously included within Centrica Business Solutions on the basis that their profile closely matches those of residential customers. As described above, credit risk is concentrated in receivables from energy customers who pay in arrears. Gross receivables from these customers amount to £699 million and are analysed below.

Trade receivables due from British Gas residential energy customers as at (i)	**30 June 2021**				31 December 2020			
Days beyond invoice date (ii)	< 30 days £m	30-90 days £m	>90 days £m	**Total £m**	< 30 days £m	30-90 days £m	>90 days £m	Total £m
Risk profile								
Direct debits (iii)								
Gross receivables	65	68	50	**183**	28	20	34	82
Provision	–	–	(2)	**(2)**	–	–	(2)	(2)
Net	65	68	48	**181**	28	20	32	80
Payment on receipt of bill (iii)								
Gross receivables	67	24	241	**332**	76	21	222	319
Provision	(2)	(4)	(115)	**(121)**	(2)	(3)	(106)	(111)
Net	65	20	126	**211**	74	18	116	208
Final bills (iv)								
Gross receivables	12	13	159	**184**	11	10	140	161
Provision	(3)	(6)	(125)	**(134)**	(2)	(5)	(114)	(121)
Net	9	7	34	**50**	9	5	26	40
Total net British Gas residential energy customers trade receivables	**139**	**95**	**208**	**442**	111	43	174	328

(i) The receivables information presented in this table relates to downstream customers who pay energy bills using the methods presented. It excludes low residual credit risk amounts, such as balances in the process of recovery through pay-as-you-go energy (PAYGE) arrangements and amounts receivable from PAYGE energy vendors. Gross amounts in the process of recovery through PAYGE arrangements at 30 June 2021 are £170 million (31 December 2020: £168 million), against which a provision of £131 million is held (31 December 2020: £126 million).

(ii) This ageing analysis is presented relative to invoicing date, and presents receivables according to the oldest invoice outstanding with the customer. There are a range of payment terms extended to residential energy customers. Amounts paid on receipt of a bill (PORB), which are settled using bank transfers, cash or cheques are typically due within 14 days of invoicing. Direct debit customers typically pay in equal installments over a twelve-month period.

(iii) Receivables settled by direct debit are deemed to present a lower credit risk than PORB amounts. This is reflected in the relative level of provision held for these types of receivables.

(iv) Final bill customers are those who are no longer customers of the Group and have switched energy supplier. These balances are deemed to have the highest credit risk.

During 2021 the British Gas segment has been further refined and separated into two operating segments, British Gas Energy and British Gas Services and Solutions. As a result of this change, small business customers in the UK are now included in British Gas Energy. Gross receivables from British Gas Energy small business customers amount to £168 million and are analysed below.

Trade receivables due from British Gas small business energy customers as at	**30 June 2021**				31 December 2020			
Days beyond invoice date (i)	< 30 days £m	30-90 days £m	>90 days £m	**Total £m**	< 30 days £m	30-90 days £m	>90 days £m	Total £m
Risk profile								
Small businesses								
Gross receivables	17	8	143	**168**	23	12	141	176
Provision	–	(1)	(109)	**(110)**	–	(1)	(100)	(101)
Total net British Gas small business energy customers trade receivables	**17**	**7**	**34**	**58**	23	11	41	75

(i) This ageing analysis is presented relative to invoicing date, and presents receivables according to the oldest invoice outstanding with the customer. There are a range of payment terms extended to business energy customers. Average credit terms for small business customers are 10 working days.

Unbilled downstream energy income at 30 June 2021 includes gross balances of £373 million in respect of British Gas Energy customers (31 December 2020: £373 million), against which a provision of £17 million is held (31 December 2020: £20 million).

14. Trade and other receivables, and contract-related assets

Centrica Business Solutions energy credit risk

Of the Group total of £1,552 million billed trade receivables, the Centrica Business Solutions reporting segment contributes £264 million. As described above, credit risk is concentrated in receivables from business energy customers who pay in arrears. Gross receivables from these customers amount to £203 million and are analysed below.

