centrica

Centrica Plc

For the period ended 30 June	2011	2010	Δ
Revenue‡	£11.5bn	£11.7bn	(2%)
Adjusted operating profit‡*	£1,262m	£1,563m	(19%)
Total adjusted taxation charge^	£492m	£520m	5%
Adjusted effective tax rate^	43%	37%	(6 ppts)
Adjusted earnings◊	£673m	£886m	(24%)
Adjusted basic earnings per share◊	13.0p	17.2p	(24%)
Interim dividend per share	4.29p	3.84p	12%

Operating and financial overview:

- On track to deliver full year earnings growth in 2011, despite commodity price volatility, challenging economic environment and higher UK upstream gas and oil tax rates
  - shift in profits from the downstream to the upstream
  - UK residential energy operating profit* halved from the exceptional levels recorded in 2010
  - progress in challenging market conditions demonstrates the strength of Centrica's business model
- Close management focus on cost structure and efficient deployment of capital required to maintain our competitive position and drive long-term shareholder returns
- 159,000 increase in residential energy customer accounts, reflecting competitive pricing position, Sainsbury's and Nectar partnerships and high levels of customer service
- Full year profit* growth expected in BGS and BGB; economic environment increasingly challenging
- Upstream UK business benefiting from strong operational performance and higher commodity prices. Nuclear output up 25%, offsetting weak market environment for gas-fired power generation
- North American operating profit* up 25%; benefiting from operational improvements
- Good progress on organic investment programme
  - Lincs wind farm – onshore substation largely complete and first foundations now in place
  - Ensign gas field – first gas expected in second half of 2011; York and Rhyl developments approved
- Interim dividend follows established practice of paying 30% of prior year full year dividend

"Global events have resulted in a steep increase in commodity prices, with UK wholesale gas prices 30% higher than last winter. In this challenging market, the resilience of our integrated business model has enabled Centrica to continue to perform well. We are focused on reducing costs and ensuring disciplined deployment of capital, to maintain our competitive position and drive long-term shareholder returns."

Sam Laidlaw, Chief Executive

Statutory results:

- Operating profit‡: £1,254m (2010: £2,117m)
- Earnings: £468m (2010: £1,386m)
- Basic earnings per ordinary share: 9.1p (2010: 26.8p)
- Profit for the period includes net exceptional charges after taxation of £260m (2010: £nil)

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

Earnings and operating profit numbers are stated, throughout the Performance Overview and the Operating Review, before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements where applicable – see note 3 for definitions. In addition, all references to profit and loss are stated before share of joint venture and associate interest and tax. The Directors believe these measures assist with better understanding the underlying performance of the Group. The equivalent amounts after exceptional items and certain re-measurements are reconciled at Group level in the Group Income Statement. Exceptional items and certain re-measurements are described in note 7. Adjusted earnings and adjusted basic earnings per share are reconciled to their statutory equivalents in note 11. All current financial results listed are for the period ended 30 June 2011. All references to 'the prior period', 'the prior year', '2010' and 'last year' mean the period ended 30 June 2010 unless otherwise specified.

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

◊ As above, except joint ventures and associates stated net of interest and taxation

^ Includes taxation on profit from continuing operations and tax from joint ventures and associates as reconciled in the Group Financial Review

‡ From continuing operations

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Performance Overview

Overview

The first half of 2011 was a dramatic period for global energy markets. With UK indigenous production declining, the country is becoming increasingly dependent on imports, particularly LNG. As a result, UK wholesale gas prices have risen by around 30%, reflecting unrest in the Middle East and North Africa and increased global demand for gas, in part due to closures of nuclear plants in Japan. In addition, seasonal storage spreads and market spark spreads remained narrow during the period. North American gas prices have remained low, providing further evidence that this market has disconnected from the rest of the world.

Economic conditions are increasingly challenging, particularly in the UK, with lower household disposable income impacting our residential services activities and with business customers coming under increasing pressure to reduce costs. In March, the Chancellor of the Exchequer announced an increase in the supplementary tax rate on UK oil and gas production which has impacted Centrica's earnings and reduced the benefits of vertical integration. We have also seen further activity from the Regulator in the UK, with Ofgem's Retail Market Review suggesting a number of potential market changes. With the publication of the Government's White Paper on Electricity Market Reform and the introduction of a carbon price floor likely to result in higher prices, the issue of affordability has moved increasingly into focus.

Against this backdrop, Centrica made good operational progress in the first half of the year, demonstrating the resilience of the Group's business model. In this uncertain environment, close management focus on cost reduction and optimisation of our existing asset base is required. It is also critical to maintain capital discipline in our investment decisions, although the timescales for a number of our investment options, including new nuclear, remain unclear. We will continue to invest where we see value and acceptable regulatory risk, maintaining the efficient deployment of our capital to maximise shareholder returns.

Centrica reported a 24% reduction in earnings in the first half of 2011, with operating profit in the UK downstream residential energy business less than half the unusually high levels seen in the first half of 2010 and the profitability of our gas storage activities significantly reduced. Higher wholesale commodity prices resulted in an increase in operating profit from the UK upstream business, although the change in the mix of profits, together with the increase in the UK supplementary charge, led to a higher tax rate. For the full year however, we still expect to deliver growth in earnings, subject to the usual variables of weather patterns and commodity price movements.

Operational performance was strong for each area of the business. The number of British Gas residential accounts increased and we continue to make progress in improving our levels of customer service. Our upstream assets performed well, with production growth from our North Sea and Trinidad and Tobago assets partially offsetting lower production from Morecambe, and with much improved nuclear power output. In North America, the Wildcat Hills acquisition has delivered increased production and a further reduction in unit gas production costs, while downstream we are benefiting from operational efficiencies and the Gateway and Clockwork acquisitions are beginning to contribute.

We continue to make good progress on capital investment projects. At the Lincs offshore wind farm, the onshore substation is largely complete and the first foundations are now in place. First power is expected in 2012. In gas production, our Ensign field in the Southern North Sea is expected to produce first gas towards the end of 2011, and we have approved the development of the York and Rhyl gas fields with first gas from both developments expected in late 2012. For the full year we now expect to spend around £1.3 billion on organic capital expenditure, with reduced spend on UK upstream projects and a decision to slow down pre-construction spend on new nuclear.

Business performance

Health and safety is critical to the success of the Group. We were therefore pleased that our lost time incident rate (LTIR) fell once again in the first half of the year, to 0.35 per 100,000 hours worked. We were also pleased that, for the first time, all three of our UK business units, British Gas, Centrica Energy and Centrica Storage won places in the 'Top 100 Companies to Work For' list, published in the Sunday Times, with British Gas having gained a top 25 position in each of the last three years.

Performance Overview continued

In residential energy, the combination of higher commodity prices and significantly lower consumption resulted in operating profit being less than half the level recorded in the corresponding period last year. Average residential gas consumption fell by 18% in the first six months of the year, and electricity consumption was 3% lower, reflecting the milder weather conditions together with underlying energy efficiency improvements.

We added 159,000 customer accounts in the first half of the year, and have now made 100,000 sales through the Sainsbury's affinity relationship. We are also pleased to have recorded over 3 million customer registrations under the Nectar loyalty programme. In the first half, over 10 million customer transactions were carried out online, more than double the number in the first half of 2010. Customer service levels also continue to improve, and we once again achieved an increase in our Net Promoter Score (NPS).

As a result of the increase in worldwide gas prices, together with the increase in non-commodity costs faced across the industry, earlier this month we announced a tariff price increase of 18% for gas and 16% for electricity, which will take effect in August. We recognise the impact that higher energy costs have on household bills, and continue to offer our customers a number of ways to help offset the rise through improved energy efficiency. We are now offering free loft and cavity wall insulation, and a further 300,000 customers have signed up to our EnergySmart product, which is designed to help households monitor their consumption.

Overall, we expect margins in the residential energy business in the full year to be in line with market expectations, subject to the weather conditions in the second half of the year, and below the levels recorded in 2010.

In residential services, we continue to make good operational progress, and are seeing the benefits of the agreement reached last year with our service and repair engineers, which enables us to offer a more flexible, high quality service to our customers. Trading conditions remain difficult however, with the weak economic environment creating an adverse climate for discretionary consumer purchases, especially impacting growth in central heating installations. While we continue to expect further year on year profit growth in services in 2011, the result for the first half of the year was only slightly higher compared to the first half of 2010.

Business energy supply and services continues to perform well, but the first half of 2011 did not benefit from the higher weather driven consumption seen in the corresponding period of 2010. Overall we expect growth in full year operating profit for 2011, supported by continued high levels of customer service and our volume to value strategy, however in the current economic climate contract renewal margins are coming under pressure. Over time our enhanced capabilities in business services, following the Connaught acquisition, will become increasingly important.

In our Upstream UK business, the operational performance of our assets was strong. Gas production volumes from our North Sea and Trinidad and Tobago assets increased by 16% and oil and condensate volumes increased by 15%. This largely offset lower production at Morecambe, as the field did not produce for most of May and June due to planned maintenance and the decision to keep the field shut-in to maximise value. The increase in wholesale prices resulted in higher operating profit for the period, although this was offset by the impact of higher gas and oil tax rates, announced in the UK Government's Budget in March. For the full year, we expect production volumes to be around 50 million barrels of oil equivalent, subject to the running patterns of our gas and oil fields. As announced in February, we signed a memorandum of understanding leading to a three year contract with Qatargas to bring 2.4 million tonnes of LNG per annum to the UK, and we took delivery of the first contracted cargo in June.

In power generation, the nuclear fleet achieved high levels of availability, with output up 25% compared to last year and output from our joint venture wind farms also improved, with these assets all benefiting from higher power prices. However spark spreads remained low during the period, and as a result our CCGTs generated 40% less power in the first half than in the corresponding period in 2010.

In gas storage, seasonal spreads remain at very low levels. Consequently, operating profit from our storage business fell by 60%. With the forward curve showing weak spreads into the 2012/13 storage year, our priority remains to maintain a safe, reliable operation while reducing costs in the business where possible.

Performance Overview continued

In North America, we continue to make good progress, despite the impact of the low commodity price environment on our upstream operations, and are beginning to see the positive impact of the Wildcat Hills, Clockwork and Gateway acquisitions. In Texas, churn remains at historically low levels, our prepaid product is having a positive impact on customer numbers, we now have a consolidated billing platform and our operating costs are much reduced. In Ontario, the introduction of the Energy Consumer Protection Act has made it substantially more difficult to acquire and retain customers and as expected our customer base has fallen. However our US North East customer base increased organically as market restructuring continues and including the impact of the Gateway acquisition we now have 800,000 customer accounts in this important growth region. Overall, North American operating profit was up 25%, with continued growth in Direct Energy Business and improved financial performance in upstream and wholesale. The business is well placed to continue to grow, building on our existing platform through a combination of organic growth and acquisition.

Dividend

The Board is proposing an interim dividend of 4.29 pence per share to be paid on 16 November 2011 to shareholders on the register on 30 September 2011, in line with our established practice of paying an interim dividend of 30% of the prior year full year dividend.

2011 Outlook

Overall, we expect to deliver year on year earnings growth in 2011, subject to the usual variables of weather patterns and commodity price movements, building on the strong result achieved in 2010. Whereas the 2010 financial results were heavily weighted towards the first half of the year, we expect a more even split in 2011. However, the mix of profits will show a marked shift from the downstream to the upstream, with strong growth at the operating profit level largely offset by higher taxes. Our ability to deliver growth in this highly volatile commodity environment demonstrates the resilience of the Centrica business model.

Strong operational performance, both upstream and downstream, has made a valuable contribution in the first half of the year and leaves us well placed for the remainder of the year. Against a weak economic backdrop, maintaining a competitive position in each line of business remains critical. We will focus closely on cost reduction and disciplined capital deployment across the asset base, while delivering a high level of service for our customers and maintaining the highest levels of safety.

The future

The performance of the business in the first half of the year has confirmed the value of vertical integration. However as a result of the economic and competitive environments and the headwinds these create, significant management action will be required to ensure that the Group remains competitive.

Downstream, we will continue to build on the operational progress we have made over the past year, maintaining a high level of service, attractive customer propositions and a close focus on cost control. We also note the proposals raised by Ofgem in its review of the retail gas and electricity market. While we welcome proposals to improve the transparency of reporting in the industry, it is also important to ensure that measures designed to simplify the tariff structure are in the best interests of consumers.

Upstream, we are seeing the benefit of higher gas and oil prices coming through, although the contribution at an earnings level is eroded by higher upstream taxes. We see opportunities to invest across our portfolio and will deploy capital where we see value, taking into account the stability of the fiscal and regulatory environment.

The Government's White Paper on Electricity Market Reform was published in July, setting out the changes that will be necessary to deliver decarbonisation and security of supply for the UK. There remains much detail to be resolved so that investors can have confidence that the fiscal and regulatory environment makes the UK energy sector a good place to invest. However we are well placed to be able to target investment to those areas offering the most attractive returns.

The interim report from the Office for Nuclear Regulation on the implications of the Japanese earthquake for the UK nuclear industry reinforces our confidence that new nuclear can be built in the UK effectively and safely.