Trade receivables due from Centrica Business Solutions business energy customers as at	**30 June 2021**				31 December 2020			
Days beyond invoice date (i)	< 30 days £m	30-90 days £m	>90 days £m	**Total £m**	< 30 days £m	30-90 days £m	>90 days £m	Total £m
Risk profile								
Commercial and industrial (ii)								
Gross receivables	23	35	67	**125**	18	35	76	129
Provision	–	–	(19)	**(19)**	–	–	(27)	(27)
Net	23	35	48	**106**	18	35	49	102
Medium-sized entities (ME)								
Gross receivables	11	6	61	**78**	13	7	50	70
Provision	–	–	(38)	**(38)**	–	–	(32)	(32)
Net	11	6	23	**40**	13	7	18	38
Total net Centrica Business Solutions business energy customers trade receivables	**34**	**41**	**71**	**146**	31	42	67	140

(i) This ageing analysis is presented relative to invoicing date, and presents receivables according to the oldest invoice outstanding with the customer. There are a range of payment terms extended to business energy customers. Average credit terms for ME customers are 10 working days. Credit terms for Commercial and Industrial customers are bespoke and are set based on the commercial agreement with each customer.

(ii) This category includes low credit risk receivables, including those from public sector and customers with high turnover (greater than £100 million).

Unbilled downstream energy income at 30 June 2021 includes gross balances of £101 million in respect of Centrica Business Solutions business energy customers (31 December 2020: £118 million), against which a provision of £3 million is held (31 December 2020: £5 million).

Sensitivity to changes in assumptions

Typically, the most significant assumption included within the expected credit loss provisioning model that gives rise to estimation uncertainty is that future performance will be reflective of past performance and that there will be no significant change in the payment profile or recovery rates within each identified group of receivables. To address this risk, the Group reviews and updates default rates, by segment, on a regular basis to ensure they incorporate the most up to date assumptions along with forward-looking information where available and relevant. The Group also considers regulatory changes and customer segment specific factors that may have an impact, now or in the future, on the recoverability of the balance.

The specific consideration of forward-looking information in the impairment model does not usually give rise to significant changes in the levels of credit losses. However, the impacts of the global COVID-19 pandemic and associated government responses in geographies in which the Group operates continue to cause uncertainty in economic outlook. Although restrictions have gradually eased over the first half of the year, the economic recovery remains vulnerable and there remains a level of estimation uncertainty inherent in determining credit loss provisions for the Group’s trade receivables.

Where customers experience difficulties in settling balances, the increased ageing of these amounts results in an increase in provisions held in respect of them under the provision matrix approach employed. The Group has also considered changes in customer payment patterns, the specific circumstances of the customers and the economic impacts of COVID-19 on the sectors in which they operate. Whilst economic recovery is expected, a level of unpredictability remains apparent.

The Group has considered macroeconomic forecasts in determining the level of provisions for credit losses. Customers have been shielded from the full impact of the pandemic through the implementation of Government support schemes, however the legacy of COVID-19 financial impacts on customers is likely to persist particularly once such schemes are fully withdrawn. Unbilled energy income is more susceptible to credit risk from such forward-looking factors due to the length of time between the balance sheet date and collection of the amounts in cash. The Group considers that further deterioration in the economic outlook originally forecast in 2020 is not expected, but economic recovery remains tentative.

During the period, the Group recognised impairment charges of £66 million (2020: £98 million) in respect of financial assets, representing 1.0% of Group revenue (2020: 1.5%) and 0.8% of Group revenue from business performance (2020: 1.3%). As described above, the majority of the Group’s credit exposure arises in respect of downstream energy receivables in British Gas Energy and Centrica Business Services. Credit losses in respect of these assets amounted to £63 million (2020: £82 million). This represents 1.4% (2020: 1.9%) of total UK downstream energy supply revenue from these segments of £4,572 million (2020: £4,402 million). Further details of segmental revenue are provided in note 4.

14. Trade and other receivables, and contract-related assets

Due to the different level of risks presented by billed and unbilled receivables, these asset groups are considered separately in the analysis below.

Billed trade receivables

	30 June 2021 £m	31 December 2020 £m
Gross billed receivables	**1,552**	1,379
Provision	**(605)**	(566)
Net balance	**947**	813

	30 June 2021 %	31 December 2020 %
Provision coverage	**39**	41
Sensitivity	**£m**	£m
Impact on billed receivables/ operating profit from 1 percentage point (increase)/decrease in provision coverage [(i)]	**(16)/16**	(14)/14

(i) Credit risk in the Group is impacted by a large number of interacting factors.

Cash collection relative to billing has remained strong throughout 2021, continuing the trends seen throughout the pandemic. However, delays in customer payments and higher billings due to seasonality of winter consumption in the Group's downstream operations have driven some increase in provisions. Whilst the credit risk arising from macroeconomic conditions has been mitigated by government support schemes in place for the benefit of customers, these are proposed to end in the second half of 2021. There remains uncertainty around the possible increase in bad debt as a result of the increase in forecast unemployment (using the Office for Budget Responsibility's most recent unemployment forecast from March 2021, peaking in the final quarter of 2021 at 7%). As part of management's assessment of the adequacy of the bad debt provision, no change has been made to the £30 million provision that was booked (for both billed and unbilled debt) at the year ended 31 December 2020. It remains highly uncertain when unemployment might peak and at what rate and how this might ultimately reduce the collection of debt. The table above and the unbilled section below provides details of the sensitivity of moving the bad provision by a further 1%.

The Group's services, upstream and trading operations are less susceptible to credit risk. No significant deterioration of credit risk has been experienced or is expected in the relevant segments in respect of billed trade receivables recognised at 30 June 2021, taking into account cash collection cycles in those areas of the Group and credit rating information.

Unbilled downstream energy income

The table below shows the impact of the worsening economic conditions and outlook on unbilled downstream energy income for the Group as a whole.

	30 June 2021 £m	31 December 2020 £m
Gross unbilled receivables	**478**	532
Provision	**(20)**	(25)
Net balance	**458**	507

	30 June 2021 %	31 December 2020 %
Provision coverage	**4**	5
Sensitivity	**£m**	£m
Impact on unbilled receivables/ operating profit from 1 percentage point (increase)/decrease in provision coverage [(i)]	**(5)/5**	(5)/5

(i) Credit risk in the Group is impacted by a large number of interacting factors.

Unbilled downstream energy income is typically provided at a significantly lower rate than billed debt. This is because a large proportion of this debt once billed will be subject to the very short cash collection cycles of the Group's downstream energy supply businesses.

15. Financial instruments

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

(a) Fair value hierarchy

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

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

				30 June 2021				31 December 2020 (i)
	Level 1 £m	Level 2 £m	Level 3 £m	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	–	2,868	78	**2,946**	21	1,199	91	1,311
Interest rate derivatives	–	110	–	**110**	–	185	–	185
Foreign exchange derivatives	–	88	–	**88**	–	253	–	253
Debt instruments	83	–	–	**83**	84	–	–	84
Equity instruments	27	–	25	**52**	25	–	29	54
Cash and cash equivalents	–	3,048	–	**3,048**	–	1,049	–	1,049
Total financial assets at fair value	**110**	**6,114**	**103**	**6,327**	130	2,686	120	2,936
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	(17)	(2,373)	(34)	**(2,424)**	–	(983)	(129)	(1,112)
Interest rate derivatives	–	(1)	–	**(1)**	–	(1)	–	(1)
Foreign exchange derivatives	–	(55)	–	**(55)**	–	(55)	–	(55)
Total financial liabilities at fair value	**(17)**	**(2,429)**	**(34)**	**(2,480)**	–	(1,039)	(129)	(1,168)

(i) The table above includes £159 million derivative assets, £240 million derivative liabilities and £4 million equity instruments which were classified as held for sale on the Group Balance Sheet.

Included in derivative liabilities above is £32 million (31 December 2020: £77 million) relating to virtual gas storage arrangements. These contracts give the parties rights to put and call gas volumes over their term, economically mirroring physical storage arrangements. Optimisation of virtual storage contracts under related commodity sale and purchase arrangements with the same parties has given rise to net operating cash inflows of £5 million as at 30 June 2021 (31 December 2020: £40 million). These cash flows arise from the normal commodity trading activities of the Group, and are therefore operating in nature, but are separately disclosed because the timing of cash flows under the arrangements can give rise to a cash flow benefit akin to a financing arrangement.