Performance Overview continued

However it is clear that new nuclear build will be delivered later than we had originally hoped and we expect clarity on the revised timetable towards the end of the year. Nuclear will be an important part of the generation mix if the UK is to have secure, affordable, low carbon energy. New nuclear build is an important option for us. However we will only invest if we are satisfied that the returns represent good value for our shareholders, set against the commercial risks.

In North America, we are identifying further opportunities for consolidation of our operations and operational efficiency across the business. We will continue to look for opportunities to increase our scale in energy supply through organic growth and acquisitions, offsetting the expected decline in Ontario. In services, our franchise model is well positioned to exploit substantial market opportunity as we look to add scale and capability. We will also continue to look for further opportunities in gas production, where investment is delivering appropriate returns, but in power generation, while vertical integration remains desirable, weaker near term returns in regions without capacity payments could restrict the number of opportunities available to us.

Overall, Centrica's strategy remains robust and our strategic priorities are unchanged. However we will drive further operational improvements and reduce costs in order to maintain our competitive position. We are well positioned to take advantage of higher commodity prices upstream, with a distinctive, well balanced portfolio of assets. And with a range of investment options across the Group we will continue to invest where we see value, to drive long-term shareholder returns.

Group Financial Review

Group revenue for continuing operations was slightly down compared to the prior period, at £11.5 billion (2010: £11.7 billion). The UK downstream business had lower revenue as a result of reduced consumption, reflecting more normal seasonal temperatures during the period. This was partially offset by higher Upstream UK revenues resulting from higher commodity prices.

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

For the period ended 30 June Term	2011 £m	2010 £m	Explanation
Adjusted operating profit*:			
Downstream UK	**518**	842	
Upstream UK	**531**	485	
Storage UK	**39**	97	
North America	**174**	139	
Total adjusted operating profit*	**1,262**	1,563	The principal operating profit measure used by management and used throughout the Operating Review
Impact of fair value uplifts	**(57)**	(68)	Depreciation of fair value uplifts to property, plant and equipment of Strategic Investments (see note 6(b) and note 11(a) for further information)
Interest and taxation on joint ventures and associates	**(61)**	(44)	See note 12 for further information
Group operating profit^Ω	**1,144**	1,451	Operating profit from continuing operations before exceptional items and certain re-measurements, reconciled to statutory profit in the Group Income Statement
Group profit^Ω	**625**	850	Profit from continuing operations before exceptional items and certain re-measurements, reconciled to statutory profit in the Group Income Statement
Adjusted earnings^◊	**673**	886	Earnings before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements, reconciled to statutory profit in note 11
Statutory profit	**468**	1,386	Profit including discontinued operations, exceptional items and certain re-measurements

Total adjusted operating profit* was down 19% to £1,262 million (2010: £1,563 million) as lower Downstream UK and Storage UK profitability* was partially offset by increases in Upstream UK and North America. In Downstream UK, higher commodity and non-commodity costs, such as environmental obligations, and lower consumption more than offset a higher number of customer accounts. In Upstream UK, higher commodity prices and strong nuclear output more than offset the impact of lower gas volumes, increased unit gas and oil production costs and reduced gas-fired power generation. In North America, improved performance in the business energy supply and upstream and wholesale businesses more than offset the impact of reduced residential energy profitability* reflecting less favourable market conditions. Group operating profit^Ω from continuing operations was down 21% at £1,144 million (2010: £1,451 million).

Group profit^Ω on a continuing basis was down 26% to £625 million (2010: £850 million). The reduction arose primarily from the decrease in adjusted operating profit* described above and as a result of higher UK upstream tax rates, reflecting both a mix with more heavily taxed upstream profit* and the increase in the supplementary corporation tax rate from 20% to 32%, announced in the UK Government's Budget in March. The taxation on profit from continuing operations before exceptional items and certain re-measurements was £441 million (2010: £488 million) while the adjusted effective tax rate^ for the Group increased to 43%

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

◊ As above, except after other costs and joint ventures and associates stated net of interest and taxation

Ω Including share of joint ventures and associates stated net of interest and taxation and before exceptional items and certain re-measurements

^ Including tax from share of joint ventures and associates and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Group Financial Review continued

(2010: 37%). An effective tax rate reconciliation is shown in the table on page 8. Net interest expense was £78 million (2010: £113 million), reflecting the lower level of average gross debt in the period. The decrease in Group profit[Ω] resulted in lower adjusted earnings per share[◊] (EPS) at 13.0 pence (2010: 17.2 pence).

The statutory profit for the period was £468 million (2010: £1,386 million). The reconciling items between Group profit[Ω] and the statutory profit are related to exceptional items, certain re-measurements and discontinued operations. The Group reported a statutory basic EPS of 9.1 pence, down from 26.8 pence in 2010. The decrease in statutory basic EPS is more significant than the decrease in adjusted earnings per share, due to the effect of exceptional items recorded in 2011 and significantly lower gains on re-measurements of energy contracts in 2011 compared with 2010.

An interim dividend of 4.29 pence per share (2010: 3.84 pence per share) will be paid on 16 November 2011, in line with our established practice of paying an interim dividend of 30% of the prior year full year dividend.

Group operating cash flow from continuing operations before movements in working capital was down 11% to £1,656 million (2010: £1,856 million). After working capital adjustments, operational interest, tax, and cash flows associated with exceptional charges in prior years and from discontinued operations, net cash flow from operating activities fell to £1,068 million (2010: £1,667 million). The significant decrease in operating cash flow is as a result of the decrease in group operating profit, working capital outflows and the timing of tax payments.

The net cash outflow from investing activities decreased to £458 million (2010: £570 million), due primarily to lower cash outflow on the purchase of property, plant and equipment and a dividend from Lake Acquistions Limited.

There was a net cash outflow from financing activities of £646 million (2010: £583 million). The increase in net cash outflow principally resulted from higher dividend payments.

The Group's net debt level at 30 June 2011 was £3,345 million (31 December 2010: £3,312 million; 30 June 2010: £2,753 million). This reflected the cash movements described above.

During the period net assets increased to £5,894 million from £5,819 million as at 31 December 2010 (30 June 2010: £5,271 million). The increase in net assets compared with 31 December 2010 reflects the profit for the period, including exceptional items and certain re-measurements, less the dividends paid.

Exceptional items

A £204 million exceptional deferred tax charge relating to the Group's UK gas and oil producing assets was recorded following the increase in the supplementary corporation tax rate in the UK Government's March 2011 Budget from 20% to 32%. This increase was substantively enacted from 29 March 2011. Also announced in the March Budget was an intention, from 2012, to restrict the rate of tax relief on decommissioning costs to the previous supplementary corporation tax rate of 20%. If enacted, a one-off charge of approximately £60 million would arise from revaluing the related deferred tax provisions.

On 1 June 2011, the Group completed the sale of the trade and assets of Oxxio B.V. in The Netherlands, which resulted in a loss on disposal of £56 million.

Certain re-measurements

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

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

◊ As above, except after other costs and joint ventures and associates stated net of interest and taxation

Ω Including share of joint ventures and associates stated net of interest and taxation and before exceptional items and certain re-measurements

^ Including tax from share of joint ventures and associates and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Group Financial Review continued

The statutory results include net credits to operating profit relating to re-measurements of £161 million (2010: £678 million) from continuing operations. As gas and power were delivered under these contracts, net out-of-the-money mark-to-market positions from year end 2010 were unwound generating a net credit to the Income Statement in the period of £110 million (2010: £641 million). As forward prices increased in the first half of the year the portfolio of contracts fair valued under IAS 39 reported a net credit on revaluation of £53 million (2010: £16 million). A loss of £2 million (2010: gain of £21 million) reflects positions relating to cross-border capacity and storage contracts. Net losses arising on re-measurement of associates' energy contracts (net of taxation) were £51 million (2010: £12 million). Net credits of £22 million (2010: £62 million) arose on re-measurements on energy contracts of discontinued operations after taxation.

Business combinations and capital expenditure

Details of business combinations are provided in note 16.

Details of disposals and discontinued operations are provided in note 17.

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

Principal risks and uncertainties

The Group's key risks and its approach to risk management are set out in its 2010 Annual Report and Accounts. We have reviewed the risks facing the Group and are satisfied that the key risks and our approach to managing them remain in line with that set out in the 2010 Annual Report and Accounts.

Capital management

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

Related party transactions

Related party transactions are described in note 19.

Effective tax rate reconciliation:

For the period ended 30 June **Term**	**2011** **£m**	2010 £m
Taxation on profit from continuing operations before exceptional items and certain re-measurements	**441**	488
Tax impact of depreciation on Venture fair value uplift	**22**	17
Share of joint ventures / associates taxation	**29**	15
Adjusted tax charge from continuing operations^	**492**	520
Adjusted operating profit*	**1,262**	1,563
Share of joint ventures / associates interest	**(32)**	(29)
Net interest expense	**(78)**	(113)
Adjusted profit from continuing operations before taxation	**1,152**	1,421
Adjusted effective tax rate^	**43%**	37%

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

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Ω Including share of joint ventures and associates stated net of interest and taxation and before exceptional items and certain re-measurements

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Operating Review

Downstream UK

Market conditions for our downstream energy supply businesses were very different in the first half of 2011 compared to 2010. The natural disaster in Japan and unrest in the Middle East and North Africa resulted in rising gas and electricity prices, and forward wholesale prices of gas and power for delivery in winter 2011/12 are now around 30% higher than prices last winter. The UK also experienced warmer than normal weather during the first half of 2011, compared to exceptionally cold weather in 2010, and the economic environment remains challenging, particularly impacting the sales performance in residential services and business energy supply. Against this backdrop, performance in the first half of the year was good, with continued operational progress and strong residential energy customer growth.

As a result of the steep rise in wholesale gas and power prices during the first half of the year and also the increase in non-commodity costs, such as transmission, metering and environmental obligations, we announced in July that we would be increasing our residential gas and electricity tariffs by an average of 18% and 16% respectively, effective from 18 August.

The number of residential energy accounts on supply increased by 159,000 to 16.1 million over the first six months of the year as we took market share from most competitors, including those who delayed increasing prices at the end of 2010. Sales were particularly strong during the second quarter due to our competitive pricing position and also reflected the successful launch of our partnerships with Nectar and Sainsbury's. We have now made 100,000 sales through these new channels, while over 3 million of our customers have enrolled on the Nectar loyalty programme. These channels are delivering high value customers and the Nectar scheme is helping to shape customer behaviour, with more customers now submitting meter reads online, moving to paperless billing and choosing to pay by Direct Debit, with the incentive of receiving additional loyalty rewards. As well as reducing our cost to serve, this change in customer behaviour is also helping to deepen the customer relationship, enabling greater interaction with the customer.

In the first six months over 10 million transactions were carried out online, more than double the number from 2010, with increasing levels of meter reads, payments and Annual Service Visit bookings being submitted online. Levels of customer service also continue to improve, and British Gas was awarded a 4 star service rating from Consumer Focus for the first time. As a result our net promoter score (NPS) increased once again.

In the social housing market, we have commenced work on the first contracts we jointly bid on with Mears, following on from our arrangement last year, while in May we completed the acquisition of PH Jones Group Ltd, a provider of central heating services to the social housing market, for £26 million. We are also now undertaking work for the Welsh Assembly Government's new fuel poverty programme, which we were awarded in January and in total we now have £100 million worth of community initiatives.

Our workforce has now completed over 100,000 insulation jobs, following the establishment of our insulation business in 2010 through organic recruitment and the acquisitions of Hillserve Ltd and ECL Contracts Ltd. We also continue to lead the industry in the roll-out of smart meters, having now installed over 350,000 meters for homes and businesses to date. The publication of the Government's smart prospectus in March confirms the approach we are taking, although further testing will be required to ensure that the end-to-end process is optimised before proceeding with the full roll-out across our customer base.

On new technologies, we secured contracts with both Nissan and Renault to become the preferred partner for home charging solutions for their electric vehicles. We have also seen a substantial uplift in the amount of solar installations for both residential and business customers, with 889 installations and 6.0 Megawatts-peak (MWp) installed. We continue to hold positions in a wide range of technologies, with capabilities in biomethane gas, heat pump installation, biomass and fuel cell boilers.

The number of services product holdings remained broadly flat at 8.7 million. This reflects a difficult economic environment, with expenditure on our products viewed as discretionary by some consumers. In particular, the economic environment is creating an adverse climate for major consumer purchases and is having an impact on the central heating installation business. Accordingly, the number of central heating systems installed in the

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

Operating Review continued

first half increased only slightly to 54,000 (2010: 53,000), with the first half of 2010 also benefiting from the Government's boiler scrappage scheme. Despite these external factors, we continued to make good progress in the business, with over 85% of our contracts now insurance based, allowing us to offer a more flexible range of products, while the agreement with our service and repair engineers last year means we are now able to meet increased customer demand for evening and weekend appointments. This increased engineer flexibility meant that we were able to visit the vast majority of customers on the day they reported a fault, and our NPS remained high at 53.