The reconciliation of the Level 3 fair value measurements during the period is as follows:

	2021		2020	
Period ended 30 June	**Financial assets £m**	**Financial liabilities £m**	Financial assets £m	Financial liabilities £m
Level 3 financial instruments				
1 January	**120**	**(129)**	256	(90)
Total realised and unrealised gains/(losses):				
Recognised in Group Income Statement	**36**	**75**	78	(50)
Purchases, sales, issuances and settlements (net) (i)	**(53)**	**20**	1	–
30 June	**103**	**(34)**	335	(140)
Total gains/(losses) for the period for Level 3 financial instruments held at the end of the reporting period	**36**	**75**	78	(50)

(i) During 2021, Level 3 financial assets, and financial liabilities of £53 million and £20 million respectively were disposed as part of the Direct Energy sale.

15. Financial instruments

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

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

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during the period was 1% (Europe) per annum (31 December 2020 average discount rate of 1% (Europe) and 3% (North America) per annum).

For Level 3 energy derivatives, the main input used by the Group pertains to deriving expected future commodity prices in markets that are not active as far into the future as some of the Group's contractual terms. This applies to certain contracts within Europe and North America. Fair values are then calculated by comparing and discounting the difference between the expected contractual cash flows and these derived future prices using an average discount rate of 1% (Europe) and 1% (North America) per annum (31 December 2020 average discount rate of 1% (Europe) and 3% (North America) per annum).

Active period of markets	Gas	Power	Coal	Emissions	Oil
UK (years)	**4**	**4**	**3**	**3**	**4**
North America (years)	**5**	**Up to 5**	**N/A**	**Up to 5**	**4**

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

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

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

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

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

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

			30 June 2021			31 December 2020		
		Notes	**Carrying value £m**	**Fair value £m**	**Fair value hierarchy**	Carrying value £m	Fair value £m	Fair value hierarchy
Bank loans		12	**(137)**	**(176)**	**Level 2**	(144)	(195)	Level 2
Bonds	Level 1	12	**(3,254)**	**(3,944)**	**Level 1**	(4,004)	(4,825)	Level 1
	Level 2	12	**(105)**	**(139)**	**Level 2**	(107)	(148)	Level 2

16. Commitments and contingencies

(a) Commitments

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

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

Commodity purchase contract commitments have decreased by £3.1 billion since 31 December 2020 to £31.7 billion. The reduction is predominantly as a result of the disposal of Direct Energy.

Other commitments, including the acquisition of property, plant and equipment and intangible assets, have decreased by £1.6 billion to £8.8 billion since 31 December 2020. The reduction is predominantly as a result of the disposal of Direct Energy.

(b) Contingent liabilities

At the period end, a partner on a jointly operated exploration and production field was in default of the joint operating agreement. Subsequent to the period end, the Group agreed to accept its pro-rata share of the defaulting party's licence holding which, unless an alternative remedy can be secured, is expected to give rise to an increase in the Group's decommissioning obligations of c.£46m, before associated tax benefit.

17. Events after the balance sheet date

The Group updates disclosures in light of new information being received, or a significant event occurring, in the period between 30 June 2021 and the date of this report.

There are no significant post balance sheet events other than disclosed above in note 16.

18. Related party transactions

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

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

	2021		2020	
	Purchase of goods and services (i) £m	**Amounts owed to (ii) £m**	Purchase of goods and services (i) £m	Amounts owed to (iii) £m
Associates:				
Nuclear	**(191)**	**(26)**	(250)	(49)
Joint Ventures	**–**	**–**	(5)	–
	(191)	**(26)**	(255)	(49)

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

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

At the balance sheet date, the Group had committed facilities to the Lake Acquisitions Group totalling £120 million (31 December 2020: £120 million), although nothing has been drawn down at 30 June 2021 (31 December 2020: £nil).

19. Financial Risk Management

The Group's normal operating, investing and financing activities expose it to a variety of financial risks: market risk (including commodity price risk, currency risk, and interest rate risk), credit risk and liquidity risk. These condensed interim Financial Statements do not include all financial risk management information and disclosures included in note S3 of the Group's consolidated Financial Statements for the year ended 31 December 2020.