In business energy supply, customer supply points have reduced slightly since the start of the year, to 1.03 million (2010: 1.05 million) largely reflecting our volume to value strategy. However in a difficult economic climate, with competition increasing, contract renewal margins are beginning to come under pressure. We will continue to focus on delivering a high level of customer service at competitive prices to customers, with credit vetting remaining important. Through continued customer segmentation and, over time the provision of business services, we will seek to maintain a differentiated position in the market.

Health and safety is critical to the success of British Gas. Our lost time injury frequency rate (LTIFR) during the first half of the year was less than half that in 2010, having fallen to its lowest ever level, while the number of lost time incidents fell by around 40%. Employee engagement also continues to improve, with absence and attrition rates both substantially lower than in 2010.

In June, Ofgem announced that it was to press ahead with its review of the retail gas and electricity market. We will actively engage in the process, to ensure the best result for both the industry, which will bear most of the £200 billion investment estimated to be required in UK energy over the coming years, and UK consumers. We continue to provide extra help for elderly, disabled and fuel poor customers through our Essentials programme, offering discounted rates and energy efficiency measures and products, while in January this year each of our Essentials customers received an additional £50 credit on their bills and we donated £20 million to the British Gas Energy Trust. We have also helped more than one million customers who are struggling to pay their bills, by offering flexible payment terms and helping them manage their debt.

Gross revenue in the period fell to £6,325 million (2010: £6,734 million), with lower average consumption for both residential and business energy customers more than offsetting the higher number of residential customer accounts. Operating profit* decreased by 38% to £518 million (2010: £842 million), reflecting more normal weather conditions and rising wholesale commodity costs.

Residential energy supply operating profit* was less than half the number reported in 2010 at £270 million (2010: £585 million), as the favourable combination of extremely cold weather and low wholesale commodity costs experienced in 2010 was not repeated. Average gas consumption reduced by 18% and average electricity consumption reduced by 3% as weather in the UK was warmer than normal, particularly in April, and energy efficiency measures continue to deliver underlying reductions. Gross revenue decreased to £4,185 million (2010: £4,483 million), reflecting this decline in consumption as the revenue per gas account fell by 13%. The operating margin* reduced to more normal levels, at 6.5% (2010: 13.0%). We continue to focus on operational efficiencies, in order to minimise our cost base. As a result of improved processes and close management attention, bad debt charges were lower in the first half of 2011 than in the first half of 2010.

Residential services operating profit* increased slightly to £111 million (2010: £109 million) in a challenging economic environment. Warmer weather resulted in reduced breakdown call out costs compared to the first half of 2010. However we incurred additional costs to complete annual service visits deferred from the prior year, as we had prioritised our workload during the cold weather in late 2010. Gross revenue rose by 8% to £749 million (2010: £691 million) reflecting slight increases in the average number of customers and average prices. Taking each of these factors into account, the operating margin reduced slightly to 14.8% (2010: 15.8%). We expect to deliver year-on-year operating profit* growth in 2011, with the profitability of the residential services business typically weighted towards the second half of the year.

Business energy supply and services operating profit* fell slightly to £137 million (2010: £148 million) while gross revenue fell by 11% to £1,391 million (2010: £1,560 million), reflecting lower gas and electricity volumes,

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Operating Review continued

driven by weather and customer mix. Operating margin* increased slightly to 9.8% (2010: 9.5%). Given the fixed nature of the contracts sold to business customers however, we still expect to deliver year-on-year operating profit* growth in 2011.

Overall, Downstream UK operating costs increased by 7%, reflecting the additional cost associated with the new growth areas within British Gas and an additional £22 million of costs incurred as a result of transitioning from our previous data centre provider. Excluding costs associated with these activities, underlying operating cost fell by 1%, reflecting continued strong cost control.

Downstream UK

Total downstream UK

For the period ended 30 June	H1 2011	H1 2010	Δ%	FY 2010
Total customer accounts ('000)	**25,883**	25,542	1.3	25,740
Total customer households ('000)	**12,167**	12,268	(0.8)	12,206
Joint product households ('000)	**2,195**	2,094	5	2,164
Revenue (£m):	**6,325**	6,734	(6)	12,730
Operating cost (excluding bad debt) (£m)	**747**	697	7	1,358
Operating profit (£m)*	**518**	842	(38)	1,216

Residential energy supply

For the period ended 30 June	H1 2011	H1 2010	Δ%	FY 2010
Customer accounts (period end):				
Gas ('000)	**9,320**	9,385	(0.7)	9,332
Electricity ('000)	**6,817**	6,549	4.1	6,646
Total ('000)	**16,137**	15,934	1.3	15,978
Estimated market share (%):				
Gas	**42.0**	42.5	(0.5) ppts	42.4
Electricity	**25.5**	24.7	0.8 ppts	25.3
Average consumption:				
Gas (therms)	**262**	319	(18)	564
Electricity (kWh)	**1,947**	2,012	(3.2)	3,982
Total consumption:				
Gas (mmth)	**2,430**	2,997	(19)	5,291
Electricity (GWh)	**13,002**	12,986	0.1	26,002
Revenue (£m):				
Gas	**2,738**	3,110	(12)	5,570
Electricity	**1,447**	1,373	5	2,789
Total	**4,185**	4,483	(7)	8,359
Transmission and metering costs (£m):				
Gas	**601**	611	(1.6)	1,231
Electricity	**381**	336	13	714
Total	**982**	947	3.7	1,945
Operating profit (£m)*	**270**	585	(54)	742
Operating margin (%)	**6.5**	13.0	(6.5) ppts	8.9

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Operating Review continued

Residential services

For the period ended 30 June	H1 2011	H1 2010	Δ%	FY 2010
Customer product holdings (period end):				
Central heating service contracts ('000)	**4,655**	4,593	1.3	4,684
Kitchen appliances care (no. of customers) ('000)	**476**	434	10	438
Plumbing and drains care ('000)	**1,766**	1,745	1.2	1,781
Home electrical care ('000)	**1,462**	1,460	0.1	1,480
Other contracts ('000)	**361**	328	10	335
Total holdings ('000)	**8,720**	8,560	1.9	8,718
Central heating installations ('000)	**54**	53	1.9	124
Revenue (£m):				
Central heating service contracts	**396**	371	7	774
Central heating installations	**151**	144	4.9	324
Other	**202**	176	15	366
Total	**749**	691	8	1,464
Engineering staff employed	9,926	9,440	5	9,954
Operating profit (£m)*	**111**	109	1.8	241
Operating margin (%)	**14.8**	15.8	(1.0) ppts	16.5

Business energy supply and services

For the period ended 30 June	H1 2011	H1 2010	Δ%	FY 2010
Customer supply points (period end):				
Gas ('000)	**373**	398	(6)	389
Electricity ('000)	**653**	650	0.5	655
Total ('000)	**1,026**	1,048	(2.1)	1,044
Average consumption:				
Gas (therms)	**1,499**	1,784	(16)	3,152
Electricity (kWh)	**12,837**	14,911	(14)	29,326
Total consumption:				
Gas (mmth)	**573**	712	(20)	1,250
Electricity (GWh)	**8,411**	9,672	(13)	19,060
Revenue (£m):				
Gas	**515**	603	(15)	1,062
Electricity	**876**	957	(8)	1,845
Total	**1,391**	1,560	(11)	2,907
Transmission and metering costs (£m):				
Gas	**94**	101	(7)	189
Electricity	**184**	198	(7)	382
Total	**278**	299	(7)	571
Operating profit (£m)*	**137**	148	(7)	233
Operating margin (%)	**9.8**	9.5	0.3 ppts	8.0

Upstream UK

Our UK upstream business has continued to perform well during the first half of 2011. Strong operational performance and good reliability from our gas and power assets has allowed us to benefit from higher wholesale market prices and as a result operating profit* increased by 9% to £531 million (2010: £485 million). This was achieved despite the natural decline profile of the Morecambe gas field and the decision not to return South Morecambe to production in June following its scheduled maintenance period, to maximise long-term value. This strong performance reflects the quality of the assets we have acquired and developed, and the focus we place on operational excellence.

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Operating Review continued

Gas

Our operational capability resulted in continued strong production performance and further drilling success during the first half of 2011. Gas production volumes reduced by 18% to 1,079 million therms (mmth) (2010: 1,321mmth), reflecting the running patterns of Morecambe, with volumes from the field falling 46% to 399mmth (2010: 736mmth). Gas production from other fields increased by 16% to 680mmth (2010: 585mmth) and oil and condensate volumes increased by 15% to 6.9 million barrels of oil equivalent (mmboe) (2010: 6.0mmboe), reflecting production from new gas fields such as F3-FA and Babbage and good performance from existing assets, particularly Statfjord, Grove, Chiswick and Buckland.

We continue to progress our gas development projects. Having installed the F3-FA re-usable platform in The Netherlands in late 2010, the field produced first gas in January 2011, while the non-operated Babbage field is also fully operational, having produced first gas in late 2010. Development work at Seven Seas is expected to result in first gas in the fourth quarter of 2011, while drilling of the Goosander Crestal development well in the first half of 2011 was successful and we produced first oil in July 2011, two months ahead of schedule.

As announced in February we have approved field development of the York and Ensign gas fields. These projects will require total investment of approximately £450 million and are estimated to bring over 30mmboe of reserves into production. We have also now approved development of the Rhyl project in the East Irish Sea. This is an £85 million project, and is expected to bring around 7mmboe of reserves into production. Ensign is expected to start producing during the fourth quarter of 2011, with both York and Rhyl expected to produce first gas during 2012. We have also now approved investment in the non-operated Atla field in Norway, while we continue to assess the Cygnus project, with a view to making a final investment decision in the first quarter of 2012.

Our drilling of production wells again delivered success in the first half of 2011, with all five operated and non-operated wells showing positive results. Successes were recorded at the non-operated North West Seymour field and two wells at the West Brae field, as well as at F3-FA and Goosander. In exploration we had a discovery at the Pegasus prospect in the UK North Sea. However exploration drilling at the Romanna prospect in Egypt, the Whitethroat prospect in the UK North Sea and the Gulris prospect in Norway were all unsuccessful.

The average achieved gas sales price increased 27% to 50.7 pence per therm (p/th) (2010: 39.8p/th) and the average achieved oil and condensate price was £57.4 per barrel of oil equivalent (boe) (2010: £41.9/boe). To the extent volume was unhedged, we benefited from rising UK wholesale market gas prices and global oil prices, particularly during the second quarter of the year. Production costs increased by 24% to £583 million (2010: £471 million) reflecting new gas and oil fields coming into production and the acquisitions of additional Statfjord and Trinidad and Tobago assets in the second half of 2010.

As well as gas and oil production this segment includes gas midstream activities, namely our remaining legacy gas sales contracts, our German wholesale gas business, gas proprietary trading and LNG activity. In February we signed a memorandum of understanding which led to a three year contract with Qatargas, securing material volumes of LNG for the UK. The contract is for 2.4 million tonnes of gas per annum, enough to meet approximately 10% of UK residential gas demand, and we took delivery of our first contracted cargo in June.

Overall operating profit* for the gas segment increased by 14% to £414 million (2010: £362 million) as higher achieved gas and liquids prices more than offset lower gas production volumes and higher production costs.

Power

Strong nuclear output, improved wind output and higher achieved prices resulted in an increase in operating profit* for our share of nuclear and wind assets in the first half of 2011. This offset weaker market conditions for gas-fired generation, with healthy UK system margins during the first half of the year resulting in market spark spreads below £5 per megawatt hour (MWh) for much of the period.

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Operating Review continued

Our 20 per cent equity share of the output from the Lake Acquisitions nuclear fleet in the first half of 2011 was 6.2 terawatt hours (TWh) (2010: 5.0TWh), with fewer unplanned losses during the first half of the year. The average achieved power price in the first half of 2011 was £47.1/MWh (2010: £42.9/MWh) reflecting the increase in the baseload market power price and the impact of hedging.

The availability of the joint venture wind assets was good in the first half of 2011 and weather conditions were more favourable than in the first half of 2010, particularly during the second quarter. As a result, generated volumes increased to 275 gigawatt hours (GWh) (2010: 209GWh) and the load factor improved to 33% (2010: 25%). Our construction of the £750 million, 270MW Lincs wind farm project, of which we own 50%, is proceeding to plan. The onshore substation is largely complete and the first foundations are now in place and we expect to generate first power in 2012. The wind farm is expected to be fully operational in the first half of 2013.

The reliability of our CCGT fleet remained high, at 98% (2010: 99%), however the weak market conditions for gas-fired plant meant that generation volume was much reduced at 7.4TWh (2010: 12.3TWh) with an overall load factor of 35% (2010: 60%). As a result of these market conditions we took the decision in March to move four of our older plants, representing around 20% of our capacity, into short-term preservation mode. These units are able to return to service within 2-3 days, if commercially viable to do so. The average spark spread achieved remained broadly flat at £11.1/MWh (2010: £11.5/MWh), well above the average market spread and reflecting volumes sold at peak times.

We note the Government's White Paper on Electricity Market Reform (EMR), setting out the changes that will be necessary to deliver decarbonisation and security of supply for the UK and we welcome the Government's decision to underpin the UK carbon price from 2013. There remains much detail to be resolved so that investors can have confidence that the fiscal and regulatory environment makes the UK energy sector an attractive market for investment. However we are well placed to be able to target investment to those areas offering the most attractive returns.