The Group's normal operating, investing and financing activities expose it to a variety of risks. Risk management is fundamental to the way the Group is governed and managed. The Group's system of risk management and internal control is set out in the 2020 Annual Report and Accounts.

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

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

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

Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract. The Group continually reviews its rating thresholds for counterparty credit limits, with current reference to COVID-19 and forecast macroeconomic impacts, and updates these as necessary based on a consistent set of principles. It continues to operate within its limits and maintains a balance between exchange-based trading and bilateral transactions. This allows for a reasonable balance between counterparty credit risk and potential liquidity requirements. In addition, the Group actively manages the trade-off between credit and liquidity risks by optimising the use of contracts with collateral obligations and physically settled contracts without collateral obligations.

The Group has a number of treasury and risk policies to monitor and manage liquidity risk. Cash forecasts identifying the Group's liquidity requirements are produced regularly and are stress tested for different scenarios, including, but not limited to, reasonably possible increases or decreases in commodity prices and the potential cash implications of a credit rating downgrade, as well as downside risks from COVID-19. The Group seeks to ensure that sufficient financial headroom exists for at least a 12-month period to safeguard the Group's ability to continue as a going concern.

It is the Group's policy to maintain committed facilities and/or available surplus cash resources of at least £1,200 million, raise at least 75% of its gross debt (excluding non-recourse debt) in the debt capital markets, and to maintain an average term to maturity in the recourse long-term debt portfolio greater than five years.

At 30 June 2021 the Group had undrawn committed credit facilities of £3,198 million (31 December 2020: £3,637 million) and £3,237 million (31 December 2020: £1,139 million) of unrestricted cash and cash equivalents, net of outstanding overdrafts. 89% (31 December 2020: 93%) of the Group's gross debt has been raised in the long-term debt market, and the forecast average term to maturity of the long-term debt portfolio was 11.4 years (31 December 2020: 10.3 years).

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

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-month period ended 30 June 2021 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, and market changes in commodity prices and retail tariffs.

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

Customer demand for home services in the UK is generally higher in the winter than it is in the summer, and higher in the earlier part of the winter as that is typically when heating systems tend to break down most, so that customer demand from July to December is higher than from January to June.

Gas production volumes are generally higher in the winter when gas prices are higher. Gas production volumes are generally higher from January to June than they are from July to December as outages are generally planned for the summer months when gas demand and prices are at their lowest.

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

In addition to the effects of seasonality described above, there is significant uncertainty surrounding the timing and shape of any economic recovery from the effects of the COVID-19 pandemic. The response of the global economy to the pandemic and withdrawal of related government support and stimulus schemes could have a significant impact on the performance of the Group in the second half of 2021.

Explanatory Notes

Definitions and reconciliation of adjusted performance measures

Centrica's 2021 Interim Results include a number of non-GAAP measures. These measures are chosen as they provide additional useful information on business performance and underlying trends. They are also used to measure the Group's performance against its strategic financial framework. They are not however, defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Where possible they have been reconciled to the statutory equivalents from the primary statements (Group Income Statement ('I/S'), Group Balance Sheet ('B/S'), Group Cash Flow Statement ('C/F')) or the notes to the Financial Statements.

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

EBITDA

EBITDA is a business performance measure of operating profit, after adjusting for depreciation and amortisation. It provides a performance measure in its own right, and provides a bridge between the Income Statement and the Group's key cash metrics.

Six months ended 30 June	Notes	2021 £m	2020 £m	Change
Continuing group operating profit/(loss)	I/S	**1,003**	(338)	
Exceptional items included within Group operating profit before taxation	6	**(373)**	1,044	
Certain re-measurements before taxation	6	**(368)**	(442)	
Share of losses of joint ventures and associates, net of interest and taxation [(i)]	I/S	**36**	2	
Depreciation and impairments of PP&E [(i)]	4	**265**	350	
Amortisation, write-downs and impairments of intangibles [(i)]	4	**119**	134	
Continuing EBITDA		**682**	750	(9%)
Discontinued operations EBITDA		**–**	119	
Group total EBITDA		**682**	869	(22%)

(i) These line items relate to business performance only.

The below table shows how EBITDA reconciles to free cash flow:

Six months ended 30 June	Notes	2021 £m	2020 £m
Continuing EBITDA		**682**	750
Group operating profit/(loss) including share of joint ventures and associates, from exceptional items and certain re-measurements	I/S	**741**	(602)
Share of profits of joint ventures and associates, net of interest and taxation, from exceptional items and certain re-measurements	I/S	**–**	(2)
Depreciation, amortisation, write downs, impairments and write-backs, from exceptional items and certain re-measurements	6	**(397)**	791
Loss/(profit) on disposals	C/F	**27**	(3)
(Decrease)/increase in provisions	C/F	**(47)**	69
Cash contributions to defined benefit schemes (in excess of)/less than service cost income statement charge	C/F	**(243)**	37
Employee share scheme costs	C/F	**3**	23
Unrealised gains arising from re-measurement of energy contracts	C/F	**(239)**	(425)
Exceptional charges reflected directly in operating profit	C/F	**5**	23
Net movement in working capital	C/F	**33**	66
Taxes refunded/(paid)	C/F	**41**	(43)
Payments relating to exceptional charges in operating profit	C/F	**(48)**	(50)
Net cash flow from continuing operating activities		**558**	634
Purchase of businesses, net of cash acquired	C/F	**(13)**	–
Sale of businesses	C/F	**4**	108
Purchase of property, plant and equipment and intangible assets	C/F	**(174)**	(285)
Sale of property, plant and equipment and intangible assets	C/F	**32**	2
Disposal of joint ventures and associates	C/F	**2**	–
Dividends received from joint ventures and associates	C/F	**1**	23
UK Pension deficit payments	4	**243**	76
Movements in variation margin and collateral (including £1 million rounding in 2020)	4	**(129)**	(54)
Free cash flow from continuing operations	4	**524**	504

Definitions and reconciliation of adjusted performance measures

Profit/(loss) on disposals

Six months ended 30 June	Notes	2021 £m	2020 £m
Loss/(profit) on disposal	C/F	27	(3)
Less: Exceptional loss on disposal	6	(31)	–
Profit on disposals relating to business performance		**(4)**	(3)

Group net investment

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

Six months ended 30 June	Notes	2021 £m	2020 £m	Change
Capital expenditure (including small acquisitions) (i)		187	285	
Net disposals (ii)		(38)	(110)	
Group net investment		**149**	175	(15%)
Dividends received from joint ventures and associates	C/F	(1)	(23)	
Receipt of sub-lease capital payments	C/F	–	(1)	
Interest received	C/F	(2)	(3)	
Sale and settlement of securities	C/F	–	(122)	
Net cash flow used in continuing investing activities	C/F	**146**	26	462%

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

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

(a) Capital expenditure (including small acquisitions)

Six months ended 30 June	Notes	2021 £m	2020 £m	Change
Purchase of property, plant and equipment and intangible assets	C/F	174	285	
Purchase of businesses, net of cash acquired	C/F	13	–	
Capital expenditure (including small acquisitions)		**187**	285	(34%)

(b) Net disposals

Six months ended 30 June		2021 £m	2020 £m	Change
Sale of businesses	C/F	(4)	(108)	
Sale of property, plant and equipment and intangible assets	C/F	(32)	(2)	
Disposal of joint ventures and associates	C/F	(2)	–	
Net disposals		**(38)**	(110)	(65%)

Definitions and reconciliation of adjusted performance measures

Reconciliation from free cash flow to change in net debt

The following tables provide additional information to help readers when reconciling between different parts of the consolidated Financial Statements, and the Group Cash Flow Statement.

Six months ended 30 June	Notes	2021 £m	2020 £m
Free cash flow from continuing operations	4	**524**	504
Discontinued operations free cash flow (including tax)	4	**2,582**	245
Group total free cash flow	4	**3,106**	749
Financing interest paid (i)	C/F	**(111)**	(85)
Interest received	C/F	**2**	3
UK Pension deficit payments	4	**(243)**	(76)
Proceeds from sale of forfeited share capital/(payments for own shares)	C/F	**1**	(1)
Movements in variation margin and collateral (i)	4	**129**	67
Cash flows affecting net debt		**2,884**	657
Discontinued operations non-cash movements in net debt		**32**	–
Non-cash movements in net debt		**(11)**	(215)
Change in net debt		**2,905**	442
Opening net debt	12	**2,998**	3,507
Closing net debt	12	**93**	3,065

(i) Prior period comparatives relate to the results for the group and therefore, are not visible within the related notes.