The interim report from the Office for Nuclear Regulation on the implications of the Japanese earthquake for the UK nuclear industry, published in May, reinforces our confidence that new nuclear can be built in the UK effectively and safely. However it is clear that new nuclear build will be delivered later than we had originally hoped and we expect clarity on the revised timetable towards the end of the year. Nuclear will be an important part of the generation mix if the UK is to have secure, affordable, low carbon energy. New nuclear build is an important option for us, however we will only invest if we are satisfied that the returns represent good value for our shareholders, set against the commercial risks.

Overall operating profit* for the half year reduced slightly to £117 million (2010: £123 million), with improved volumes and achieved prices from nuclear and wind assets largely offsetting the impact of unfavourable market conditions on our gas-fired generation assets and losses in the period resulting from the Rijnmond tolling agreement in The Netherlands.

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Operating Review continued

Upstream UK

Total upstream UK

For the period ended 30 June	H1 2011	H1 2010	Δ%	FY 2010
Operating profit (£m)*	**531**	485	9	771

Gas

For the period ended 30 June	H1 2011	H1 2010	Δ%	FY 2010
Gas production sales volumes (mmth)				
Morecambe	**399**	736	(46)	1,381
Other	**680**	585	16	1,152
Total	**1,079**	1,321	(18)	2,533
Average gas sales price (p/therm)	**50.7**	39.8	27	41.6
Oil and condensate production sales volumes (mmboe)	**6.9**	6.0	15	11.1
Average oil and condensate sales price (£/boe)	**57.4**	41.9	37	46.8
Production costs (£m)	**583**	471	24	980
Operating profit (£m)*	**414**	362	14	566

Power

For the period ended 30 June	H1 2011	H1 2010	Δ%	FY 2010
Power generated (GWh)				
Gas-fired	**7,431**	12,328	(40)	22,786
Renewables	**275**	209	32	493
British Energy	**6,191**	4,960	25	9,655
Total	**13,897**	17,497	(21)	32,934
Achieved Clean Spark Spread (£/MWh)	**11.1**	11.5	(3.5)	11.6
Achieved power price (including ROCs) (£/MWh) - renewables	**95.3**	86.5	10	109.1
Achieved power price (£/MWh) - British Energy	**47.1**	42.9	10	42.9
Operating profit (£m)*	**117**	123	(4.9)	205

Storage UK

Profitability* of our Rough asset was impacted by narrower summer/winter price differentials in the first half of 2011. These narrow spreads will continue to impact the business during the second half of the year and although the recent gas price volatility has slightly improved near term spreads, the forward curve is showing no significant improvement, implying a market expectation that LNG will continue to come to the UK during the winter months.

Operationally the asset performed well, with reliability of 96% (2010: 99%), impacted by a small number of outages at the Easington terminal early in the year and a temporary move to single train injection during the second half of June following essential maintenance. Following heavy draw down in the last two months of 2010, warmer than average weather in the UK meant that injection of gas started earlier than usual and as a result Rough was at a record high Net Reservoir Volume (NRV) for the time of year by the end of June.

We announced in April that we had sold all SBUs for the 2011/12 storage year at an average price of 25.2p (2010/11: 39.7p) and this price will be fully reflected in the second half of the year. Gross revenue in the first half of the calendar year fell 34% to £97 million (2010: £148 million), reflecting an SBU price of 34.8p (2010: 44.4p) and lower optimisation revenues driven in part by the reduced seasonal spreads. Operating profit* fell 60% to £39 million (2010: £97 million) reflecting the reduction in revenue, higher fuel-gas costs, inflationary cost increases and additional depreciation associated with previous Rough investment.

In April, the Competition Commission published its final decision on our request for a review of the Undertakings given to the Secretary of State following the acquisition of Rough. The Competition Commission did not fully agree with our assessment that changes in the gas market since 2002, or the introduction of the EU Third Party Package, remove the need for the Undertakings. However certain variations have been agreed

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Operating Review continued

to reflect the changes in the market. These include an increase in the proportion of capacity that Centrica is allowed to retain for its own use to 25% (from 15%), the introduction of a mechanism for Ofgem to agree to allow some capacity to be sold as non-SBU products and a change in the minimum reserve price for auctions of unsold capacity from zero to marginal cost. We are currently working with the Competition Commission to amend the Undertakings.

We announced last year that we had put our Caythorpe project on hold. Engineering is continuing on our Baird project.

Storage UK

For the period ended 30 June	H1 2011	H1 2010	Δ%	FY 2010
Average SBU price (in period) (pence)	**34.8**	44.4	(22)	42.1
Gross Revenue (£m)				
Standard SBUs	**78**	100	(22)	191
Optimisation / other	**19**	48	(60)	76
Total	**97**	148	(34)	267
External revenue (£m)	**88**	128	(31)	232
Cost of gas (£m)	**13**	9	44	15
Operating profit (£m)*	**39**	97	(60)	169

North America

Direct Energy continued to make good progress in the first half of 2011, with strong profit* growth reflecting continued operational improvement across the business. This increase came despite low gas and power prices continuing to impact the upstream business and less favourable conditions for the residential energy supply business.

In Direct Energy Residential, we are benefiting from our Texas transformation programme, while we have increased the number of customer accounts in the US North East. In Direct Energy Business we continue to increase volumes while focusing on customer service and operational improvements. In Direct Energy Services, we have largely completed the Clockwork integration, creating a pan-North American platform for growth. In Direct Energy Upstream, the acquisition of the Wildcat Hills gas assets has increased production and lowered our unit costs in Alberta.

Gross revenue for North America was broadly flat at £3,096 million (2010: £3,083 million) reflecting lower average retail prices, offset by the growth in business energy supply volumes and the impact of Clockwork. Operating profit* increased by 25% to £174 million (2010: £139 million) as improvements in the upstream business and further business energy growth more than offset a decline in residential energy supply profitability*, which benefited in 2010 from favourable market conditions. The impact of currency movements on the reported results was not significant in the first half of 2011.

Residential energy supply

Direct Energy Residential sustained its good operational performance, after a strong 2010 in which it benefited from a falling commodity price environment. Our Texas transformation programme is delivering real results, with a consolidated billing platform improving customer service, our prepaid product giving customers greater choice, and reduced levels of bad debt and an improved cost base enabling the business to price competitively.

Total customer numbers rose by 4% in the first half of 2011, which included the impact of reclassifying 59,000 customer accounts as Direct Energy Business customers. In the US North East, the acquisition of New York based energy retailer Gateway Energy Services added to underlying organic growth, driven by optimisation of our sales channels and entering additional markets in this region as market rules increasingly encourage competition. Overall this took our residential base in the US North East to 800,000. In Texas, churn levels remained at historically low levels and we improved our focus on sales channels. The launch of our prepaid

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Operating Review continued

product in Texas in 2010 is also having a positive impact on both customer numbers and customer perception. The introduction of the Energy Consumer Protection Act in Ontario has made it substantially more difficult to acquire and retain customers and as expected our customer base in Ontario has fallen. We have reduced our cost base in order to minimise the short term financial impact on the business, and we will continue to work with the Regulator. However under the current regulatory regime we expect the profit* we make in residential energy supply in Ontario to reduce, but over time to be offset by growth in our other regions.

Gross revenue fell by 6% to £1,290 million (2010: £1,369 million) mainly as a result of lower retail tariffs. Operating profit* in the residential energy supply business fell slightly to £105 million (2010: £110 million) reflecting less favourable market conditions and a spike in Texas power prices during extremely cold weather in February, partially offset by customer number growth and operational efficiencies. The operating margin remained broadly flat, at 8.1% (2010: 8.0%).

Business energy supply

Direct Energy Business again performed well, delivering good volume growth, with electricity volumes increasing by 21% to 22.2TWh (2010: 18.3TWh). As a result, gross revenue increased 4% to £1,376 million (2010: £1,319 million) despite lower average sales prices reflecting the commodity price environment.

High sales productivity, the targeting of key customer segments, operational efficiencies and good levels of customer service meant that we were able to increase our level of operating margin to 4.2% (2010: 3.3%) and as a result operating profit* increased by 32% to £58 million (2010: £44 million).

As the US comes out of recession, competition in this segment is intensifying. However our focus on further operational and scale efficiencies, as well as an increasing focus on the small business segment and the development of non-commodity offerings and business services, leaves us well placed to deliver further growth.

Residential and business services

The integration of Clockwork is now largely complete, leaving us well placed to deliver profit growth. As the largest services provider in North America with a presence in 45 US states plus DC and 10 Canadian provinces, we are now able to benefit from our scale, in terms of procurement and cost synergies. We also now have the capability to drive further growth, through expanding the franchise network, protection plan offerings, further penetration of the largest metropolitan areas and ultimately joint energy and services offerings.

Overall, the number of customer accounts was broadly flat in the first half of the year, with the amount of on-demand work increasing substantially compared to the first half last year, following the Clockwork acquisition. The economic environment and weak housing market continued to impact our legacy services business, as households reduced expenditure on heating and cooling products and housing starts remain low. However higher first time fix rates resulted in an improved NPS of 56 and as a result retention remained strong.

Gross revenue for the first six months was up 20% to £249 million (2010: £208 million) principally due to the acquisition of Clockwork in the second half of 2010. Operating profit* increased only slightly to £9 million (2010: £8 million) reflecting the weak housing market, a delayed start to the cooling season, and the removal of some tax incentives. With warmer weather in July and the start of the heating season, the second half of the year is expected to see a significantly improved financial result compared to the first half in this seasonal business.

Upstream and wholesale energy

Our upstream gas profitability* improved compared to the first half of 2010, despite low Alberta gas prices, predominately due to the impact the Wildcat Hills assets have had on increasing our production and lowering our average unit cost of production. In April we acquired a portfolio of additional interests in natural gas assets in this region, adding 45 billion cubic feet equivalent (bcfe) of reserves and further lowering our unit costs. In

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Operating Review continued

the first half, gas production volumes were up 58% and average unit costs decreased by 14%, reflecting the impact of these acquisitions.

Our power generation assets saw improved performance in the first half of 2011, despite continued low average spark spreads. We have improved optimisation of the assets to better capture value and we were able to benefit from the spike in power prices during the extremely cold weather in Texas in February. Generation volumes were up 6% to 2,323GWh (2010: 2,190GWh) and operating losses* were much reduced.

The upstream and wholesale energy division made an operating profit* of £2 million (2010: operating loss* of £23 million) due to increased gas production, lower gas production unit costs, improved power asset optimisation and improved midstream and wholesale performance.

We continue to look for upstream investment opportunities. Gas production investment is delivering appropriate returns, but while vertical integration remains desirable in power, weaker near term returns in regions without capacity payments could restrict the number of opportunities available to us.

North America

Total North America

For the period ended 30 June	H1 2011	H1 2010	Δ%	FY 2010
Gross Revenue (£m)	**3,096**	3,083	0.4	5,997
Operating profit (£m)*	**174**	139	25	234

Residential energy supply

For the period ended 30 June	H1 2011	H1 2010	Δ%	FY 2010
Customer numbers (period end) ('000)	**2,966**	2,945	0.7	2,855
Gross Revenue (£m)	**1,290**	1,369	(6)	2,502
Operating profit (£m)*	**105**	110	(4.5)	177
Operating margin (%)	**8.1**	8.0	0.1 ppts	7.1

H1 2011 period end customer numbers exclude 59,000 customers re-classified as business energy supply customers in H1 2011

Business energy supply

For the period ended 30 June	H1 2011	H1 2010	Δ%	FY 2010
Gas sales (mmth)	**417**	361	16	633
Electricity sales (GWh)	**22,191**	18,280	21	39,722
Gross Revenue (£m)	**1,376**	1,319	4.3	2,682
Operating profit (£m)*	**58**	44	32	88
Operating margin (%)	**4.2**	3.3	0.9 ppts	3.3

H1 2011 electricity sales include 138GWh and H1 2011 gas sales include 38mmth associated with the transfer of customers from residential energy supply

Residential and business services

For the period ended 30 June	H1 2011	H1 2010	Δ%	FY 2010
Contract relationships (period end) ('000)	**2,291**	2,069	11	2,300
On demand jobs ('000)	**578**	69	nm	582
Gross Revenue (£m)	**249**	208	20	485
Operating profit (£m)*	**9**	8	13	15
Operating margin (%)	**3.6**	3.8	(0.2) ppts	3.1

Upstream and wholesale energy

For the period ended 30 June	H1 2011	H1 2010	Δ%	FY 2010
Gas production volumes (mmth)	**280**	177	58	409
Power generated (GWh)	**2,323**	2,190	6	3,851
Gross Revenue (£m)	**181**	187	(3.2)	328
Operating profit / (loss) (£m)*	2	(23)	nm	(46)

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Operating Review continued

North America with comparator period of 2010 restated to remove effect of foreign exchange movements

For the period ended 30 June	H1 2011	H1 2010^	Δ%
Gross Revenue (£m)			
Residential energy supply	**1,290**	1,362	(5)
Business energy supply	**1,376**	1,258	9
Residential and business services	**249**	204	22
Upstream and wholesale energy	**181**	178	1.7
Direct Energy revenue	**3,096**	3,002	3.1
Operating profit (£m)*			
Residential energy supply	**105**	109	(3.7)
Business energy supply	**58**	40	45
Residential and business services	**9**	7	29
Upstream and wholesale energy	**2**	(21)	nm
Direct Energy operating profit*	**174**	135	29

^ restated at 2011 weighted average exchange rate

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

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Interim Results for the six month period ended 30 June 2011 in accordance with applicable law, regulations and accounting standards. In preparing the condensed interim Financial Statements, the Directors are responsible for ensuring that they give a true and fair view of the state of affairs of the Group at the end of the period and the income or loss of the Group for that period.

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

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

The Directors of Centrica plc are listed in the Group's 2010 Annual Report and Accounts. A list of current Directors is maintained on the Centrica plc website which can be found at www.centrica.com.

By order of the Board

Sam Laidlaw	Nick Luff
28 July 2011	28 July 2011
Chief Executive	Group Finance Director

Independent Review Report to Centrica plc

Introduction

We have been engaged by the Company to review the condensed interim Financial Statements in the Interim Results for the six months ended 30 June 2011, which comprise the Group Income Statement, Group Statement of Comprehensive Income, Group Balance Sheet, Group Statement of Changes in Equity, Group Cash Flow Statement and related notes. We have read the other information contained in the Interim Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed interim Financial Statements.

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim Financial Statements in the Interim Results for the six months ended 30 June 2011 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP

Chartered Accountants

1 Embankment Place

London

WC2N 6RH

28 July 2011

Notes

(i) The maintenance and integrity of the Centrica plc website is the responsibility of the Directors; the work carried out by PricewaterhouseCoopers LLP does not involve consideration of these matters and, accordingly, PricewaterhouseCoopers LLP accept no responsibility for any changes that may have occurred to the condensed interim Financial Statements since they were initially presented on the website.

(ii) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Interim results for the period ended 30 June 2011

Group Income Statement

Six months ended 30 June	Notes	2011 Business performance £m	2011 Exceptional items and certain re-measurements £m	2011 Results for the period £m	2010 Business performance £m	2010 Exceptional items and certain re-measurements £m	2010 Results for the period £m
Continuing operations							
Group revenue	6	**11,509**	**-**	**11,509**	11,707	-	11,707
Cost of sales before certain re-measurements		**(9,015)**	**-**	**(9,015)**	(8,921)	-	(8,921)
Re-measurement of energy contracts	7	**-**	**161**	**161**	-	678	678
Cost of sales		**(9,015)**	**161**	**(8,854)**	(8,921)	678	(8,243)
Gross profit		**2,494**	**161**	**2,655**	2,786	678	3,464
Operating costs		**(1,397)**	**-**	**(1,397)**	(1,330)	-	(1,330)
Share of profits/(losses) of joint ventures and associates, net of interest and taxation	12	**47**	**(51)**	**(4)**	(5)	(12)	(17)
Group operating profit	6	**1,144**	**110**	**1,254**	1,451	666	2,117
Interest income	8	**85**	**-**	**85**	249	-	249
Interest expense	8	**(163)**	**-**	**(163)**	(362)	-	(362)
Net interest expense	8	**(78)**	**-**	**(78)**	(113)	-	(113)
Profit from continuing operations before taxation		**1,066**	**110**	**1,176**	1,338	666	2,004
Taxation on profit from continuing operations	9	**(441)**	**(246)**	**(687)**	(488)	(184)	(672)
Profit/(loss) from continuing operations after taxation		**625**	**(136)**	**489**	850	482	1,332
Profit/(loss) from discontinued operations	6, 7	**13**	**22**	**35**	(8)	62	54
Loss on disposal of discontinued operations	17	**-**	**(56)**	**(56)**	-	-	-
Discontinued operations		**13**	**(34)**	**(21)**	(8)	62	54
Profit/(loss) for the period		**638**	**(170)**	**468**	842	544	1,386
Attributable to:							
Equity holders of the parent		**638**	**(170)**	**468**	835	544	1,379
Non-controlling interests		**-**	**-**	**-**	7	-	7
		638	**(170)**	**468**	842	544	1,386

Earnings per ordinary share	Notes	2011 Pence	2010 Pence
From continuing and discontinued operations:			
Basic	11	**9.1**	26.8
Diluted	11	**9.0**	26.7
From continuing operations:			
Basic	11	**9.5**	25.8
Diluted	11	**9.4**	25.7
Interim dividend proposed/paid per ordinary share	10	**4.29**	3.84
Prior year final dividend paid per ordinary share	10	**10.46**	9.14

The notes on pages 27 to 44 form part of these condensed interim Financial Statements.

Group Statement of Comprehensive Income

Six months ended 30 June	2011 £m	2010 £m
Profit for the period	**468**	1,386
Other comprehensive income:		
Losses on revaluation of available-for-sale securities	**(2)**	(6)
Taxation on revaluation of available-for-sale securities	**2**	-
	-	(6)
Gains/(losses) on cash flow hedges	**17**	(11)
Transferred to income and expense on cash flow hedges	**27**	160
Transferred to assets and liabilities on cash flow hedges	**-**	(2)
Recycling of cash flow hedges on disposal of business	**-**	9
Exchange gains/(losses) on cash flow hedges	**1**	(9)
Taxation on cash flow hedges	**(1)**	(45)
	44	102
Exchange (losses)/gains on translation of foreign operations	**(2)**	43
Recycling of foreign exchange loss on disposal of business	**(3)**	-
	(5)	43
Actuarial gains/(losses) on defined benefit pension schemes	**88**	(1)
Taxation on actuarial gains/(losses) on defined benefit pension schemes	**(28)**	-
	60	(1)
Share of other comprehensive income of joint ventures and associates, net of taxation	**10**	(18)
Other comprehensive income net of taxation	**109**	120
Total comprehensive income for the period	**577**	1,506
Attributable to:		
Equity holders of the parent	**577**	1,499
Non-controlling interests	**-**	7
	577	1,506

The notes on pages 27 to 44 form part of these condensed interim Financial Statements.

Interim results for the period ended 30 June 2011

Group Balance Sheet

	Notes	30 June 2011 £m	31 December 2010 £m	30 June 2010 £m
Non-current assets				
Goodwill		**2,409**	2,370	2,176
Other intangible assets		**1,042**	1,084	769
Property, plant and equipment		**6,407**	6,398	5,986
Interests in joint ventures and associates	12	**2,489**	2,507	2,452
Deferred tax assets		**169**	238	264
Trade and other receivables		**98**	97	78
Derivative financial instruments		**444**	341	441
Securities		**240**	234	176
		13,298	13,269	12,342
Current assets				
Inventories		**484**	344	348
Current tax assets		**49**	81	59
Trade and other receivables		**3,945**	4,187	3,663
Derivative financial instruments		**421**	449	485
Securities		**51**	23	42
Cash and cash equivalents		**439**	467	1,807
		5,389	5,551	6,404
Assets of disposal groups classified as held for sale	17	**-**	455	636
Total assets		**18,687**	19,275	19,382
Current liabilities				
Trade and other payables		**(3,636)**	(4,059)	(3,227)
Current tax liabilities		**(512)**	(182)	(430)
Bank overdrafts, loans and other borrowings	13	**(78)**	(77)	(89)
Derivative financial instruments		**(720)**	(755)	(1,200)
Provisions for other liabilities and charges		**(115)**	(195)	(165)
		(5,061)	(5,268)	(5,111)
Net current assets		**328**	283	1,293
Non-current liabilities				
Trade and other payables		**(87)**	(56)	(91)
Bank overdrafts, loans and other borrowings	13	**(3,997)**	(3,959)	(4,689)
Derivative financial instruments		**(526)**	(648)	(942)
Deferred tax liabilities		**(1,411)**	(1,367)	(1,256)
Retirement benefit obligations	15	**(141)**	(239)	(350)
Provisions for other liabilities and charges		**(1,570)**	(1,551)	(1,191)
		(7,732)	(7,820)	(8,519)
Liabilities of disposal groups classified as held for sale	17	**-**	(368)	(481)
Net assets		**5,894**	5,819	5,271
Equity				
Called up share capital		**319**	318	318
Share premium account		**867**	833	826
Retained earnings		**4,318**	4,386	4,016
Accumulated other comprehensive income/(loss)		**(210)**	(319)	(467)
Other equity		**599**	601	578
Total shareholders' equity		**5,893**	5,819	5,271
Non-controlling interests in equity		**1**	-	-
Total non-controlling interests and shareholders' equity		**5,894**	5,819	5,271

The notes on pages 27 to 44 form part of these condensed interim Financial Statements.

Group Statement of Changes in Equity

	Attributable to equity holders of the parent							
Six months ended 30 June 2011	Share capital £m	Share premium £m	Retained earnings £m	Accumulated other comprehensive income/(loss) £m	Other equity £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
1 January 2011	318	833	4,386	(319)	601	**5,819**	-	**5,819**
Profit for the period	-	-	468	-	-	**468**	-	**468**
Other comprehensive income	-	-	-	109	-	**109**	-	**109**
Total comprehensive income	-	-	468	109	-	**577**	-	**577**
	318	833	4,854	(210)	601	**6,396**	-	**6,396**
Employee share schemes	1	34	5	-	(3)	**37**	-	**37**
Dividends	-	-	(540)	-	-	**(540)**	-	**(540)**
Taxation	-	-	-	-	1	**1**	-	**1**
Repurchase of non-controlling interest	-	-	(1)	-	-	**(1)**	1	**-**
30 June 2011	**319**	**867**	**4,318**	**(210)**	599	**5,893**	**1**	**5,894**

	Attributable to equity holders of the parent							
Six months ended 30 June 2010	Share capital £m	Share premium £m	Retained earnings £m	Accumulated other comprehensive income/(loss) £m	Other equity £m	Total £m	Non-controlling interests £m	Total equity £m
1 January 2010	317	778	3,103	(587)	581	4,192	63	4,255
Profit for the period	-	-	1,379	-	-	1,379	7	1,386
Other comprehensive income	-	-	-	120	-	120	-	120
Total comprehensive income	-	-	1,379	120	-	1,499	7	1,506
	317	778	4,482	(467)	581	5,691	70	5,761
Employee share schemes	1	48	4	-	(16)	37	-	37
Liquidation of subsidiaries[(i)]	-	-	-	-	-	-	(70)	(70)
Dividends	-	-	(470)	-	-	(470)	-	(470)
Taxation	-	-	-	-	11	11	-	11
Exchange adjustments	-	-	-	-	2	2	-	2
30 June 2010	318	826	4,016	(467)	578	5,271	-	5,271

(i) Non-controlling interests have decreased due to the liquidation of the non-trading entities: GF One Limited and GF Two Limited

The notes on pages 27 to 44 form part of these condensed interim Financial Statements.

Interim results for the period ended 30 June 2011

Group Cash Flow Statement

Six months ended 30 June	Notes	2011 £m	2010 (restated) (i) £m
Cash generated from continuing operations (i)	14	**1,462**	1,915
Income taxes paid		**(101)**	(110)
Net petroleum revenue tax (paid)/rebate		**(152)**	9
Interest received		**13**	5
Interest paid		**-**	(3)
Payments relating to exceptional charges		**(131)**	(123)
Net cash flow from continuing operating activities (i)		**1,091**	1,693
Net cash flow from discontinued operating activities		**(23)**	(26)
Net cash flow from operating activities		**1,068**	1,667
Purchase of businesses net of cash and cash equivalents acquired		**(114)**	(14)
Sale of businesses net of cash and cash equivalents disposed of		**78**	(11)
Purchase of intangible assets (i)	6	**(124)**	(130)
Disposal of intangible assets		**-**	7
Purchase of property, plant and equipment	6	**(302)**	(371)
Disposal of property, plant and equipment		**3**	-
Investments in joint ventures and associates		**(45)**	(35)
Repayments of loans to, and disposal of investments in, joint ventures and associates		**7**	9
Dividends received		**63**	-
Interest received		**3**	5
Net purchase of securities		**(26)**	(23)
Net cash flow from continuing investing activities (i)		**(457)**	(563)
Net cash flow from discontinued investing activities		**(1)**	(7)
Net cash flow from investing activities		**(458)**	(570)
Issue of ordinary share capital		**17**	24
Purchase of treasury shares		**(4)**	(8)
Financing interest paid		**(82)**	(86)
Cash inflow from additional debt		**-**	267
Cash outflow from payment of capital element of finance leases		**(13)**	(12)
Cash outflow from repayment of other debt		**(19)**	(277)
Net cash flow from decrease in debt	14	**(32)**	(22)
Realised net foreign exchange loss on cash settlement of derivative contracts		**(5)**	(19)
Equity dividends paid	10	**(540)**	(470)
Net cash flow from continuing financing activities		**(646)**	(581)
Net cash flow from discontinued financing activities		**-**	(2)
Net cash flow from financing activities		**(646)**	(583)
Net (decrease)/increase in cash and cash equivalents		**(36)**	514
Cash and cash equivalents at 1 January		**451**	1,285
Effect of foreign exchange rate changes		**3**	(4)
Cash and cash equivalents at 30 June		**418**	1,795
Included in the following lines of the Group Balance Sheet:			
Cash and cash equivalents		**439**	1,807
Bank overdrafts, loans and other borrowings		**(21)**	(29)
Assets of disposal groups classified as held for sale		**-**	17
		418	1,795

(i) The 2010 comparatives have been restated for a change in presentation of emission certificate/allowance cash flows, see note 3.

The notes on pages 27 to 44 form part of these condensed interim Financial Statements.

Notes to the condensed interim Financial Statements

1. General information

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

These condensed interim Financial Statements for the six months ended 30 June 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 28 July 2011. 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 2010 were approved by the Board of Directors on 24 February 2011 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006. The financial information contained in these condensed interim Financial Statements is unaudited. The Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Changes in Equity and Group Cash Flow Statement for the interim period to 30 June 2011, and the Group Balance Sheet as at 30 June 2011 and 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 2011 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, Interim Financial Reporting, as adopted by the European Union. These condensed interim Financial Statements should be read in conjunction with the annual Financial Statements for the year ended 31 December 2010, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Preparation of interim statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense. Actual amounts may differ from these estimates. In preparing these condensed interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies were the same as those applied in the annual Financial Statements for the year ended 31 December 2010.

After making enquiries, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the condensed interim Financial Statements. Further details of the Group's liquidity position and going concern review are provided in note 4 of these condensed interim Financial Statements.

3. Accounting policies

The accounting policies applied in these condensed interim Financial Statements are consistent with those of the annual Financial Statements for the year ended 31 December 2010, as described in those annual Financial Statements, with the exception of standards, amendments and interpretations effective in 2011 as detailed below. Taxes on income in the interim period are accrued using tax rates that would be applicable to expected total annual earnings for each relevant source of income.

(a) Standards, amendments and interpretations effective in 2011

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

- IAS 24 (revised), Related Party Transactions;
- IAS 32 (amendment), Financial Instruments: Classification of Rights Issues;
- IFRIC 14 (amendment), Prepayments of a Minimum Funding Requirement;
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments; and
- Improvements to IFRSs (2010).

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(b) Income Statement presentation

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

(i) Certain re-measurements

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

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

Notes to the condensed interim Financial Statements continued

3. Accounting policies continued

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

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

As an integrated energy business, the Group will also enter into a range of commodity contracts designed to secure the value of its underlying production, generation, storage and transportation assets. The fair value movements on these contracts are also shown separately in the certain re-measurements column. This is because the fair value movements on these contracts are not matched with fair value movements of the underlying assets since not all the underlying assets are fair valued.

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

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

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

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

(ii) Exceptional items

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

(c) Use of adjusted profit measures

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

The measure of operating profit used by management to evaluate segment performance is adjusted operating profit. Adjusted operating profit is operating profit before exceptional items and certain re-measurements and before depreciation resulting from fair value uplifts to property, plant and equipment on the acquisition of Strategic Investments, as described below. Additionally, adjusted operating profit includes the Group's share of the results from joint ventures and associates before interest and taxation. Note 6 contains an analysis of adjusted operating profit by segment and a reconciliation of adjusted operating profit to operating profit after exceptional items and certain re-measurements.

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

Depreciation of fair value uplifts to property, plant and equipment on acquiring Strategic Investments

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

Notes to the condensed interim Financial Statements continued

3. Accounting policies continued

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

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

(i) Venture

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

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

(ii) British Energy

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

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

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

(d) Change to operating segments

The Upstream UK operating structure is now presented in two segments, Gas and Power. These new segments are each based on the prior year segments of Upstream gas and oil and Power generation respectively. The remaining segments of Industrial and commercial and Proprietary energy trading have been allocated between the new Gas and Power segments. The new structure is consistent with how the Group reports to the Chief Operating Decision Maker (CODM) defined in IFRS 8, Operating Segments. Prior period comparatives have been restated accordingly.

(e) Change in cash flow presentation in relation to emissions certificates/allowances

Cash flows in relation to the purchase of emissions certificates/allowances have previously been classified within investing cash flows as emission certificates/allowances are accounted for as intangible assets. The Group continues to account for emission certificates/allowances as intangible assets in the Group Balance Sheet but the associated cash flows have now been included within working capital movements in operating cash flows in the Group Cash Flow statement as this presentation better reflects the nature of the cash flows. Prior period comparatives have been restated accordingly.

Notes to the condensed interim Financial Statements continued

4. Financial risk management

During the first six months of 2011, the markets continued to experience high volatility in commodity prices as a result of natural disasters, political risks affecting global energy supply fundamentals, uncertain economic conditions and structural concerns in major economies. The Group continued to manage risks by monitoring its current and emerging risks and implementation of its financial risk management policies and procedures.

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

Commodity price risk management

The net gain of £110 million from continuing operations during the six months ended 30 June 2011 (six months ended 30 June 2010: gain of £666 million) on the re-measurement of energy contracts largely represents the unwinding of mark-to-market positions created by gas and power purchase contracts which were priced below or above the current wholesale market value of energy at the start of the period. This position is calculated with reference to forward energy prices and therefore the extent of the economic gain or loss arising over the life of these contracts is uncertain, and entirely dependent upon the level of future wholesale energy prices. Generally, subject to short-term balancing, the ultimate net charge to cost of sales will be consistent with the price of energy agreed in these contracts and the fair value adjustments will reverse as the energy is supplied over the life of the contract.

Credit risk management

During the six months ended 30 June 2011, counterparty credit exposure issues remained a focal point. The half year has been characterised by caution towards the weaker Eurozone countries and counterparties which are heavily associated/exposed to these countries. The Group continues to manage counterparty relationships in accordance with financial risk management policies. North American credit markets have continued to improve against the background of an uncertain economic outlook.

Liquidity risk management and going concern

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

Period **ended 30 June**	**2011 £m**	2010 £m
Cash pledged as collateral at 1 January	**(173)**	(631)
Net cash inflow	**123**	410
Transferred from discontinued operations	**(2)**	-
Foreign exchange gains/(losses)	**5**	(15)
Cash pledged as collateral at 30 June	**(47)**	(236)

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

At 30 June 2011, the Group held £439 million (31 December 2010: £467 million, 30 June 2010: £1,807 million) of cash and cash equivalents and had undrawn committed credit facilities of £2,717 million (31 December 2010: £2,873 million, 30 June 2010: £2,237 million). 112% (31 December 2010: 121%, 30 June 2010: 172%) of the Group's net debt has been raised in the long-term debt market and the average term to maturity of the long-term debt portfolio was 10.1 years (31 December 2010: 10.5 years, 30 June 2010: 9.8 years). The Group's high level of available cash resources and undrawn committed bank borrowing facilities has enabled the Directors to conclude that the Group has sufficient headroom to continue as a going concern.

Notes to the condensed interim Financial Statements continued

5. Capital management

At 30 June 2011, the Group's long-term credit rating was A3 stable outlook for Moody's Investor Services Inc. (31 December 2010: A3 stable outlook, 30 June 2010: A3 stable outlook) and A- stable outlook for Standard & Poor's Rating Services (31 December 2010: A- stable outlook, 30 June 2010: A- stable outlook).

The Group monitors its current and projected capital position on a regular basis considering a medium-term view of three to five years, and different stress case scenarios, including the impact of changes in the Group's credit rating and significant movement in commodity prices. A number of financial ratios are monitored including gearing ratios, interest cover and cash flow to debt ratios. The Group's capital structure is managed against these ratios as required to maintain strong credit ratings.

The Group is not subject to externally-imposed capital requirements but, as is common for most companies, the level of debt that can be raised is restricted by the Company's Articles of Association. As at 30 June, net debt is limited to a gearing ratio of three times adjusted capital and reserves. This restriction can be amended or removed by the shareholders of the Company passing a special resolution.

6. Segmental analysis

Six months ended 30 June		2011			2010 (restated)(i), (ii)	
(a) Revenue	Gross segment revenue £m	Less inter-segment revenue (iii) £m	Group revenue £m	Gross segment revenue £m	Less inter-segment revenue (iii) £m	Group revenue £m
Continuing operations:						
Residential energy supply (ii), (iii)	4,185	(2)	4,183	4,483	-	4,483
Residential services (ii)	749	-	749	691	-	691
Business energy supply and services (iii)	1,391	(1)	1,390	1,560	(1)	1,559
Downstream UK	**6,325**	**(3)**	**6,322**	6,734	(1)	6,733
Gas (i), (iii)	1,757	(334)	1,423	1,584	(534)	1,050
Power (i), (iii)	766	(86)	680	757	(6)	751
Upstream UK	**2,523**	**(420)**	**2,103**	2,341	(540)	1,801
Storage UK (iii)	97	(9)	88	148	(20)	128
Residential energy supply	1,290	-	1,290	1,369	-	1,369
Business energy supply	1,376	-	1,376	1,319	-	1,319
Residential and business services	249	-	249	208	-	208
Upstream and wholesale energy (iii)	181	(100)	81	187	(38)	149
North America	**3,096**	**(100)**	**2,996**	3,083	(38)	3,045
	12,041	**(532)**	**11,509**	12,306	(599)	11,707
Discontinued operations:						
European Energy (note 17) (iii)	**167**	**-**	**167**	345	(1)	344

(i) The Industrial and Commercial and Proprietary energy trading businesses have been reallocated into the new Power and Gas segments, see note 3.
(ii) To align with management responsibilities, the British Gas Community Energy business has been reallocated from the Residential services segment to Residential energy supply.
(iii) Inter-segment revenue reflects the level of revenue generated on sales to other Group segments on an arm's length basis. Inter-segment revenue is subject to period on period fluctuations due to changes in the mix of internal and external energy sales by Upstream UK.

Notes to the condensed interim Financial Statements continued

6. Segmental analysis continued

Six months ended 30 June

(b) Operating profit	2011 £m	2010 (restated)(i) £m
Continuing operations:		
Residential energy supply	**270**	585
Residential services	**111**	109
Business energy supply and services	**137**	148
Downstream UK	**518**	842
Gas (i)	**414**	362
Power (i)	**117**	123
Upstream UK	**531**	485
Storage UK	**39**	97
Residential energy supply	**105**	110
Business energy supply	**58**	44
Residential and business services	**9**	8
Upstream and wholesale energy	**2**	(23)
North America	**174**	139
Adjusted operating profit – segment operating profit before certain re-measurements and impact of fair value uplifts from Strategic Investments (ii)	**1,262**	1,563
Share of joint ventures/associates' interest and taxation	**(61)**	(44)
Depreciation of fair value uplifts to property, plant and equipment - Venture (iii)	**(37)**	(33)
Depreciation of fair value uplifts to property, plant and equipment (net of taxation) - associates - British Energy (iii)	**(20)**	(35)
	1,144	1,451
Certain re-measurements included within gross profit (note 7)	**161**	678
Certain re-measurements of associates' energy contracts (net of taxation) (note 7)	**(51)**	(12)
Operating profit after certain re-measurements	**1,254**	2,117
Discontinued operations:		
European Energy (note 17) (iv)	**13**	(8)

(i) The Industrial and Commercial and Proprietary energy trading businesses have been reallocated into the new Power and Gas segments. See note 3.
(ii) Includes results of equity-accounted interests before interest, taxation, certain re-measurements and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments.
(iii) See note 3 for explanation of the depreciation on fair value uplifts to property, plant and equipment on acquiring Strategic Investments.
(iv) Represents loss after taxation and before exceptional items and certain re-measurements of Oxxio B.V. up to the date of disposal. This is the measure of results of discontinued operations that is reported regularly to the Group's Executive Committee.

Notes to the condensed interim Financial Statements continued

6. Segmental analysis continued

Six months ended 30 June	Capital expenditure on property, plant and equipment		Capital expenditure on intangible assets other than goodwill	
(c) Capital expenditure	**2011 £m**	2010 £m	**2011 £m**	2010 (restated)(i),(ii) £m
Continuing operations:				
Residential energy supply	**14**	1	**108**	87
Residential services	**1**	3	**7**	2
Business energy supply and services	**2**	1	**6**	2
Downstream UK	**17**	5	**121**	91
Gas [i]	**207**	202	**40**	76
Power [i]	**46**	71	**2**	-
Upstream UK	**253**	273	**42**	76
Storage UK	**18**	34	**-**	-
Residential energy supply	**-**	-	**1**	1
Business energy supply	**1**	1	**7**	7
Residential and business services	**1**	1	**-**	3
Upstream and wholesale energy	**9**	10	**2**	6
North America	**11**	12	**10**	17
Other	**11**	6	**14**	7
Capital expenditure on continuing operations	**310**	330	**187**	191
(Decrease)/increase in prepayments related to capital expenditure	**(9)**	14	**-**	-
Unrealised gains on cash flow hedges transferred from reserves	**-**	-	**-**	1
Capitalised borrowing costs	**(20)**	(21)	**-**	-
Decrease in trade payables related to capital expenditure	**21**	48	**3**	8
Purchases of emissions allowances and renewables obligation certificates [ii]	**-**	-	**(66)**	(70)
Net cash outflow included within investing activities	**302**	371	**124**	130

(i) The Industrial and Commercial and Proprietary energy trading businesses have been reallocated into the new Power and Gas segments, see note 3.
(ii) The 2010 comparatives have been restated for a change in presentation of emission certificate/allowance cash flows, see note 3.

Notes to the condensed interim Financial Statements continued

7. Exceptional items and certain re-measurements

(a) Exceptional items for the six months ended 30 June	2011 £m	2010 £m
Continuing operations:		
Effect of change in UK supplementary tax charge (i)	**(204)**	-
Net exceptional items from continuing operations after taxation	**(204)**	-
Discontinued operations:		
Loss on disposal of Oxxio B.V. after taxation (note 17)	**(56)**	-
Total exceptional items after taxation	**(260)**	-

(b) Certain re-measurements for the six months ended 30 June	2011 £m	2010 £m
Continuing operations:		
Certain re-measurements recognised in relation to energy contracts		
Net gains arising on delivery of contracts (note 3)	**110**	641
Net gains arising on market price movements and new contracts (note 3)	**53**	16
Net (losses)/gains arising on positions in relation to cross-border transportation or capacity contracts (note 3)	**(2)**	21
Net re-measurements from continuing operations included within gross profit	**161**	678
Net losses arising on re-measurement of associates' energy contracts (net of taxation)	**(51)**	(12)
Net re-measurements included within Group operating profit	**110**	666
Taxation on certain re-measurements	**(42)**	(184)
Net re-measurements from continuing operations after taxation	**68**	482
Discontinued operations:		
Net re-measurements on energy contracts of discontinued operations after taxation	**22**	62
Total re-measurements after taxation	**90**	544

(i) The effect of the enacted increase of 12% to the rate of the supplementary tax charge applied to gas and oil production profits from 24 March 2011 on the relevant temporary differences was a charge of £204 million. Also announced was an intention to restrict from 2012 the rate of tax relief on decommissioning costs from the current 62% to 50%. If enacted, a one-off charge of approximately £60 million will arise from revaluing the related deferred tax provisions.

8. Net interest

Six months ended 30 June	2011 Interest expense £m	2011 Interest income £m	2011 Total £m	2010 Interest expense £m	2010 Interest income £m	2010 Total £m
Continuing operations:						
Cost of servicing net debt						
Interest income	**-**	**20**	**20**	-	16	16
Interest expense on bonds, bank loans and overdrafts	**(90)**	**-**	**(90)**	(114)	-	(114)
Interest expense on finance leases	**(10)**	**-**	**(10)**	(11)	-	(11)
	(100)	**20**	**(80)**	(125)	16	(109)
(Losses)/gains on revaluation						
(Losses)/gains on fair value hedges	**(12)**	**12**	**-**	(69)	71	2
Fair value (losses)/gains on other derivatives (i)	**(38)**	**32**	**(6)**	(171)	38	(133)
Fair value gains on other securities measured at fair value	**-**	**8**	**8**	-	7	7
Net foreign exchange on monetary assets and liabilities (ii)	**(8)**	**-**	**(8)**	-	103	103
	(58)	**52**	**(6)**	(240)	219	(21)
Other interest						
Notional interest arising on discounted items	**(25)**	**12**	**(13)**	(18)	12	(6)
Interest on cash collateral balances/early payment arrangements	**-**	**1**	**1**	-	2	2
	(25)	**13**	**(12)**	(18)	14	(4)
	(183)	**85**	**(98)**	(383)	249	(134)
Capitalised borrowing costs (iii)	**20**	**-**	**20**	21	-	21
Interest (expense)/income	**(163)**	**85**	**(78)**	(362)	249	(113)

(i) Primarily reflects changes in the fair value of derivatives used to hedge the foreign exchange exposure associated with inter-company loans denominated in foreign currencies.
(ii) Primarily reflects foreign exchange (losses)/gains on inter-company loans denominated in foreign currencies.
(iii) Borrowing costs on qualifying assets have been capitalised using an average rate of 4.91% (2010: 4.69%).

Notes to the condensed interim Financial Statements continued

9. Taxation

Six months ended 30 June	2011			2010		
	Business performance £m	**Exceptional items and certain re-measurements £m**	**Results for the period £m**	Business performance £m	Exceptional items and certain re-measurements £m	Results for the period £m
The tax charge comprises:						
UK corporation tax (i)	**284**	**197**	**481**	366	169	535
UK petroleum revenue tax	**91**	**-**	**91**	93	-	93
Foreign tax (i)	**66**	**49**	**115**	29	15	44
Taxation on profit from continuing operations (ii)	**441**	**246**	**687**	488	184	672

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

The Group's effective tax rate on a continuing basis before exceptional items and certain re-measurements increased to 41% for the six months to 30 June 2011 (2010: 36%) mainly as a result of the change to the rate of supplementary corporation tax and profit mix towards greater upstream contributions.

The UK government has announced its intention to propose Parliament reduce the main rate of UK corporation tax to 23% by 1 April 2014. At 30 June 2011 a reduction in the main UK corporation tax rate to 26% had been substantively enacted so the current and deferred tax charges, assets and liabilities included within these condensed interim Financial Statements have been based on that rate. The effect of the proposed further reductions in rate by 2014 would be to decrease the net deferred tax liability by £16 million.

In March 2011 the UK government announced a 12% increase in the supplementary charge applicable to UK gas and oil production activities to 32%. The increase was substantially enacted at 29 March 2011 and has been applied in these condensed interim Financial Statements. Also announced at that time was an intention to restrict, from 2012, the rate of tax relief on decommissioning costs from the current 62% to 50%. If enacted, a one-off charge of approximately £60 million will arise from revaluing the related deferred tax provisions.

10. Dividends

The prior year final dividend of 10.46 pence (2010: 9.14 pence) per ordinary share was paid on 15 June 2011 (2010: paid on 16 June 2010) totalling £540 million (2010: £470 million).

An interim dividend of 4.29 pence (2010: 3.84 pence) per ordinary share, totalling £222 million (2010: £198 million), will be paid on 16 November 2011 (2010: paid on 17 November 2010) to shareholders on the register on 30 September 2011.

Notes to the condensed interim Financial Statements continued

11. Earnings per ordinary share

Basic earnings per ordinary share has been calculated by dividing the earnings attributable to equity holders of the Company for the period of £468 million (2010: £1,379 million) by the weighted average number of ordinary shares in issue during the period of 5,160 million (2010: 5,140 million). The Directors believe that the presentation of adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for certain re-measurements, exceptional items and the impact of Strategic Investments, assists with understanding the underlying performance of the Group. The reconciliation of basic to adjusted basic earnings per ordinary share is as follows:

Six months ended 30 June	2011		2010	
(a) Continuing and discontinued operations	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings – basic	**468**	**9.1**	1,379	26.8
Net exceptional items after taxation (notes 3 and 7)	**260**	**4.9**	-	-
Certain re-measurement (gains)/losses after taxation (notes 3 and 7)	**(90)**	**(1.7)**	(544)	(10.6)
Depreciation of fair value uplifts to property, plant and equipment from Strategic Investments, after taxation	**35**	**0.7**	51	1.0
Earnings – adjusted basic	**673**	**13.0**	886	17.2
Earnings – diluted	**468**	**9.0**	1,379	26.7
Earnings – adjusted diluted	**673**	**13.0**	886	17.1

Venture

During 2009 the Group acquired the Venture Group. As explained in note 3, the depreciation relating to fair value uplifts relating to the acquired property, plant and equipment of £37 million (2010: £33 million) and related taxation credit of £22 million (2010: £17 million) in the period is reversed in arriving at adjusted profit for the period.

British Energy

During 2009 the Group acquired a 20% interest in British Energy and accounts for its interest as an investment in associate. As explained in note 3, the impact of depreciation arising on fair value uplifts attributed to the nuclear power stations and related taxation included within the Group's share of the post-tax results of the associate of £20 million (2010: £35 million) is excluded in arriving at adjusted earnings for the period.

Six months ended 30 June	2011		2010	
(b) Continuing operations	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings – basic	**489**	**9.5**	1,325	25.8
Net exceptional items after taxation (notes 3 and 7)	**204**	**3.9**	-	-
Certain re-measurement (gains)/losses after taxation (notes 3 and 7)	**(68)**	**(1.3)**	(482)	(9.4)
Depreciation of fair value uplifts to property, plant and equipment from Strategic Investments, after taxation	**35**	**0.7**	51	1.0
Earnings – adjusted basic	**660**	**12.8**	894	17.4
Earnings – diluted	**489**	**9.4**	1,325	25.7
Earnings – adjusted diluted	**660**	**12.7**	894	17.3

Six months ended 30 June	2011		2010	
(c) Discontinued operations	£m	Pence per ordinary share	£m	Pence per ordinary share
(Loss)/earnings – basic	**(21)**	**(0.4)**	54	1.0
(Loss)/earnings – diluted	**(21)**	**(0.4)**	54	1.0

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

Notes to the condensed interim Financial Statements continued

12. Interests in joint ventures and associates

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

The Group's share of joint ventures' and associates' profits/(losses) at 30 June 2011 principally arise from its interests in nuclear associates (Lake Acquisitions Limited (British Energy) and NNB Holding Company Limited) and joint ventures (Braes of Doune Wind Farm (Scotland) Limited, Barrow Offshore Wind Limited, GLID Wind Farms TopCo Limited, Lincs Windfarm Limited and North Sea Infrastructure Partners Limited). The results of North Sea Infrastructure Partners Limited are included within the Upstream UK Gas segment and the results of all of the other entities listed above are included within the Upstream UK Power segment.

Six months ended 30 June	Joint ventures	Associates		2011	2010
	Wind Farms £m	Nuclear £m	Other £m	**Total £m**	Total £m
Income	23	289	1	**313**	234
Expenses excluding certain re-measurements (i)	(13)	(215)	-	**(228)**	(208)
Certain re-measurements	-	(54)	-	**(54)**	(24)
	10	20	1	**31**	2
Interest	(9)	(23)	-	**(32)**	(29)
Taxation excluding certain re-measurements (i)	-	(6)	-	**(6)**	(2)
Taxation on certain re-measurements	-	3	-	**3**	12
Share of post-taxation results of joint ventures and associates	1	(6)	1	**(4)**	(17)

(i) Includes £43 million (2010: £48 million) relating to depreciation of fair value uplifts to property, plant and equipment on acquiring the British Energy investments. The associated tax impact is £23 million credit (2010: £13 million credit).

British Energy

The Group's share of loss arising from its investment in British Energy for the period, as included in the table above, includes the effect of unwinding the fair value adjustments. As explained in note 3, the depreciation, net of taxation, arising on fair value uplifts attributed to the nuclear power stations is reversed in arriving at adjusted profit for the period as shown in the reconciliation table below and as set out in notes 6 and 11.

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

Six months ended 30 June	Joint ventures	Associates		2011	2010
	Wind Farms £m	Nuclear £m	Other £m	**Total £m**	Total £m
Share of post-taxation profits/(losses) of joint ventures and associates	1	(6)	1	**(4)**	(17)
Certain re-measurements (net of taxation)	-	51	-	**51**	12
Depreciation – British Energy (net of taxation) (i)	-	20	-	**20**	35
	1	65	1	**67**	30
Interest	9	23	-	**32**	29
Taxation (ii)	-	29	-	**29**	15
Share of adjusted profits/(losses) of joint ventures and associates	10	117	1	**128**	74

(i) Relates to depreciation of fair value uplifts to property, plant and equipment on acquiring the British Energy investments.
(ii) Excluding certain re-measurements and British Energy depreciation.

Notes to the condensed interim Financial Statements continued

13. Bank overdrafts, loans and other borrowings

			30 June 2011			31 December 2010		
	Interest rate %	Principal m	**Current £m**	**Non-current £m**	**Total £m**	Current £m	Non-current £m	Total £m
Bank overdrafts and loans			**51**	**206**	**257**	52	225	277
Bonds (by maturity date)								
2 November 2012	6.103	£284	**-**	**302**	**302**	-	296	296
27 February 2013	1.045	¥3,000	**-**	**24**	**24**	-	25	25
9 December 2013	7.307	€367	**-**	**350**	**350**	-	326	326
4 November 2014	Floating	$100	**-**	**62**	**62**	-	64	64
10 December 2014	5.297	£315	**-**	**339**	**339**	-	329	329
31 March 2015	Floating	$70	**-**	**44**	**44**	-	45	45
24 October 2016	5.706	£300	**-**	**331**	**331**	-	320	320
19 September 2018	7.038	£400	**-**	**460**	**460**	-	444	444
10 March 2022	6.362	£500	**-**	**510**	**510**	-	527	527
4 September 2026	6.265	£200	**-**	**208**	**208**	-	209	209
16 April 2027	6.083	$70	**-**	**44**	**44**	-	45	45
19 September 2033	7.100	£770	**-**	**804**	**804**	-	777	777
			-	**3,478**	**3,478**	-	3,407	3,407
Obligations under finance leases			**27**	**313**	**340**	25	327	352
			78	**3,997**	**4,075**	77	3,959	4,036

			30 June 2010		
	Interest rate %	Principal m	Current £m	Non-current £m	Total £m
Bank overdrafts and loans			65	382	447
Bonds (by maturity date)					
2 November 2012	6.103	£400	-	434	434
27 February 2013	1.045	¥3,000	-	23	23
9 December 2013	7.307	€750	-	655	655
4 November 2014	Floating	$100	-	67	67
10 December 2014	5.297	£350	-	376	376
31 March 2015	Floating	$70	-	47	47
24 October 2016	5.706	£300	-	331	331
19 September 2018	7.038	£400	-	463	463
10 March 2022	6.362	£500	-	511	511
4 September 2026	6.265	£200	-	210	210
16 April 2027	6.083	$70	-	47	47
19 September 2033	7.100	£770	-	803	803
			-	3,967	3,967
Obligations under finance leases			24	340	364
			89	4,689	4,778

Notes to the condensed interim Financial Statements continued

14. Notes to the Group Cash Flow Statement

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

	2011 £m	2010 (restated) (iii) £m
Continuing operations:		
Group operating profit including share of result of joint ventures and associates	**1,254**	2,117
Add back share of losses of joint ventures and associates	**4**	17
Group operating profit before share of profits of joint ventures and associates	**1,258**	2,134
Add back/(deduct):		
Amortisation and write-down of intangible assets	**72**	71
Depreciation and write-down of property, plant and equipment	**444**	426
Impairment of investment in associates	**-**	4
Employee share scheme costs	**24**	20
Profit on sale of businesses, property, plant and equipment and other intangible assets	**(3)**	
Movement in provisions	**(7)**	15
Pension service cost	**62**	65
Pension contributions	**(60)**	(272)
Re-measurement of energy contracts (i)	**(135)**	(607)
Unrealised foreign exchange losses on operating cash and cash equivalents	**1**	-
Operating cash flows before movements in working capital	**1,656**	1,856
(Increase)/decrease in inventories	**(137)**	37
Decrease in trade and other receivables (ii)	**339**	720
Decrease in trade and other payables (ii) (iii)	**(396)**	(698)
Cash generated from continuing operations	**1,462**	1,915

(i) Adds back unrealised (gains)/losses arising from re-measurement of energy contracts, including those related to proprietary trading activities.
(ii) Includes net inflow of £123 million of cash collateral in 2011 (2010: £410 million of cash collateral).
(iii) The 2010 comparatives have been restated for a change in presentation of emission certificate/allowance cash flows, see note 3.

(b) Net debt

	30 June 2011 £m	31 December 2010 £m	30 June 2010 £m
Current borrowings (note 13)	**(78)**	(77)	(89)
Non-current borrowings (note 13)	**(3,997)**	(3,959)	(4,689)
Less:			
Cash and cash equivalents	**439**	467	1,807
Securities – current	**51**	23	42
Securities – non-current	**240**	234	176
	(3,345)	(3,312)	(2,753)

Notes to the condensed interim Financial Statements continued

14. Notes to the Group Cash Flow Statement continued

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

	2011 £m	2010 £m
Net (decrease)/increase in cash and cash equivalents	**(36)**	514
Increase/(decrease) in cash and cash equivalents of disposal groups classified as held for sale	**-**	2
	(36)	516
Add back/(deduct):		
Net purchase of securities	**26**	23
Cash inflow from additional debt	**-**	(267)
Cash outflow from payment of capital element of finance leases	**13**	12
Cash outflow from repayment of other debt	**19**	277
	22	561
Revaluation of:		
Securities	**6**	1
Loans and other borrowings	**2**	(68)
	30	494
Increase in interest payable on loans and other borrowings	**(61)**	(79)
Distributions to non-controlling interests on liquidation	**-**	(56)
Exchange adjustments	**(6)**	24
Other non-cash movements	**4**	-
Movement in net debt	**(33)**	383
Net debt at 1 January	**(3,312)**	(3,136)
Net debt at 30 June	**(3,345)**	(2,753)

15. Pensions

Pension schemes

The majority of the Group's UK employees at 30 June 2011 were members of one of the three main schemes: the Centrica Pension Scheme, the Centrica Engineers Pension Scheme and the Centrica Pension Plan (together the 'registered pension schemes'). The Centrica Unapproved Pension Scheme is an unfunded arrangement which provides benefits to certain employees whose benefits under the main schemes would otherwise be limited by the earnings cap. The Group also has a commitment to provide certain pension and post-retirement benefits to employees of Direct Energy Marketing Limited (Canada) under a defined benefit scheme. Further information on the registered pension schemes and other pension schemes is provided in the Group's 2010 Annual Report and Accounts.

The latest full actuarial valuations were carried out at the following dates: the registered pension schemes at 31 March 2009; the Unapproved Pension Scheme at 6 April 2010; and the Direct Energy Marketing Limited pension plan at 31 December 2007. These have been updated to 30 June 2011 for the purposes of meeting the requirements of IAS 19, Employee Benefits.

Based on the triennial valuation at 31 March 2009, the Company and the trustees of the registered pension schemes agreed a schedule for deficit payments. An amount of £7 million has been paid in the 6 months to 30 June 2011 and £57 million per annum further deficit payments will be made from 2012 to 2016. In addition, a charge over the Humber power station has been provided as additional security for the trustees.

Major assumptions used for the actuarial valuation	30 June 2011 %	31 December 2010 %	30 June 2010 %
Rate of increase in employee earnings	**4.8**	4.7	4.5
Rate of increase in pensions in payment and deferred pensions	**3.8**	3.7	3.5
Discount rate	**5.9**	5.7	5.8
Inflation assumption	**3.8**	3.7	3.5

Demographic assumptions remain unchanged from 31 December 2010.

Notes to the condensed interim Financial Statements continued

15. Pensions continued

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

	30 June 2011 Valuation £m	31 December 2010 Valuation £m	30 June 2010 Valuation £m
Total fair value of plan assets	**4,498**	4,335	3,792
Present value of defined benefit obligation	**(4,639)**	(4,574)	(4,142)
Net liability recognised in the Group Balance Sheet	**(141)**	(239)	(350)
Associated deferred tax asset recognised in the Group Balance Sheet	**36**	67	98
Net pension liability	**(105)**	(172)	(252)

Included within the schemes' liabilities above are £33 million (31 December 2010: £33 million, 30 June 2010: £30 million) relating to unfunded pension arrangements. Included within non-current securities are £53 million (31 December 2010: £52 million, 30 June 2010: £49 million) of investments, held by the Law Debenture Trust on behalf of the Company, as security in respect of the Centrica Unapproved Pension Scheme.

16. Business combinations

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

Wildcat Hills

During 2010, the Group acquired full control of a business constituting a portfolio of interests in a number of gas assets located to the west of Calgary in Canada, known as Wildcat Hills. On 31 March 2011, the Group acquired full control of a business constituting a portfolio of additional interests within the Wildcat Hills area for consideration of CAN$45 million (£29 million). No goodwill arose on the acquisition. The acquisition increases the natural gas reserves of the Group and provides additional gas to meet supply requirements of the North American retail customers. The acquisition is included in the North America – Upstream and wholesale energy segment.

Gateway Energy Services Corporation

On 1 May 2011, the Group acquired 100% of the shares of Gateway Energy Services Corporation for total cash consideration of $105 million (£63 million), which includes deferred consideration of $10 million (£6 million) payable in 2011. Goodwill of $53 million (£32 million) arose on the acquisition. Gateway Energy Services Corporation is an independent retail energy supplier focused on serving the power and natural gas needs of residential and commercial customers. The acquisition further enhances Direct Energy's position as a leading North American provider of competitive electricity and natural gas solutions to residential and small business customers, located primarily in the US Northeast and Mid-Atlantic states. The acquisition is included within the North America – Residential and Business energy supply segments.

PH Jones Limited

On 13 May 2011, the Group acquired 100% of the shares in PH Jones Group Limited for cash consideration of £26 million. Goodwill of £16 million arose on the acquisition. PH Jones Group Limited is an independent provider of central heating services to the social housing market. The acquisition represents a major step in British Gas' strategy to build its social housing energy services business and help social housing providers across the UK to cut their residents' energy use, carbon emissions and fuel bills. The acquisition is included within the Downstream UK – Residential energy supply segment.

2010 acquisitions – fair value updates

During the period to 30 June 2011, there have been no significant updates to the fair value entries posted in relation to acquisitions which occurred in 2010.

Notes to the condensed interim Financial Statements continued

17. Disposals and discontinued operations

The European segment was classified as a discontinued operation from 30 June 2009 following the Group's decision to dispose of its 100% interests in Segebel S.A. (Segebel), Oxxio B.V. (Oxxio) in the Netherlands and its Spanish subsidiary Centrica Energía S.L. On the 1 June 2011, the Group completed its planned disposal of its European segment businesses with the sale of the trade and assets of Oxxio which resulted in a loss on disposal of £56 million.

	Oxxio £m
Non-current assets (i)	115
Current assets (ii)	287
Current liabilities	(236)
Total net assets disposed (iii)	**166**
Total consideration (iv)	**111**
Net assets disposed	(166)
FX recycled from reserves	3
Disposal costs	(4)
Loss on disposal before and after taxation	**(56)**

(i) Includes property, plant and equipment of £35 million and intangible assets and goodwill of £80 million.
(ii) Includes cash and cash equivalents of £8 million.
(iii) Includes deferred consideration of £25 million.
(iv) Prior to disposal, these assets and liabilities were classified as assets held-for-sale and liabilities held-for-sale respectively.

18. Commitments and contingencies

Commitments in relation to the acquisition of property, plant and equipment	30 June 2011 £m	31 December 2010 £m	30 June 2010 £m
Development of York gas field	126	-	-
Other gas field developments	83	119	88
Power station capital expenditure	33	52	52
Other	20	13	19
	262	184	159

Commitments in relation to the acquisition of intangible assets	30 June 2011 £m	31 December 2010 £m	30 June 2010 £m
Renewable obligation certificates to be purchased from:			
Joint ventures (i)	1,363	1,145	1,144
Other parties	797	631	922
Carbon emissions certificates	65	61	385
Certified emission reduction certificates	90	105	100
Exploration activity	78	80	94
Other	64	66	36
	2,457	2,088	2,681

(i) Renewable obligation certificates are purchased from several joint ventures which produce power from wind energy. The commitments disclosed above are the gross contractual commitments and do not take into account the Group's economic interest in the joint venture. These commitments fall due over the next 16 years.

There are no material contingencies.

Notes to the condensed interim Financial Statements continued

19. Related party transactions

During the period, the Group entered into the following arm's length transactions with related parties:

Six months ended 30 June	2011			2010		
	Sale of goods and services £m	**Purchase of goods and services £m**	**Other transactions (i) £m**	Sale of goods and services £m	Purchase of goods and services £m	Other transactions (i) £m
Joint ventures:						
GLID Wind Farms TopCo Limited and subsidiaries	**3**	**22**	**3**	-	15	4
Lincs Windfarm Limited	**13**	**-**	**8**	-	-	11
Other	**-**	**21**	**3**	-	10	-
Associates:						
Lake Acquisitions Limited	**152**	**284**	**66**	85	86	-
Other	**17**	**-**	**-**	-	-	-
	185	**327**	**80**	85	111	15

(i) Other transactions relate to investment and funding transactions with joint ventures and associates and include £60 million dividend from Lake Acquisitions Limited.

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

	30 June 2011		31 December 2010		30 June 2010	
	Amounts owed from related parties (i) £m	**Amounts owed to related parties £m**	Amounts owed from related parties (i) £m	Amounts owed to related parties £m	Amounts owed from related parties (i) £m	Amounts owed to related parties £m
Joint ventures:						
GLID Wind Farms TopCo Limited and subsidiaries	**46**	**28**	49	29	44	25
Lincs Windfarm Limited	**147**	**-**	128	-	67	-
Other	**29**	**7**	29	8	35	5
Associates:						
Lake Acquisitions Limited	**46**	**24**	33	53	44	27
Other	**7**	**-**	5	2	-	-
	275	**59**	244	92	190	57

(i) No provision for bad or doubtful debts relating to amounts owed from related parties was required in any of the periods disclosed above.

Notes to the condensed interim Financial Statements continued

20. Seasonality of operations

Certain activities of the Group are affected by weather and temperature conditions. As a result of this, amounts reported for the six months ended 30 June 2011 may not be indicative of the amounts that would be reported for a full year due to the impact of weather on, and seasonal fluctuations in, customer demand for gas, electricity and services, market changes in commodity prices and changes in retail tariffs.

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

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

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

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

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

21. Events after the balance sheet date

There are no significant post balance sheet events.

Disclosures

Disclaimers

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

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

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

For further information

Centrica will hold its 2011 Interim Results presentation for analysts and institutional investors at 9.30am (UK) on Thursday 28 July 2011. There will be a live audio webcast of the presentation and slides from 9.30am at www.centrica.com/investors.

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

+ 44 20 3059 5845

The call title is "Centrica plc Interim Results 2011 Announcement".

An archived webcast and full transcript of the presentation and the question and answer session will be available on the website on Friday 29 July 2011.

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Financial Calendar

Ex-dividend date for 2011 interim dividend	28 September 2011
Record date for 2011 interim dividend	30 September 2011
Payment date for 2011 interim dividend	16 November 2011
Interim Management Statement	17 November 2011
2011 Preliminary Results announcement	23 February 2012

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