Payments relating to exceptional charges in operating costs

Six months ended 30 June	Notes	2021 £m	2020 £m
Restructuring costs incurred during the year and utilisation of prior year liabilities		**(48)**	(50)
Payments relating to exceptional charges in continuing operating costs	C/F	**(48)**	(50)

Depreciation, amortisation, write-downs, impairments and write-backs

Six months ended 30 June	Notes	2021 £m	2020 £m
Cash flow from depreciation, amortisation, write-downs, impairments and write-backs, from exceptional items (continuing)		**(397)**	791
Made up of:			
Impairment of E&P assets	6	**(397)**	381
Impairment of power assets	6	**–**	404
Impairment of property	6	**–**	6
Cash flow from depreciation, amortisation, write-downs, impairments and write-backs, from business performance (continuing)		**384**	484
Made up of:			
Business Performance PP&E depreciation	4	**265**	350
Business Performance intangibles amortisation	4	**95**	119
Business Performance intangibles impairments and write-downs	4	**3**	–
Business Performance E&E write-downs	4	**21**	15
Cash flow from depreciation, amortisation, write-downs, impairments and write-backs (continuing)		**(13)**	1,275

Definitions and reconciliation of adjusted performance measures

Reconciliation in receivables and payables to Group Cash flow Statement

Six months ended 30 June	Notes	2021 £m	2020 £m
Receivables opening balance	B/S	**2,946**	4,993
Less receivables closing balance	B/S	**(3,061)**	(4,089)
Payables opening balance	B/S	**(3,836)**	(5,685)
Less payables closing balance	B/S	**4,094**	5,113
Net reduction in receivables and payables		**143**	332
Non-cash changes, and other reconciling items:			
Movement in discontinued operations		**–**	(167)
Transferred to held for sale and business disposals		**–**	(3)
Movement in capital creditors		**20**	62
Movement in ROCS and emission certificate intangible assets		**(137)**	(177)
Other movements (including foreign exchange movements)		**5**	(3)
Non-cash charges, and other reconciling items		**(112)**	(288)
Movement in trade and other receivables, trade and other payables and contract related assets relating to continuing business performance	C/F	**31**	44

Pensions

Six months ended 30 June	Notes	2021 £m	2020 £m
Cash contributions to defined benefit schemes (in excess of)/ less than service cost income statement charge	C/F	**(243)**	37
Ordinary employer contributions		**26**	34
UK Pension deficit payments		**243**	76
Contributions by employer in respect of employee salary sacrifice arrangements		**11**	14
Total current service cost		**(54)**	(56)
Termination benefit		**17**	(105)

Discontinued operations free cash flow

Six months ended 30 June	Notes	2021 £m	2020 £m
Discontinued operations free cash flow	4	**2,582**	245
Movement in variation margin and collateral	4	**–**	11
		2,582	256
Net cash flow from discontinued operating activities	C/F	**–**	269
Net cash flow from discontinued investing activities	C/F	**2,582**	(13)
		2,582	256

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

A pre-recorded results presentation will be available on Centrica.com at 8am (UK) on 22 July 2021 and Centrica will host a conference call for institutional investors and analysts at 09.30am (UK) on 22 July 2021. To register for the conference call please visit: https://webcasts.centrica.com/centrica116/vip_connect

If you would like to join in listen only mode, please register at: https://webcasts.centrica.com/centrica116

An archived webcast and full transcript of the presentation and the question and answer session will be available on the Centrica website on Monday 26 July 2021.

Enquiries

Investors and analysts:	Investor Relations	
	Telephone:	01753 494 900
	Email:	ir@centrica.com
Media:	Media Relations	
	Telephone:	01784 843 000
	Email:	media@centrica.com

Financial calendar

For more information on Centrica's financial calendar please visit: https://www.centrica.com/investors/financial-calendar/

Registered office

Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD.