Interim results for the period ended 30 June 2017

IAIN CONN, GROUP CHIEF EXECUTIVE

"Centrica delivered a solid first half financial performance despite reduced energy demand due to warm weather and strong competitive pressures, and we remain on track to achieve the 2017 targets we set out in February. We have made further significant strategic progress, continuing to reallocate resources away from our asset businesses towards our customer-facing businesses. With the announced asset disposals and the creation of a new European E&P joint venture, we expect the first phase of our portfolio transformation to be complete by the end of 2017, leaving the Group well-positioned to deliver longer-term returns and growth."

HEADLINES

Solid H1 financial performance

- Customer-facing businesses' adjusted operating profit was flat in H1 2017 compared to H1 2016, with higher profit in Centrica Business offset by reduced profit in Centrica Consumer; overall adjusted operating profit down 4% to £816m reflecting lower profit from our asset businesses.
- Adjusted earnings down 11% to £449m including a higher net interest cost.
- £268m post-tax net exceptional charge, predominantly relating to an impairment of the Rough storage asset; shareholder statutory profit of £44m after taking into account re-measurements of open commodity positions.
- EBITDA up 2%; adjusted operating cash flow down 9% reflecting one-off UK Business working capital inflow in 2016; underlying adjusted operating cash flow flat vs H1 2016 and 2.6% CAGR vs H1 2015.
- Interim dividend of 3.6p, 30% of the 2016 full year dividend in line with established practice.
- On track to achieve the 2017 Group targets set out at the 2016 Preliminary Results in February.

First phase of strategic transformation of Centrica expected to be complete by end 2017

- £124m of cost efficiencies delivered in H1 2017; remain on track to deliver £250m in FY 2017 which will take total savings since 2015 to approaching £650m as part of our £750m efficiency programme.
- Net debt down 22% over past year to £2.9bn; on track to remain in target range of £2.5-£3.0bn by end 2017.
- Continued shift of resources from asset businesses to customer-facing businesses in line with strategy; as part of planned £1.5bn resource reallocation to 2020, over £500m spent in growth areas on acquisitions and incremental capital expenditure and revenue investment since the start of 2016.
- Enhanced capabilities and technology in customer-facing businesses, with the establishment of Centrica Consumer and Centrica Business in H1 2017 enabling a more coherent approach to the end-customer.
    - Continued focus on customer service, cost efficiency and offer innovation.
    - New Centrica Consumer offers focused on bundling and personalisation, with British Gas Rewards and Hive 'Welcome Home' and 'Home Check' subscription plans launched.
    - Strong Energy Marketing & Trading performance in Centrica Business.
    - Connected Home and Distributed Energy & Power customer and revenue growth.
- Over £800m Central Power Generation and E&P disposals completed or announced in H1 2017, in line with strategy, taking total disposals to over £900m since 2016, at the upper end of the £500m-£1bn targeted range.
- E&P joint venture with Bayerngas Norge creates a self-financing, more sustainable, more capable European E&P business, generating synergies and the possibility to participate in further consolidation and joint ventures.

GROUP FINANCIAL SUMMARY

Six months ended 30 June	**2017**	2016	Change
Revenue	**£14.3bn**	£13.4bn	7%
EBITDA	**£1,293m**	£1,272m	2%
Adjusted operating profit	**£816m**	£853m	(4%)
Adjusted earnings	**£449m**	£507m	(11%)
Adjusted basic earnings per share (EPS)	**8.2p**	9.8p	(16%)
Interim dividend per share	**3.6p**	3.6p	0%
Adjusted operating cash flow	**£1,242m**	£1,372m	(9%)
Underlying adjusted operating cash flow growth	**0.3%**	4.9%	nm
Group net debt	**£2,941m**	£3,783m	(22%)
Statutory operating profit	**£252m**	£1,766m	(86%)
Statutory profit for the period attributable to shareholders	**£44m**	£1,148m	(96%)
Net exceptional items after taxation included in statutory profit	**(£268m)**	(£63m)	325%
Basic earnings per share	**0.8p**	22.2p	(96%)

Unless otherwise stated, all references to operating profit or loss, taxation, cash flow, earnings and earnings per share throughout the announcement are adjusted figures, reconciled to their statutory equivalents in the Group Financial Review on pages 20 to 22. See also notes 3, 4 and 9 to the Financial Statements and pages 53 to 54 for an explanation of the use of adjusted performance measures. nm = not measured. CAGR = compound annual growth rate.

Group Metrics

Six months ended 30 June	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked) [1]	**1.03**	1.00	3%
Brand Net Promoter Score (NPS) [2]			
Consumer			
UK Home	**2**	(2)	4pt
North America Home	**23**	29	(6pt)
Business			
UK Business	**(11)**	(5)	(6pt)
North America Business	**29**	26	3pt
Customer account holdings (period end)			
Consumer			
Energy supply and services ('000s) [3]	**25,450**	26,435	(4%)
Connected Home cumulative hubs installed ('000s)	**660**	364	81%
Business			
Energy supply ('000s)	**1,309**	1,364	(4%)
DE&P active customer sites [4]	**4,236**	3,827	11%
Total customer energy consumption			
Gas (mmth)	**6,518**	6,823	(4%)
Electricity (GWh)	**64,495**	71,188	(9%)
Energy use per Home energy customer (kWh)			
UK	**4,645**	5,066	(8%)
North America	**13,735**	12,751	8%
Annualised cost per Home customer (£) [5]			
UK	**92**	98	(6%)
North America	**196**	207	(5%)
Growth revenue (Connected Home, DE&P) (£m) [6]	**100**	79	27%
E&P total production volumes (mmboe)	**35.2**	37.8	(7%)
Adjusted operating costs (£m) [7]	**1,271**	1,336	(5%)
Adjusted operating costs as a % of gross margin	**57%**	57%	0ppt
Direct Group headcount (period end) [8]	**35,191**	38,695	(9%)
Adjusted operating cash flow (£m)	**1,242**	1,372	(9%)
Underlying adjusted operating cash flow growth [9]	**0.3%**	4.9%	nm
Group net investment (£m) [10]			
Capital expenditure (including small acquisitions)	**385**	424	(9%)
Material acquisitions (>£100m)	**-**	132	nm
Net disposals	**(254)**	(112)	127%
Group net investment (£m)	**131**	444	(70%)
ROACE (post-tax) [11]	**nm**	nm	nm
Adjusted operating profit (£m)	**816**	853	(4%)
Adjusted earnings (£m)	**449**	507	(11%)
Adjusted earnings per share (pence)	**8.2p**	9.8p	(16%)

1. Group and business unit total recordable injury frequency rate (per 200,000 hours worked) is on a 12 month rolling basis.
2. H1 2017 North America Brand NPS includes newly implemented Services Brand NPS measure. UK Business Brand NPS is for small and medium enterprise (SME) customers on a 6 month rolling basis, H1 2016 Brand NPS has been restated to exclude Industrial & Commercial (I&C) customers and is on a 3 month rolling basis.
3. Home customer account holdings now include Home Insurance holdings in UK Home Services that were not previously reported. H1 2016 has been restated to include 50,000 home insurance holdings, and have reduced by 50,000 following data assurance activity of our analytical system. The impact of the data assurance activity on FY 2016 is a reduction in accounts of 55,000.
4. H1 2016 DE&P active customer sites have been restated to reflect consistent measurement of sites across all geographies.
5. Annualised cost per Home customer calculates adjusted operating costs and controllable cost of sales (costs which management deem can be directly influenced and excluding items such as commodity costs and transmission and distribution costs) as a proportion of holdings, installs and on demand jobs. North America H1 2016 restated for foreign exchange movements.
6. Growth revenue is gross revenue for both Connected Home and Distributed Energy & Power.
7. Adjusted operating costs exclude depreciation and amortisation, smart metering and solar expenses, dry hole costs, profit on fixed asset disposals, the impact of portfolio changes and foreign exchange movements. H1 2016 has been restated to include growth investment, consistent with the methodology used in the 2016 Preliminary Results announcement. Total like-for-like controllable costs as referenced in the Group Overview and Business Review sections is adjusted operating costs, excluding growth investment in Connected Home and Distributed Energy & Power, and controllable cost of sales, excluding the impact of portfolio changes, foreign exchange movements and growth investment in Connected Home and Distributed Energy & Power.
8. Direct Group headcount excludes contractors, agency and outsourced staff.
9. H1 2016 underlying adjusted operating cash flow has been restated to be consistent with the methodology used in the 2016 Preliminary Results announcement to include foreign exchange movements. See pages 53 to 54 for an explanation of the use of adjusted performance measures.
10. See pages 53 to 54 for an explanation of the use of adjusted performance measures.
11. ROACE (post-tax) is reported annually.

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Group Overview

OVERVIEW

Centrica delivered solid financial performance in H1 2017 against a backdrop of warmer weather and highly competitive market conditions, and remains on track to achieve the 2017 Group targets set out in February at its 2016 Preliminary Results, including adjusted operating cash flow of above £2bn. We also continued to make strong progress on our £750m cost efficiency programme, which is materially ahead of schedule.

Gross margin was negatively impacted by the warmer weather, lower energy and services customer accounts and an extended outage at the Morecambe E&P asset, offset by strong performance in Energy Marketing & Trading. We saw solid revenue and customer growth in both Connected Home and Distributed Energy & Power. Safety performance was mixed, with the total recordable injury frequency slightly worse than H1 2016, however the customer injury rate improved markedly.

We continue to deliver against all our strategic objectives set out in July 2015, including reallocating resources from E&P and Central Power Generation towards our customer-facing growth businesses and repositioning our asset businesses to achieve our targeted scale and shape. We announced or completed over £800m of disposals during H1 2017 and in July 2017 we announced we would be forming a new E&P joint venture with Bayerngas Norge, creating a stronger, more sustainable E&P business. As a result of this significant progress, the first phase of the strategic transformation of Centrica is expected to be complete by the end of 2017.

SOLID H1 FINANCIAL PERFORMANCE

Adjusted operating profit of £816m was 4% lower than in H1 2016, with profit from the customer-facing businesses broadly flat overall. Centrica Consumer operating profit was down £131m, or 20%, predominantly reflecting the impact of warmer weather on consumption in UK Home and a reduction in the number of energy supply and services accounts. Centrica Business operating profit was up £130m, or 141%, reflecting strong Energy Marketing & Trading and North America Business performance, partially offset by UK Business only breaking-even due to the impacts of warmer weather, electricity cost volatility and the phasing of energy volume settlements in Q1 2017. Operating profit from our asset businesses, E&P and Centrica Storage, fell by £36m, or 39%, predominantly reflecting the non-repeat of cushion gas sales from the Rough gas storage asset in H1 2016 and reduced storage operations. In E&P, lower production volumes resulting from the extended outage at Morecambe were broadly offset by the impact of higher achieved liquid and gas prices.

Group adjusted earnings of £449m were 11% lower than in H1 2016, including the impact of lower capitalised interest. Adjusted basic EPS was 8.2p. The 2017 interim dividend per share of 3.6p is consistent with our established practice of paying 30% of the prior year's full year dividend as an interim dividend the following year. A net post-tax exceptional charge of £268m was recognised in H1 2017, including an impairment of Centrica Storage's Rough asset relating to the decision to permanently cease storage operations, and impairments, write-backs and profits and losses on disposals relating to the divestments of E&P and Central Power Generation assets completed or announced in H1 2017.

EBITDA was up by 2%, however adjusted operating cash flow reduced by 9% to £1,242m, predominantly reflecting the impact of £218m of one-off working capital inflow in H1 2016 in UK Business. After excluding the UK Business working capital impact, and adjusting for commodity and foreign exchange movements, underlying adjusted operating cash flow growth was 0.3%, reflecting the impact on gross margin from a number of factors, including the warmer weather, and relative to a strong delivery in H1 2016. The cumulative annual growth rate relative to H1 2015 is 2.6%.

The Group generated net cash inflow of over £500m in H1 2017, with just under half from disposals and the remainder from organic sources, and as a result Group net debt reduced to £2.9bn as at the end of H1 2017. The Group remains on track to meet its target of net debt in the £2.5-£3.0bn range by the end of 2017 and, as previously stated, we believe this is the appropriate level consistent with our financial framework parameters, given our existing portfolio of businesses and the current environment for commodity prices, interest rates and inflation.

FURTHER STRONG PROGRESS ON £750M COST EFFICIENCY PROGRAMME

We continue to make strong progress on our Group-wide cost efficiency programme, delivering a further £124m of efficiencies in H1 2017, compared to £141m delivered in H1 2016, and we remain on track to deliver £250m in 2017. This is in addition to £384m delivered in 2016 and means we will have delivered approaching £650m of efficiency savings by the end of 2017. This is well ahead of the original plan to deliver £500m by the end of 2018.

Group Overview continued

After taking into account the impact of inflation and other cost reductions which are one-off in nature or volume related, like-for-like controllable costs reduced by 5% compared to H1 2016. Reported operating costs reduced 3% with the Group more than absorbing the effects of inflation, foreign exchange movements and additional revenue investment in our growth businesses. Direct like-for-like headcount reduced by 1,058 in H1 2017 and we remain on track to achieve our targeted reduction of 1,500 for the full year, which will take the total reduction since the start of 2016 to nearly 5,000. This excludes additional roles created in smart metering and our growth businesses.

The efficiency savings and headcount reductions in H1 2017 have come from a combination of the annualisation of 2016 savings and new 2017 initiatives. In our customer-facing businesses, we are benefiting from a continued focus on transforming our customer operations, the utilisation of our enhanced digital and technology capabilities and further integration of our field operations model which delivers both service delivery efficiency and supply chain improvements. In our asset businesses, we continue to deliver efficiencies from both productivity and supply chain initiatives, while our global support functions are delivering efficiencies from embedding shared service operations.

UK ENERGY SUPPLY MARKET

The UK energy supply market remains highly competitive, with nearly 60 domestic suppliers. Against this backdrop we made a number of commitments to British Gas customers coming into 2017, including holding our domestic standard variable tariff unchanged until August 2017 and ensuring that existing customers have access to the same deals as new customers. We have also now engaged with around 5m customers who were on our standard tariff at the start of H1 2017, testing a range of propositions and offers and offering them more tailored propositions, with a significant number of customers choosing new products such as our multi-year fixed price offers.

In response to a letter received from the Secretary of State in late June, Ofgem has committed to consult on new measures to help make retail competition more effective, and to protect vulnerable consumers. This would be in addition to the tariff cap for customers on prepayment meters, which was effective from the start of April 2017. Centrica has proposed market reforms that would end the offering of evergreen tariffs and amendments to the default tariff mechanism. We are also proposing that all suppliers now pay a share of government imposed social and environmental policy costs. We will continue to engage constructively with both the Government and Ofgem to help deliver the best outcome for our customers.

On 1 August, we announced that we would be increasing the price of our standard electricity tariff by 12.5% from 15 September. This is our first standard tariff increase for nearly four years and follows four consecutive price cuts. With our gas price remaining unchanged, the average annual dual fuel bill for a typical household will rise by £76, or 7.3%, to £1,120. The price rise reflects increasing delivery and environmental and social policy costs since 2014, and also the growing additional costs related to the UK smart meter roll-out. Although Centrica has experienced these same cost pressures as other suppliers, we have been able to hold off increasing prices for up to six months longer than some of our competitors, mainly due to our cost efficiency programme. Separately, Ofgem's latest supplier cost index, published in June, showed that from May 2016 to May 2017, costs borne by energy suppliers had risen by 15% per customer.

With the price rise at the lower end of competitor price increases this year, British Gas will retain a competitively priced standard tariff even after the increase has been implemented, with the third cheapest price amongst the ten largest suppliers. Our standard tariff will be cheaper than 84% of contracts in the market. We also remain well-positioned on aspects other than price with improving customer service levels, a focus on customer engagement and the development of a number of innovative offers and propositions.

We are sensitive to the fact that not all vulnerable customers are protected by the pre-payment tariff cap, and we have therefore also announced that, at least for this coming Winter, we will protect an additional approximately 200,000 customers who are automatically eligible for the Warm Home Discount from our price rise. We will do this unilaterally while Ofgem considers measures to improve the functioning of the market.

CONTINUED DEVELOPMENT OF CUSTOMER-LED GROWTH CAPABILITIES

Our customer-facing businesses are a source of competitive advantage given our distinctive positions and capabilities, and in line with our strategy we have been shifting investment towards our newly-formed Centrica Consumer and Centrica Business global divisions. Having re-organised into these two new divisions, we are realising value from a more aligned and coherent approach to the end-customer, ensuring that capability is developed globally and efficiently in support of our customer-focused strategy.

Centrica Consumer

Centrica Consumer consists of the UK Home, Ireland, North America Home and Connected Home business units with a strategic framework developed around five areas of offer – energy supply, services, peace of mind, home energy management and home automation.

We continue to invest in customer service and our digital platform to improve the customer experience and this resulted in lower energy supply complaint levels across all geographies. UK services complaints were higher in Q1 2017 due to operational issues following the centralisation of our planning and despatch operations which resulted in the need to reschedule engineer visits. This has now been resolved.

We are also focused on developing new customer offers to retain existing and attract new customers as we pursue improved customer segmentation and customer value management. In April we launched our British Gas Rewards programme in the UK, under which we are using digital and data science to personalise offers and rewards for customers. We have seen strong early sign-up with 150,000 members to date. We have also recently launched new bundled propositions in the UK, North America and Ireland with encouraging early results.

Consumer accounts holdings, including Connected Home installed hubs, have fallen by 689,000, or 2.6%, over the past 12 months. However around 60% of these net losses are a direct consequence of our own choices with 257,000 reflecting the roll-off of a number of collective switch deals in the UK and low-margin aggregated customer books in North America, 66,000 reflecting the scaling back of door-to-door sales in North America and 90,000 due to the ending of a number of services protection plan trials in the US.

The remaining 40% of net customer losses include 572,000 in energy and services due to competitive pressures on both sides of the Atlantic, offset by continued growth in Connected Home customers, up 296,000 over the past 12 months. Cumulatively we have now installed 660,000 connected hubs, including 30,000 in North America and have sold over 1m connected home products in total. We have also launched two new Hive subscription plans, 'Welcome Home' and 'Home Check' so far in 2017, which enable customers to combine a mix of Hive products to set up their home to their personal preferences. We remain focused on achieving our targets of 1m cumulative hubs installed and 1.5m cumulative products sold by the end of 2017.

Centrica Business

Centrica Business consists of the UK Business, North America Business, Distributed Energy & Power, Energy Marketing & Trading and Central Power Generation business units, with a strategic framework developed around five areas of offer – energy supply, wholesale energy, energy insight, energy optimisation and energy solutions.

Bringing all of our business-facing units together is already beginning to create value. As an example, we are assessing how our North America Business 'Energy Portfolio' online platform, which empowers customers to better understand the energy markets and procure energy in a proactive way, could be used in UK Business. In addition, systems capability and software obtained through the Panoramic Power and Neas Energy acquisitions are being deployed to develop new applications throughout our Distributed Energy & Power business unit. Ultimately we are aiming to create a single portal, accessing a cloud based integrated solutions platform which addresses all five pillars of our customer proposition and will allow customers to access our full suite of products and services in one place.

Energy Marketing & Trading delivered further strong performance, with increased profit from trading and route-to-market services, including further good performance from Neas Energy which is continuing to perform ahead of its investment case. The financial result also benefited from the phasing of profit from its flexible legacy gas contracts, meaning Energy Marketing & Trading operating profit is expected to be heavily weighted towards H1 2017. Distributed Energy & Power gross revenue increased by 25% as we continue to develop attractive propositions for our customers, utilising our enhanced capabilities including CHP expertise obtained as part of the ENER-G Cogen acquisition in 2016 and energy insight expertise obtained as part of the Panoramic Power acquisition in 2015. We also continue to develop our own distributed energy assets, having commenced construction of a 49MW battery storage facility at Roosecote and two 50MW fast response gas-plants at Brigg and Peterborough.

Group Overview continued

Asset businesses

E&P production was down 7%, predominantly reflecting the decision to undertake onshore and offshore asset integrity works at Morecambe to improve safety, operational efficiency and underpin the residual life of the asset. This impact was partly offset by incremental production from the Cygnus asset, which came on-stream in December 2016 and has been performing ahead of expectations.

In June, following the completion of the extensive well testing programme which started in 2015 at the Rough gas storage asset, we concluded that Centrica Storage could not safely continue injection and storage operations. In addition, we assessed that the costs of refurbishing or rebuilding the facility and replacing the wells would not be economic. As a result, Centrica Storage intends to make all relevant applications to permanently end Rough's status as a storage facility, and to produce all recoverable cushion gas from the field. Reflecting the revised economics of the Rough field, a £224m post-tax impairment charge was recognised in H1 2017.

FIRST PHASE OF STRATEGIC TRANSFORMATION EXPECTED TO BE COMPLETE BY END 2017

In July 2015 we announced that, as part of our strategy, we would commit about £1.5bn of additional operating and capital resources by 2020 to drive growth in our focus areas of energy supply, services, distributed energy and power, connected home and energy marketing and trading. At the same time we would reduce and limit our scale of operations in E&P and Central Power Generation and cumulative resource allocation to these areas over the five years to 2020 would reduce by about £1.5bn, including reducing E&P capital expenditure by an average of £300m per annum to within a £400m-£600m range.

E&P capital expenditure of £518m in 2016 was within this range and is expected to be at a similar level in 2017. In addition, since the start of 2016 we have spent over £500m incrementally in our growth areas. This includes the customer-facing acquisitions of ENER-G Cogen, Neas Energy and Flowgem, organic capital expenditure, plus £39m in H1 2017 of the £100m expected full year additional revenue investment into our growth businesses.

We are also targeting small early stage investments through Centrica Innovations, which helps identify, incubate and accelerate new technologies and innovations that help provide the right offers, products and services for our customers. In H1 2017 we made our first investment under Centrica Innovations, acquiring the assets of Rockitt Inc, a company which has developed a proprietary data discovery software solution that uses algorithms to extract meaningful information from data.

We completed or announced over £800m of divestments in H1 2017, taking total announced disposals to over £900m since the start of 2016. In power generation, with our focus for growth on flexible peaking units, energy storage and distributed generation, we completed our exit from wind generation ownership with the sale of the Lincs windfarm and announced that we had agreed to sell our large gas-fired power stations at Langage and Humber. In E&P, we completed the disposal of our Trinidad and Tobago gas assets and announced the disposal of our portfolio of assets in Canada. Once this transaction is complete, which is expected in H2 2017, our E&P activity will be focused solely on European assets.

In July 2017 we announced we had reached an agreement to combine our European E&P business with Bayerngas Norge, to form a newly incorporated joint venture, with Centrica owning 69% of the new entity. The joint venture will create a strong and sustainable, self-financing European E&P business by combining Centrica's cash-generative and relatively near-term production profile with Bayerngas Norge's more recently on-stream producing assets and development portfolio, and is expected to deliver medium-term production in the 45-55mmboe range. A total of £100m-£150m net present value of synergies are expected to be realised from the transaction, with Centrica's 69% share expected to be approximately £70m-£100m.

The formation of the joint venture also provides the opportunity for it to participate in further consolidation opportunities in North West Europe should value enhancing combinations arise. The transaction is expected to result in a reduction to Centrica's share of annual production, into the 30-40mmboe range, lower than our previously announced 40-50mmboe targeted annual range. However the total production from the joint venture will be of a large enough scale to create a sustainable E&P business and we believe our lower share of production will be adequate to allow E&P to fulfil its role in Centrica's portfolio of providing cash flow diversity and balance sheet strength.

The transaction is expected to close in Q4 2017. Combined with the additional investment in the customer-facing businesses, and the E&P and Central Power Generation disposals, this will complete the first phase of Centrica's strategic transformation as set out in July 2015.

OUTLOOK AND SUMMARY

The Group has delivered solid financial performance in H1 2017 and remains on track to achieve the 2017 targets it set out at its 2016 Preliminary Results in February. These are:

- Adjusted operating cash flow above £2bn.
- Group capital investment, including any small acquisitions of less than £100m each, of no more than £1bn. E&P capex expected to be around £500m.
- Incremental revenue investment of around £100m in growth areas.
- A further £250m of efficiency savings.
- A like-for-like direct headcount reduction of around 1,500.
- Net debt in the £2.5-£3.0bn range.

Centrica has also made further good progress in H1 2017 in repositioning the portfolio and delivering on our strategy. The Group is more resilient given the progress we have made on cost efficiency and reducing net debt, and has clear strategic frameworks to help drive growth in both our Consumer and Business divisions.

By the end of 2017 the Group will have been fundamentally repositioned, and with enhanced skills, capabilities and technology, we can now address new customer needs and customer segments, and apply ourselves to new markets, in addition to strengthening our core businesses. Although the world remains uncertain, and our markets are highly competitive, we have established a strong platform from which to compete and to deliver long-term shareholder value through returns and growth.

Business Review

CENTRICA CONSUMER
UK HOME

Six months ended 30 June	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.33**	1.34	(1%)
Brand NPS	**2**	(2)	4pt
Complaints (per 100,000 customers) [1]			
Energy supply	**2,828**	3,433	(18%)
Services	**982**	692	42%
Customer account holdings ('000s)			
Energy supply	**13,873**	14,260	(3%)
Services [2]	**7,392**	7,545	(2%)
Total customer account holdings ('000s)	**21,265**	21,805	(2%)
Installs and on demand jobs ('000s)	**152**	170	(11%)
Total customer energy consumption			
Gas (mmth)	**1,864**	2,112	(12%)
Electricity (GWh)	**10,818**	11,497	(6%)
Energy use per residential energy customer account (kWh)	**4,645**	5,066	(8%)
Annualised cost per Home customer (£) [3]	**92**	98	(6%)
Adjusted operating costs as a % of gross margin	**46%**	43%	3ppt
Adjusted operating cash flow (£m)	**348**	505	(31%)
Adjusted operating profit (£m)	**489**	635	(23%)

1. Complaints per 100,000 customers as reported to Ofgem for UK energy supply and the FCA for UK Home services. In line with changes to FCA requirements we now report all complaints raised, previously complaints resolved within the first day were excluded from reporting and H1 2016 has been restated accordingly.
2. H1 2016 has been restated to include 50,000 home insurance holdings, and have reduced by 50,000 following data assurance activity of our analytical system. The impact of the data assurance activity on FY 2016 is a reduction in accounts of 55,000.
3. Annualised cost per Home customer calculates adjusted operating costs and controllable cost of goods sold as a proportion of holdings, installs and on demand jobs.

Our UK energy supply and services businesses remain a core part of our customer offer and are also a key access point to building deeper relationships with households. High levels of customer service remain fundamental. Energy supply complaints fell by 18% and UK Home Brand NPS increased by 4 points to 2 as a result of continued investment in customer service training, increased use of intelligent call routing and improved customer journeys. We also continue to invest in improving our digital platform, putting more control in the hands of customers to improve customer satisfaction levels and reduce costs. Services complaints increased by 42%, as a result of operational disruption following the centralisation of planning and despatch activities. We have now taken corrective action to resolve the issue and are focused on delivering further improvements.

Cost efficiency is key to retaining a competitive pricing position. Annualised cost per home account fell by 6% compared to H1 2016, largely enabled by efficiencies realised through our new operating model which combined multiple customer operations teams into one organisation and reduced our seven field forces to one.

Energy accounts fell by 377,000 or 3% during H1 2017. This includes a significant roll-off of over 200,000 low-margin collective switch deals. The number of services accounts fell by 79,000, or 1%, during H1 2017, reflecting the ongoing market trend for customers using on-demand and home emergency services. However retention improved compared to H1 2016.

We continue to focus on developing innovative and personalised offers for our customers. In April we launched British Gas Rewards, enabling customers to select personalised offers which reward loyalty and create value for the customer. We have also now launched our technology-led 'Local Heroes' on-demand services platform nationally. 'Local Heroes' provides access to local tradesman backed by a British Gas guarantee and is showing very high initial growth rates having recorded over 8,000 jobs, over 60% with new to brand customers.

We have now installed over 4m smart meters enabling an end to estimated bills for customers, helping to reduce the number of calls we receive relating to billing and meter reading queries.

Overall, UK Home adjusted operating profit fell by 23% to £489m and adjusted operating cash flow fell by 31% to £348m compared to H1 2016. Energy supply operating profit was down 26% to £381m. This primarily reflects the impact on energy consumption of warmer than normal temperatures, lower customer account holdings and the implementation of a prepayment tariff cap, which came into effect in April 2017 as a result of Competition and Markets Authority remedies. Services operating profit was down 9% to £108m, including the impact of an increase in pension costs following the fall in gilt rates. After excluding this impact, services underlying operating profit increased in comparison to H1 2016, with cost efficiency savings more than offsetting the impact of lower accounts.

IRELAND

Six months ended 30 June	**2017**	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.03**	0.61	69%
Brand NPS	**19**	5	14pt
Complaints (per 100,000 customers) [1]	**3**	7	(57%)
Customer account holdings (‘000s)	**694**	685	1%
Total customer energy consumption			
Gas (mmth)	**178**	187	(5%)
Electricity (GWh)	**1,528**	1,500	2%
Energy use per residential energy customer account (kWh)	**4,165**	4,643	(10%)
Annualised cost per Home customer (£) [2]	**108**	125	(14%)
Adjusted operating costs as a % of gross margin [2]	**50%**	60%	(10ppt)
Adjusted operating cash flow (£m)	**70**	58	21%
Adjusted operating profit (£m)	**33**	24	38%
Adjusted operating profit (€m)	**39**	31	26%

1. Complaints per 100,000 customers as reported to CER. H1 2016 restated following data assurance activity in H2 2016.
2. Annualised cost per Home customer calculates adjusted operating costs and controllable cost of goods sold as a proportion of holdings, installs and on demand jobs. H1 2016 adjusted for H1 2017 FX rates.

Our Irish business, Bord Gáis Energy, continued to perform well in H1 2017. Complaints fell 57% and NPS increased by 14 points to 19 compared to H1 2016. This primarily reflects our continued focus on delivering high levels of customer service and successful enhancements to our customer-facing IT platforms, including fixes to the ‘move-in, move-out’ process and the implementation of a single sign-on for customers’ gas and electricity accounts. Annualised cost per home customer reduced by 14% compared to H1 2016, reflecting IT and operational process efficiencies across the organisation.

Customer account holdings were up by 2,000 in H1 2017, with growth in electricity customer accounts more than offsetting a decline in the number of gas accounts. We also continue to expand our range of offers to customers, leveraging Centrica’s experience and capabilities and the full suite of Hive connected home products was launched in Ireland during H1 2017.

Adjusted operating profit was up 38% and adjusted operating cash flow was up 21% compared to H1 2016. This reflects cost savings and a strong performance from our trading and power generation business.

Business Review continued

NORTH AMERICA HOME

Six months ended 30 June	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.21**	1.83	(34%)
Brand NPS [1]	**23**	29	(6pt)
Energy supply complaints (per 100,000 customers) [2]	**49**	62	(21%)
Customer account holdings (‘000s)			
Energy supply	**2,665**	3,040	(12%)
Services	**871**	943	(8%)
Total customer account holdings (‘000s)	**3,536**	3,983	(11%)
Installs and on demand jobs (‘000s)	**272**	288	(6%)
Total customer energy consumption			
Gas (mmth)	**1,044**	1,043	0%
Electricity (GWh)	**7,144**	7,700	(7%)
Energy use per residential energy customer account (kWh)	**13,735**	12,751	8%
Annualised cost per Home customer (£) [3]	**196**	207	(5%)
Adjusted operating costs as a % of gross margin [3]	**70%**	72%	(2ppt)
Adjusted operating cash flow (£m)	**126**	78	62%
Adjusted operating profit (£m)	**60**	33	82%
Adjusted operating profit ($m)	**76**	47	62%

1. H1 2017 North America Brand NPS is based on existing energy Brand NPS measures and effective from H1 2017 includes newly implemented Services Brand NPS measure.
2. Complaints per 100,000 customers as reported by various regulatory bodies.
3. Annualised cost per Home customer calculates adjusted operating costs and controllable cost of goods sold as a proportion of holdings, installs and on demand jobs. H1 2016 adjusted for H1 2017 FX rates.

As in the UK, our North American energy supply and services businesses remain a core part of our customer offer and are a key access point to building deeper relationships with households. We remain focused on improving the sustainability of the business in competitive markets by improving customer service levels, reducing costs, and developing innovative and differentiated offers.

We continued to deliver high levels of service in H1 2017, with additional training provided for our customer service agents to further improve customer interactions and enhancements to our digital platform enabling improved self-serve capability. These actions contributed to a 21% reduction in overall complaints compared to H1 2016. At the start of H1 2017 we aligned the Brand NPS methodology to the other Centrica Consumer business units, which use an email survey method. Brand NPS reduced by 6 points to 23 in H1 2017, however our online reputation scores improved significantly.

Cost efficiency also remains a priority. The integration of our energy and services business combined with the disposal of non-core businesses in 2016 has allowed us to further simplify our processes, reduce headcount and consolidate office locations. We have now also closed a number of loss-making services locations in non-core markets. This drove a 5% fall in annualised cost per home account.

The total number of energy supply accounts fell by 232,000, or 8%, during H1 2017. In Canada, regulatory changes required us to cease door-to-door sales. In the US, the regulatory environment, coupled with our focus on higher value customer segments, led to our decision to reduce door-to-door sales while we have also reduced our participation in auctions for low-margin aggregated customer books. Services customer account holdings were broadly flat compared to the end of 2016.

In July 2017 we announced that we would be exiting the residential solar market by the end of 2017. Challenging market dynamics and falling margins meant we were unable to generate the volume of sales and installations needed to deliver profitable growth despite actions taken since H1 2016 on costs. Centrica’s participation in commercial solar in North America will continue as a part of the DE&P customer offering.

We remain focused on differentiating our customer offer and developing bundled propositions. Direct Energy will be a key channel for our Hive products in North America, including the smart thermostat which was launched in April, and overall we have now sold 30,000 Hive hubs, with over 80% of them bundled with an energy tariff. Customers taking more than one product typically have higher retention rates. In H1 2017, 26% of energy sales were bundled with one or more product, such as a protection plan or a Connected Home product, compared to 19% in H1 2016.

North America Home adjusted operating profit increased by 82% and adjusted operating cash flow increased by 62%, reflecting our focus on more valuable customer segments, cost efficiency measures and reduced losses from the solar business following actions taken to improve the efficiency of its operations.

CONNECTED HOME

Six months ended 30 June	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.18**	0.00	nm
Brand NPS	**42**	50	(8pt)
Cumulative hubs installed ('000s)	**660**	364	81%
New products launched	**2**	5	(60%)
Active subscriptions ('000s) [1]	**52**	9	478%
Adjusted operating costs as a % of gross margin [2]	**1508%**	901%	607ppt
Gross revenue (£m)	**16**	12	33%
Adjusted operating cash flow (£m)	**(60)**	(25)	(140%)
Adjusted operating (loss) (£m)	**(44)**	(23)	(91%)

1. H1 2016 has been restated to include 9,000 Boiler IQ subscriptions.
2. H1 2016 adjusted operating costs as a % of gross margin restated on consistent basis as reported at FY 2016.

Connected Home is one of Centrica's growth areas, with offers primarily focused on the strategic pillars of peace of mind, home energy management and home automation. During H1 2017 we launched two new products, the Connected Camera and the US smart thermostat with air-conditioning, with our Hive leak sensor and Hive Active Hub products due to be launched in August and October respectively. The full suite of Hive products was launched in North America and Ireland in Q2 2017 and connected products are now available for customers in Italy.

We installed 133,000 connected hubs in H1 2017, taking the total to 660,000 including 30,000 in North America. In total, we have now sold over 1m Hive connected home products and remain on track to have installed over 1m hubs and to have sold 1.5m products by the end of 2017.

In addition to product sales, we have launched a range of subscription offers, including our 'Welcome Home' and 'Home Check' propositions in the UK and North America, and our 'Heating and Cooling' proposition in the US. These propositions offer easy to use solutions that enable customers to personalise, control and interact with their home through the Hive product range. Initial take-up of these offers has been good with over 1,700 subscribers since launch, 70% of which are new to brand. In total we now have 52,000 active subscriptions, including 36,000 on 'Boiler IQ' which uses sensors to remotely diagnose boiler faults and 16,000 Hive subscriptions.

Gross revenue increased by 33% compared to H1 2016, to £16m, reflecting increased product sale volumes due to a more diverse product range. We reported an increased adjusted operating loss and adjusted operating cash outflow, reflecting increased investment in product development, customer acquisition costs in the UK and the launch of Hive in North America.

Business Review continued

CENTRICA BUSINESS

UK BUSINESS

Six months ended 30 June	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.28**	0.14	100%
Brand NPS [1]	**(11)**	(5)	(6pt)
Complaints (per 100,000 customers) [2]	**8,667**	11,458	(24%)
Customer account holdings ('000s)	**687**	729	(6%)
Total customer energy consumption			
Gas (mmth)	**256**	313	(18%)
Electricity (GWh)	**5,813**	6,619	(12%)
Adjusted operating costs as a % of gross margin	**91%**	78%	13ppt
Adjusted operating cash flow (£m)	**84**	259	(68%)
Adjusted operating profit (£m)	**0**	31	(100%)

1. UK Business Brand NPS is for small and medium enterprise (SME) customers on a 6 month rolling basis, H1 2016 Brand NPS has been restated to exclude Industrial & Commercial (I&C) customers and is on a 3 month rolling basis.
2. Complaints per 100,000 customers as reported to Ofgem.

UK Business continued to see improvements in operational performance in H1 2017, with billing issues associated with the migration of customer accounts and associated data to a new billing and CRM system from multiple legacy systems having been resolved in H2 2016. Billing accuracy and timeliness continues to improve and remains significantly better than under the old systems and as a result the level of complaints was stable over H1 2017 and down 24% compared to H1 2016. In addition, operating costs have now returned to pre-implementation levels.

Customer account holdings fell by 30,000, or 4%, during H1 2017, in part reflecting our decision to not pursue renewal of some low value multi-site contracts. We continue to rebuild our reputation in the industry following the billing system implementation issues and focus our retention activities on higher value SME customers. We also continue to work on building relationships with energy brokers, a key part of the market and have improved our customer portal facilities to allow brokers to manage their whole portfolio online.

H1 2017 was negatively impacted by electricity cost volatility and the phasing of energy volume settlements, while warmer weather also reduced consumption. Reflecting these impacts, the business broke-even at an adjusted operating profit level in H1 2017 compared to a £31m profit in H1 2016. However we expect the business to return to profit in the second half of the year. Working capital management has remained a key area of focus and reflecting this, and the seasonality of working capital flows, adjusted operating cash flow was £84m.

NORTH AMERICA BUSINESS

Six months ended 30 June	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.00**	0.00	nm
Brand NPS	**29**	26	3pt
Complaints (per 100,000 customers) [1]	**11**	16	(31%)
Customer account holdings (‘000s)	**577**	597	(3%)
Total customer energy consumption			
Gas (mmth)	**3,176**	3,168	0%
Electricity (GWh)	**39,192**	43,872	(11%)
Adjusted operating costs as a % of gross margin [2]	**54%**	62%	(8ppt)
Adjusted operating cash flow (£m)	**147**	121	21%
Adjusted operating profit (£m)	**112**	62	81%
Adjusted operating profit ($m)	**141**	90	57%

1. Complaints per 100,000 customers as reported by various regulatory bodies.
2. H1 2016 adjusted for H1 2017 FX rates.

North America Business continues to build on its position as one of the largest B2B gas and power suppliers in North America, and remains focused on delivering high levels of customer retention, expanding into new geographies and optimising its portfolio of natural gas pipeline and storage contracts.

Customer satisfaction and retention remain a key focus and we continue to implement a number of enhancements to our processes and offering, while improving our digital capabilities and tailoring our approach for different segments. Our Energy Portfolio platform, launched in H2 2016, has given customers direct access to our energy expertise while providing dynamic energy procurement options through digital workflows. We have also made improvements to our billing processes, helping drive a 31% reduction in complaints compared to H1 2016, whilst NPS increased by 3 points to 29.

We continue to look to expand our offering into new geographies and delivered increased gas and power sales volumes in the Mid-Continent, California and Canada. However, energy efficiency measures have lowered power usage per customer across the industry and total customer account holdings reduced by 13,000 or 2% during H1 2017, reflecting competitive market conditions, which are also putting pressure on sold unit margins, particularly in power.

North America Business continues to work closely with the Distributed Energy & Power business, with the development of joint propositions to deepen the customer relationship and enable cross sell opportunities. North America Business continues to be an important channel for sales of demand response products, including Panoramic Power’s wireless energy insight management solutions, with the number of sensors deployed to Direct Energy customers increasing by 2,200 in H1 2017. We are also expanding our CHP offering in North America following the acquisition of ENER-G Cogen in 2016.

North America Business delivered an 81% increase in adjusted operating profit and adjusted operating cash flow was up 21%. On a local currency basis adjusted operating profit was up 57%, reflecting good gas optimisation performance despite the warm weather and non-repeat of commodity related imbalance charges from 2016.

Business Review continued

DISTRIBUTED ENERGY & POWER

Six months ended 30 June	**2017**	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked) [1]	**0.78**	1.32	(41%)
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked) [1]	**0.00**	0.00	nm
NPS [2]	**n/a**	n/a	nm
Flexible distributed energy capacity under management (MW)	**591**	517	14%
Active customer sites [3]	**4,236**	3,827	11%
Secured revenue (order book) (£m) [4]	**278**	284	(2%)
Adjusted operating costs as a % of gross margin [5]	**171%**	119%	52ppt
Gross revenue (£m)	**84**	67	25%
Adjusted operating cash flow (£m)	**(13)**	(19)	32%
Adjusted operating (loss) (£m)	**(19)**	(11)	(73%)

1. Total recordable injury frequency rate and process safety incident rate relate to both the Distributed Energy & Power and Central Power Generation segments due to shared employees across both business units.
2. NPS methodology for Distributed Energy & Power is under development.
3. H1 2016 active customer sites restated on consistent basis per methodology used at FY 2016.
4. H1 2016 restated to be on a consistent basis across all geographies.
5. H1 2016 adjusted for H1 2017 FX rates and portfolio change.

Distributed Energy & Power (DE&P) is one of our growth areas, focused on the Centrica Business strategic pillars of energy insight, energy optimisation and energy solutions. Our existing capabilities, which were brought together in H2 2015 with the formation of the DE&P business unit, have been enhanced over the past two years with the targeted acquisitions of Panoramic Power and ENER-G Cogen, providing us with a scalable base to capitalise on the global trend towards distributed energy and allowing us to develop a range of products and services to meet the needs of our customers.

We continue to see growth in sales of our subscription-based Panoramic Power energy insight product, and now have 44,000 sensors deployed across more than 1,500 sites in 30 countries, collecting around 11bn data points per month. The circuit level technology allows us to change the dynamic of the conversation with the customer providing them with real-time visibility of their energy usage, while enabling cross sell opportunities for energy optimisation and energy solutions products and services.

ENER-G Cogen continues to perform in line with our expectations and now has over 1,400 long-term contracted sites and active solutions in 13 countries, having sold both off-the-shelf and bespoke end-to-end CHP solutions. We continue to develop and build our customer proposition and have expanded our CHP offering in North America. In total, the number of DE&P active customer sites has increased by 11% over the past 12 months. Total secured revenue, our forward order book, was 2% lower at the end of H1 2017 compared to H1 2016, however after excluding the impact of the disposal of our non-core building energy management systems business during H1 2017, it was up 2% on a like-for-like basis.

DE&P also includes our fleet of smaller gas-fired peaking plants, with Brigg operating as a 99MW distributed generation asset and Barry and Peterborough having operated under Short Term Operating Reserve (STOR) contracts over the 2016/17 Winter. All three plants secured one year capacity market contracts starting in October 2017. Work has now commenced on our flexible generation projects, a 49MW battery storage facility at Roosecote and two 50MW fast response gas-fired plants at Brigg and Peterborough. In December 2016, all three of these new plants were awarded 15 year capacity contracts starting in October 2020.

We continue to innovate in Local Energy Markets and our pioneering Cornwall trial now has over 300 homes and businesses that have registered their interest to take part in the three year programme. The trial will test the use of flexible demand, generation and storage, allowing participants to sell flexible energy capacity to both the grid and the wholesale energy market, rewarding local people and businesses for being more flexible.

DE&P gross revenue increased by 25% compared to H1 2016, reflecting the impact of organic customer growth and the ENER-G Cogen acquisition in May 2016, partially offset by the impacts of the disposal of the non-core building energy management systems business and the scaling back of our UK solar business following the removal of the feed-in-tariff. DE&P reported an increased adjusted operating loss of £19m, reflecting increased investment in the development of new customer propositions and technology and in increased headcount to build new capability. Adjusted operating cash outflow was £13m.

ENERGY MARKETING & TRADING

Six months ended 30 June	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.00**	0.00	nm
Adjusted operating cash flow (£m)	**220**	103	114%
Adjusted operating profit (£m)	**105**	(14)	nm

Energy Marketing & Trading (EM&T) is one of Centrica's growth businesses and is focused on the Centrica Business strategic pillars of energy optimisation and wholesale energy. EM&T continues to serve its core purpose of managing the commodity risk and providing wholesale market access for the Group, as well as building on its trading and optimisation capabilities, providing route to market access for business customers and expanding its global LNG presence to benefit from increasingly international markets. Overall, EM&T delivered a strong financial result in H1 2017.

The acquisition of Neas Energy in 2016 has enhanced EM&T's capabilities and geographical reach. EM&T is also able to utilise Neas' Optimisation Platform, 'Neas Direct' which provides hedging and optimisation strategies, as well as route to market services to our customers. EM&T now serves customers who own decentralised assets with installed capacity of over 10GW, predominantly in Denmark, the UK, Germany and Sweden, enabling customers to access our expertise to capture value and provide flexibility services to their assets. The business continues to perform ahead of expectations and delivered a further strong trading and optimisation result in H1 2017 primarily as a result of power volatility in Northern European markets. In LNG, we continue to expand our global business and in H1 2017 transacted further 'free on board' and 'delivered ex-ship' cargoes from a range of locations globally.

EM&T has three major flexible gas contracts and associated hedges, with 'take or pay' arrangements where the payments are made for gas even if delivery is deferred to future periods. The profit and cash flow from these contracts and hedges will vary between periods based on the commodity price environment and decisions we take to optimise them. Having deferred delivery of some gas in 2016 and H1 2017 to maximise the value of the contracts, we expect to take delivery of this gas during H2 2017. Associated hedges generated £40m of profit in H1 2017, however the contracts will make a small loss during H2. As a result, FY 2017 EM&T adjusted operating profit and adjusted operating cash flow are expected to be heavily weighted to the first half of year.

EM&T adjusted operating profit was £105m in H1 2017 compared to a £14m loss in H1 2016. This reflects further strong trading and route-to-market performance, the impact of the Neas Energy acquisition and the timing of the optimisation of flexible gas contracts. Adjusted operating cash flow more than doubled to £220m, predominantly reflecting the timing of cash flows associated with the flexible gas contracts.

Business Review continued

CENTRAL POWER GENERATION

Six months ended 30 June	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked) [1]	**0.78**	1.32	(41%)
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked) [1]	**0.00**	0.00	nm
CCGT reliability	**97%**	85%	12ppt
Power generated (GWh)			
Gas-fired	**4,504**	4,717	(5%)
Renewables	**68**	309	(78%)
Nuclear	**6,445**	6,176	4%
Total power generated (GWh)	**11,017**	11,202	(2%)
Achieved clean spark spread (£/MWh)	**10.7**	7.4	45%
Achieved power price – renewables (including ROCs) (£/MWh)	**128.7**	112.0	15%
Achieved power price – nuclear (£/MWh)	**43.7**	44.9	(3%)
Adjusted operating cash flow (£m)	**7**	(30)	nm
Adjusted operating profit (£m)	**24**	24	0%

1. Total recordable injury frequency rate and process safety incident rate relate to both the Distributed Energy & Power and Central Power Generation segments due to shared employees across both business units.

In H1 2017 we made further significant progress in reshaping our Central Power Generation business in line with our strategy to focus on growth in distributed generation assets.

In February, we completed our exit from wind power generation with the disposal of our 50% interest in the Lincs windfarm for cash proceeds of £224m, before deal costs and including repayment of shareholder loan interest. The sale resulted in an exceptional post-tax profit on disposal of £58m. In June, we agreed the sale of our large CCGTs at Langage and South Humber Bank and the Kings Lynn B CCGT development project for £320m, which resulted in a post-tax exceptional impairment write-back of £12m. The transaction was granted EU merger clearance in July and is expected to complete in H2 2017. Gas-fired power generation volumes were 5% down compared to H1 2016 with increased underlying load factors more than offset by the impact of planned maintenance outages.

Centrica retains a 20% equity interest in the eight stations of the UK nuclear fleet. Our share of nuclear generation volumes of 6.4TWh was up 4% compared to H1 2016, reflecting continued strong operational performance.

Central Power Generation adjusted operating profit was £24m, in line with H1 2016, primarily driven by higher achieved spark spreads for our CCGTs, offset by lower baseload power prices for Nuclear and the impact of our exit from wind power generation. Adjusted operating cash flow improved by £37m to £7m, reflecting positive movements in working capital in comparison to H1 2016.

EXPLORATION & PRODUCTION

Six months ended 30 June	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.53**	0.56	(5%)
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)	**0.35**	0.15	133%
Gas production volumes (mmth)			
Europe	**1,007**	1,080	(7%)
Americas [1]	**636**	679	(6%)
Total gas production volumes (mmth) [1]	**1,643**	1,759	(7%)
Liquids production volumes (mmboe)			
Europe	**7.3**	7.9	(8%)
Americas [1]	**1.1**	1.0	10%
Total liquids production volumes (mmboe) [1]	**8.4**	8.9	(6%)
Total production volumes (mmboe)	**35.2**	37.8	(7%)
Average achieved gas sales prices (p/therm)			
Europe	**40.0**	34.2	17%
Americas	**15.7**	9.8	60%
Average achieved liquid sales prices (£/boe)			
Europe	**31.2**	30.0	4%
Americas	**28.1**	20.1	40%
Lifting and other cash production costs (£/boe) [2]			
Europe	**13.7**	12.2	12%
Americas	**6.7**	4.3	56%
Adjusted operating cash flow (£m)	**276**	336	(18%)
Free cash flow (£m) [3]	**89**	72	24%
Adjusted operating profit (£m)	**99**	88	13%
Adjusted operating profit after tax (£m)	**31**	21	48%
Net investment (£m) [3]			
Capital expenditure (including small acquisitions)	**220**	289	(24%)
Net disposals	**(33)**	(25)	32%
Net investment (£m)	**187**	264	(29%)

1. Includes 100% share of Canadian assets owned in partnership with Qatar Petroleum.
2. Lifting and other cash production costs are total operating costs and cost of sales excluding depreciation and amortisation, dry hole costs, exploration costs and profit on disposal.
3. See pages 53 to 54 for an explanation of the use of adjusted performance measures.

Business Review continued

EXPLORATION & PRODUCTION

Our Exploration & Production (E&P) business has made significant progress in 2017 to date as we transition to a stronger, more sustainable European E&P business. In May, we completed the disposal of our remaining portfolio of gas assets in Trinidad and Tobago for $36m (£28m) which resulted in a post-tax exceptional loss on disposal of £9m. In June, we announced the disposal of our interest in the joint venture portfolio of assets in Canada for expected proceeds of approximately £240m, which has led to an £81m post-tax impairment. In July we announced we would combine our European E&P business with Bayerngas Norge to create a new joint venture, establishing a stronger, more sustainable European E&P business with a complementary mix of producing assets and development projects.

Total gas and liquids production of 35.2mmboe was down 7% compared to H1 2016 with production in Europe down 7% and production in the Americas down 6%. The reduction in European production principally reflected natural portfolio decline rates, as well as our decision to undertake onshore and offshore asset integrity works at Morecambe to improve safety, operational efficiency and underpin the residual life of the asset. This was partly offset by the positive impact of a first full half year of production from the Cygnus gas field, which came on-stream in December 2016 and is performing ahead of expectations. The reduction in production in the Americas was principally due to the disposal of our gas assets in Trinidad and Tobago.

We continue to focus our investment on the most attractive development options in our portfolio. We commenced drilling operations at the Maria development in Q1 2017, with first oil expected in 2018, and estimated total project costs are currently expected to be lower than the business case. We have also awarded fabrication contracts on the Oda project, which remains on target to produce first gas in 2019. Further infill wells are being drilled at Statfjord and Kvitebjørn and we have also made positive final investment decisions on infill wells at the Chiswick and Chestnut fields. Overall, H1 2017 capital expenditure was down 24% to £220m reflecting the phasing of project spend and we remain on track to spend around £500m for FY 2017.

European total lifting and other cash production costs increased by 4% compared to H1 2016, driven primarily by the decline in sterling, with the impact of Cygnus coming on-stream being offset by cost efficiencies. Combined with lower production volumes, this resulted in European unit lifting and other cash production costs increasing by 12%. North America unit lifting and other cash production costs were 56% higher which principally reflects the impact of the decline in sterling, higher royalty and pipeline tariffs and the non-repeat of some one-off savings in 2016.

Adjusted operating profit of £99m was 13% higher than H1 2016 with higher achieved prices more than offsetting the impact of lower production, higher cash costs and higher depreciation associated with Cygnus production. However adjusted operating cash flow fell 18% in comparison to H1 2016, to £276m despite the increased operating profit, reflecting higher decommissioning spend and higher cash taxes paid. The business was again free cash flow positive in H1 2017 despite the lower adjusted operating cash flow, generating £89m reflecting lower capital expenditure and the Trinidad and Tobago disposal.

CENTRICA STORAGE

Six months ended 30 June	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.31**	1.48	(11%)
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)	**0.66**	0.53	25%
Reservoir capacity (bcf) [1]	**nm**	110	nm
Average SBU price (in period) (pence) [1]	**nm**	19.6	nm
Gross revenue (£m)			
Standard SBUs	**5**	40	(88%)
Additional space / cushion gas / other	**7**	42	(83%)
Total gross revenue (£m)	**12**	82	(85%)
Adjusted operating cash flow (£m)	**(42)**	30	nm
Adjusted operating (loss) / profit (£m)	**(43)**	4	nm

1. 2017 reservoir capacity and average SBU price not reported due to the asset not being available for injection operations.

In June, Centrica Storage announced it had completed and analysed the results of the extensive well testing programme at the Rough gas storage asset, which had commenced in 2015 following the identification of a potential technical issue. Centrica Storage also announced that it had completed a review into the feasibility of returning Rough to injection and storage operations. It has concluded that, as a result of the high operating pressures involved, and the fact that the wells and facilities are at the end of their design life and had suffered a number of different failure modes while testing, it could not safely return the assets and facilities to injection and storage operations. In addition, an assessment of both the current economics of seasonal storage and the costs involved suggested that it would not be economic to continue to operate Rough as a gas storage asset by refurbishing or rebuilding the facility and replacing the wells.

As a result, Centrica Storage is making all relevant applications to permanently end Rough’s status as a storage facility and to produce all recoverable cushion gas. Separate to this application, Centrica Storage has also applied to the Oil and Gas Authority to produce up to an initial 30.7bcf in order to reduce pressure on the wells to ensure that risks associated with operating the reservoir are as low as reasonably practical. A decision on this latter application is expected in Q3 2017 and subject to approval the asset would start producing gas following its planned maintenance period. Up to 15bcf is expected to be produced in H2 2017, with the remainder expected to be produced in Q1 2018. As a result we expect Centrica Storage to make a small operating loss in H2 2017.

Centrica Storage gross revenue fell by 85% to £12m reflecting a materially reduced amount of capacity available for the 2016/17 storage year due to technical issues and the asset not being available for injection operations for the 2017/18 storage year. H1 2016 also included the benefit from the sale of 9bcf of cushion gas. With total costs down 29% due to lower fuel gas usage and lower depreciation resulting from the reduced operations at Rough, Centrica Storage recognised an adjusted operating loss of £43m in H1 2017 compared to a small adjusted operating profit in H1 2016. Adjusted operating cash outflow was £42m.

A pre-tax exceptional charge of £270m (post-tax £224m) was recorded in H1 2017, due to a change in the value of Rough resulting from the decision to operate it as a gas production asset instead of a gas storage facility.

Group Financial Review

GROUP REVENUE

Group revenue increased 7% to £14.3bn (2016: £13.4bn). This primarily reflects an increase in revenue in Centrica Business reflecting the Neas Energy acquisition which completed in H2 2016 and the impact of foreign exchange movements on North America Business revenue.

OPERATING PROFIT

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

				2017			2016
Six months ended 30 June	Notes	**Business performance £m**	**Exceptional items and certain re-measurements £m**	**Statutory result £m**	Business performance £m	Exceptional items and certain re-measurements £m	Statutory result £m
Adjusted operating profit / (loss)							
UK Home		**489**			635		
Ireland		**33**			24		
North America Home		**60**			33		
Connected Home		**(44)**			(23)		
Centrica Consumer		**538**			669		
UK Business		**0**			31		
North America Business		**112**			62		
Distributed Energy & Power (DE&P)		**(19)**			(11)		
Energy Marketing & Trading (EM&T)		**105**			(14)		
Central Power Generation (CPG)		**24**			24		
Centrica Business		**222**			92		
Exploration & Production (E&P)		**99**			88		
Centrica Storage (CSL)		**(43)**			4		
Total adjusted operating profit	4(c)	**816**			853		
Interest and taxation on joint ventures and associates	4(c)	**(15)**			(37)		
Group operating profit / (loss)	4(c)	**801**	**(549)**	**252**	816	950	1,766
Net finance cost	7	**(171)**	**-**	**(171)**	(141)	-	(141)
Taxation	8	**(179)**	**105**	**(74)**	(180)	(309)	(489)
Profit / (loss) for the period		**451**	**(444)**	**7**	495	641	1,136
Less loss attributable to non-controlling interests		**(2)**			12		
Adjusted earnings		**449**			507		

Total adjusted operating profit reduced 4% to £816m (2016: £853m). Profits from the Centrica Consumer division fell 20% with the impact of warmer weather on energy consumption and lower account holdings in UK Home and North America Home and increased losses due to growth investment in Connected Home more than offsetting favourable foreign exchange movements and cost efficiencies. Profits from the Centrica Business division increased by 141% reflecting stronger optimisation performance in both North America Business and EM&T and favourable foreign exchange movements. CSL reported an operating loss of £43m compared to a profit of £4m in 2016 reflecting the asset being unavailable for injection activities during H1 2017.

GROUP FINANCE CHARGE AND TAX

Net finance costs increased to £171m (2016: £141m), predominantly reflecting a lower capitalised interest credit.

Business performance taxation on profit was broadly flat at £179m (2016: £180m) and after taking account of tax on joint ventures and associates, the adjusted tax charge was £188m (2016: £193m). Although E&P delivered positive operating profit overall, it was loss making in the UK, where tax relief is given for E&P losses at a higher effective rate than the rate applied to other UK profits. This resulted in a 0% (2016: 19%) UK adjusted effective tax rate. The resultant adjusted tax rate for the Group was 29% (2016: 28%). An adjusted effective tax rate calculation is shown overleaf:

Six months ended 30 June	UK £m	Non-UK £m	2017 Total £m	UK £m	Non-UK £m	2016 Total £m
Adjusted operating profit	**448**	**368**	**816**	673	180	853
Share of joint ventures/associates interest	**(6)**	**-**	**(6)**	(24)	-	(24)
Net finance cost	**(114)**	**(57)**	**(171)**	(108)	(33)	(141)
Adjusted profit before taxation	**328**	**311**	**639**	541	147	688
Taxation on profitable businesses	**126**	**196**	**322**	166	91	257
Taxation on loss-making businesses	**(135)**	**(8)**	**(143)**	(74)	(3)	(77)
Share of joint ventures'/associates' taxation	**9**	**-**	**9**	13	-	13
Adjusted tax charge	**0**	**188**	**188**	105	88	193
Adjusted effective tax rate	**0%**	**60%**	**29%**	19%	60%	28%

GROUP EARNINGS AND DIVIDEND

Profit for the period decreased to £451m (2016: £495m) and after adjusting for non-controlling interests, adjusted earnings fell by 11% to £449m (2016: £507m). Adjusted basic EPS was 8.2p (2016: 9.8p) reflecting the lower earnings and a higher number of shares in issue due to the effects of a 7% equity placing in May 2016 and the scrip dividend.

The statutory profit attributable to shareholders for the period was £44m (2016: £1,148m). The reconciling items between Group profit for the period from business performance and statutory profit are related to exceptional items and certain re-measurements. The difference compared to 2016 is principally due to a higher exceptional charge of £268m (2016: £63m) and a £176m net loss from certain re-measurements (2016: £704m net gain). The Group reported a statutory basic EPS of 0.8p (2016: 22.2p).

An interim dividend of 3.6p per share, in line with last year and consistent with our policy of paying 30% of the prior year's full year dividend as an interim dividend the following year, will be paid on 30 November 2017 to shareholders on the register on 13 October 2017.

GROUP CASH FLOW, NET DEBT AND BALANCE SHEET

Net cash flow from operating activities decreased to £1,109m (2016: £1,368m). Adjusted operating cash flow, which is reconciled to net cash flow from operating activities in the table below, was down 9% to £1,242m.

Six months ended 30 June	2017 £m	2016 £m
Net cash flow from operating activities	**1,109**	1,368
Add back/(deduct):		
Net margin and cash collateral inflow (i)	**(53)**	(218)
Payments relating to exceptional charges	**90**	173
Dividends received from joint ventures and associates	**20**	49
Defined benefit deficit pension payment	**76**	-
Adjusted operating cash flow	**1,242**	1,372

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

Net cash outflow from investing activities decreased to £102m (2016: £308m), reflecting the sale of the Lincs wind farm in H1 2017, reduced capital expenditure and the acquisition of ENER-G Cogen in H1 2016.

Net cash outflow from financing activities was £595m (2016: £221m net cash inflow) reflecting the H1 2016 issuance of ordinary share capital following the equity placing. Equity dividends paid were lower, reflecting a higher scrip take up and financing interest was higher.

Reflecting all of the above, the Group's net debt as at 30 June 2017 fell to £2,941m (31 December 2016: £3,473m; 30 June 2016: £3,783m), which includes cash collateral posted or received in support of wholesale energy procurement. Net assets decreased to £2,688m (31 December 2016: £2,844m).

The net pension liability was £922m at the end of H1 2017 compared to £1,137m at the end of 2016. Further details can be found in note 13.

ACQUISITIONS AND DISPOSALS

In February, the Group completed the disposal of the Lincs Wind Farm for £214m. In May, the Group completed the disposal of Trinidad & Tobago gas assets for £28m.

Group Financial Review continued

In June, the Group announced the disposal of its 60% interest in its portfolio of Canadian E&P assets for £240m and also announced the disposal of its UK gas-fired power stations at Langage, Humber Bank and Kings Lynn B, for £320m. All of these assets are now classified as disposal groups held for sale.

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

EXCEPTIONAL ITEMS

A net exceptional pre-tax charge of £331m was recognised in H1 2017 (2016: £27m).

The Group recognised a £64m gain on disposal of the Lincs wind farm joint venture, and a £9m loss on disposal of all its remaining portfolio of gas assets in Trinidad and Tobago.

The Group recognised a £97m impairment charge on its Canadian E&P assets and a £15m impairment write back of its CCGT power stations, with these assets now classified as disposal groups held for sale.

Following the announcement in June 2017 that the Rough facility could not be safely returned to injection and storage operations and CSL would instead apply for a production licence for the remaining cushion gas, a pre-tax impairment charge of £270m was recorded.

Following the Group's strategic review announced in 2015, the Group incurred a further £34m of restructuring costs in H1 2017 in implementing the new organisational model relating principally to redundancy costs, impairment of assets on closure of businesses, transformation spend and consultancy costs.

These charges generated a taxation credit of £63m (2016: £9m). Total net exceptional items after taxation were £268m (2016: £63m).

Further details can be found in note 6.

CERTAIN RE-MEASUREMENTS

The Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair valued under IAS 39. The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. The operating profit in the statutory results includes a net pre-tax loss of £218m (2016: gain of £977m) relating to these re-measurements, or £176m after tax (2016: gain of £704m). The Group recognises the realised gains and losses on these contracts in business performance when the underlying transaction occurs. The profits arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements. See note 6 for further details.

EVENTS AFTER THE BALANCE SHEET DATE

On 17 July 2017, the Group announced it had reached an agreement with Stadtwerke München GmbH to combine its E&P business with Bayerngas Norge, in which Stadtwerke München GmbH is the majority shareholder. Following completion of the transaction Centrica will own 69% of the joint venture and Bayerngas Norge's existing shareholders will own 31%. The transaction is expected to close in Q4 2017, subject to competition and regulatory approvals and other conditions.

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

RISKS AND CAPITAL MANAGEMENT

The Group's principal risks and uncertainties are largely unchanged from those set out in its 2016 Annual Report. Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note 18. Details on the Group's capital management processes are provided under sources of finance in note 12(a).

ACCOUNTING POLICIES

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

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Interim Results for the six month period ended 30 June 2017 in accordance with applicable law, regulations and accounting standards. In preparing the condensed interim Financial Statements, the Directors are responsible for ensuring that they give a true and fair view of the state of affairs of the Group at the end of the period and the profit or loss of the Group for that period.

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

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

The Directors of Centrica plc are listed in the Group's 2016 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

Iain Conn
Group Chief Executive
31 July 2017

Jeff Bell
Group Chief Financial Officer
31 July 2017

Independent Review Report to Centrica plc

We have been engaged by the Company to review the condensed set of interim Financial Statements in the Interim Results for the six months ended 30 June 2017 which comprises the Group Income Statement, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Statement of Comprehensive Income, the Group Cash Flow Statement and related notes 1 to 19. 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 set of interim Financial Statements.

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

DIRECTORS' RESPONSIBILITIES

The 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 Conduct Authority.

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

OUR RESPONSIBILITY

Our responsibility is to express to the Company a conclusion on the condensed set of interim Financial Statements in the Interim Results based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and 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 set of interim Financial Statements in the Interim Results for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Statutory Auditor

London, United Kingdom

31 July 2017

Group Income Statement

Six months ended 30 June	Notes	2017 Business performance £m	2017 Exceptional items and certain re-measurements £m	2017 Results for the period £m	2016 Business performance £m	2016 Exceptional items and certain re-measurements £m	2016 Results for the period £m
Group revenue	4(b)	**14,293**	**–**	**14,293**	13,380	–	13,380
Cost of sales before exceptional items and certain re-measurements		**(12,049)**	**–**	**(12,049)**	(11,101)	–	(11,101)
Re-measurement of energy contracts	6(b)	**–**	**(223)**	**(223)**	–	969	969
Cost of sales		**(12,049)**	**(223)**	**(12,272)**	(11,101)	969	(10,132)
Gross profit/(loss)		**2,244**	**(223)**	**2,021**	2,279	969	3,248
Operating costs before exceptional items		**(1,466)**	**–**	**(1,466)**	(1,514)	–	(1,514)
Exceptional items – net impairments	6(a)	**–**	**(352)**	**(352)**	–	(176)	(176)
Exceptional items – net gain on disposals	6(a)	**–**	**55**	**55**	–	124	124
Exceptional items – restructuring and other	6(a)	**–**	**(34)**	**(34)**	–	25	25
Operating costs		**(1,466)**	**(331)**	**(1,797)**	(1,514)	(27)	(1,541)
Share of profits of joint ventures and associates, net of interest and taxation	5	**23**	**5**	**28**	51	8	59
Group operating profit/(loss)	4(c)	**801**	**(549)**	**252**	816	950	1,766
Financing costs	7	**(183)**	**–**	**(183)**	(163)	–	(163)
Investment income	7	**12**	**–**	**12**	22	–	22
Net finance cost		**(171)**	**–**	**(171)**	(141)	–	(141)
Profit/(loss) before taxation		**630**	**(549)**	**81**	675	950	1,625
Taxation on profit/(loss)	8	**(179)**	**105**	**(74)**	(180)	(309)	(489)
Profit/(loss) for the period		**451**	**(444)**	**7**	495	641	1,136
Attributable to:							
Owners of the parent		**449**	**(405)**	**44**	507	641	1,148
Non-controlling interests		**2**	**(39)**	**(37)**	(12)	–	(12)

Earnings per ordinary share		**2017 Pence**	2016 Pence
Basic	9	**0.8**	22.2
Diluted	9	**0.8**	22.0

The notes on pages 29 to 52 form part of these condensed interim Financial Statements.

Group Statement of Comprehensive Income

Six months ended 30 June	**2017 £m**	2016 £m
Profit for the period	**7**	1,136
Other comprehensive income/(loss):		
Items that will be or have been recycled to the Group Income Statement:		
Gains on revaluation of available-for-sale securities, net of taxation	**3**	4
Transfer of available-for-sale reserve gains to Group Income Statement	**–**	(5)
Net gains on cash flow hedges	**17**	142
Transferred to income and expense on cash flow hedges	**(25)**	(110)
Transferred to assets and liabilities on cash flow hedges	**(4)**	(1)
Taxation on cash flow hedges	**1**	(4)
	(11)	27
Exchange differences on translation of foreign operations	**(81)**	395
Exchange differences recycled to Group Income Statement on disposal of business	**4**	–
Share of other comprehensive income/(loss) of joint ventures and associates, net of taxation	**10**	(7)
	(75)	414
Items that will not be recycled to the Group Income Statement:		
Net actuarial gains/(losses) on defined benefit pension schemes	**193**	(512)
Exchange gains/(losses) on translation of actuarial reserve	**1**	(5)
Taxation on net actuarial gains/(losses) on defined benefit pension schemes	**(33)**	91
	161	(426)
Share of other comprehensive income of joint ventures and associates, net of taxation	**8**	8
Other comprehensive income/(loss), net of taxation	**94**	(4)
Total comprehensive income for the period	**101**	1,132
Attributable to:		
Owners of the parent	**142**	1,115
Non-controlling interests	**(41)**	17

Group Statement of Changes in Equity

	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
1 January 2017	342	1,929	1,504	(1,109)	**2,666**	178	**2,844**
Profit/(loss) for the period	–	–	44	–	**44**	(37)	**7**
Other comprehensive income/(loss)	–	–	–	98	**98**	(4)	**94**
Employee share schemes	–	–	5	7	**12**	–	**12**
Scrip dividend	6	185	–	–	**191**	–	**191**
Dividends to equity holders (note 10)	–	–	(459)	–	**(459)**	–	**(459)**
Distributions to non-controlling interests	–	–	–	–	**–**	(1)	**(1)**
30 June 2017	**348**	**2,114**	**1,094**	**(1,004)**	**2,552**	**136**	**2,688**

	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	Total £m	Non-controlling interests £m	Total equity £m
1 January 2016	317	1,135	482	(756)	1,178	164	1,342
Profit/(loss) for the period	–	–	1,148	–	1,148	(12)	1,136
Other comprehensive (loss)/income	–	–	–	(33)	(33)	29	(4)
Employee share schemes	–	–	6	14	20	–	20
Scrip dividend	3	81	–	–	84	–	84
Dividends to equity holders (note 10)	–	–	(454)	–	(454)	–	(454)
Issue of share capital	21	673	–	–	694	–	694
30 June 2016	341	1,889	1,182	(775)	2,637	181	2,818

The notes on pages 29 to 52 form part of these condensed interim Financial Statements.

Group Balance Sheet

	Notes	30 June 2017 £m	31 December 2016 £m
Non-current assets			
Property, plant and equipment		**3,727**	5,298
Interests in joint ventures and associates		**1,708**	1,697
Other intangible assets		**1,900**	1,769
Goodwill		**2,542**	2,614
Deferred tax assets		**378**	356
Trade and other receivables		**65**	66
Derivative financial instruments		**406**	582
Securities	12(b)	**222**	219
		10,948	12,601
Current assets			
Trade and other receivables		**4,219**	5,102
Inventories		**338**	372
Derivative financial instruments		**532**	1,291
Current tax assets		**219**	241
Securities	12(b)	**18**	13
Cash and cash equivalents		**2,398**	2,036
		7,724	9,055
Assets of disposal groups classified as held for sale	11(c)	**1,339**	238
		9,063	9,293
Total assets		**20,011**	21,894
Current liabilities			
Derivative financial instruments		**(610)**	(1,100)
Trade and other payables		**(4,792)**	(5,525)
Current tax liabilities		**(473)**	(355)
Provisions for other liabilities and charges		**(342)**	(457)
Bank overdrafts, loans and other borrowings	12(c)	**(252)**	(398)
		(6,469)	(7,835)
Liabilities of disposal groups classified as held for sale	11(c)	**(614)**	(42)
		(7,083)	(7,877)
Non-current liabilities			
Deferred tax liabilities		**(176)**	(245)
Derivative financial instruments		**(269)**	(493)
Trade and other payables		**(197)**	(69)
Provisions for other liabilities and charges		**(2,624)**	(3,099)
Retirement benefit obligations	13(c)	**(922)**	(1,137)
Loans and other borrowings	12(c)	**(6,052)**	(6,130)
		(10,240)	(11,173)
Total liabilities		**(17,323)**	(19,050)
Net assets		**2,688**	2,844
Share capital		**348**	342
Share premium		**2,114**	1,929
Retained earnings		**1,094**	1,504
Other equity		**(1,004)**	(1,109)
Total shareholders' equity		**2,552**	2,666
Non-controlling interests		**136**	178
Total shareholders' equity and non-controlling interests		**2,688**	2,844

The notes on pages 29 to 52 form part of these condensed interim Financial Statements.

Group Cash Flow Statement

Six months ended 30 June	Notes	2017 £m	2016 £m
Group operating profit including share of results of joint ventures and associates		**252**	1,766
Less share of profit of joint ventures and associates, net of interest and taxation		**(28)**	(59)
Group operating profit before share of results of joint ventures and associates		**224**	1,707
Add back/(deduct):			
Depreciation, amortisation, write-downs and impairments		**871**	688
Profit on disposals		**(60)**	(133)
Decrease in provisions		**(38)**	(40)
Defined benefit pension service cost and contributions		**(64)**	(79)
Employee share scheme costs		**24**	26
Unrealised losses/(gains) arising from re-measurement of energy contracts		**246**	(718)
Operating cash flows before movements in working capital		**1,203**	1,451
Decrease in inventories		**19**	154
Decrease in trade and other receivables		**719**	736
Decrease in trade and other payables		**(718)**	(659)
Operating cash flows before payments relating to taxes, interest and exceptional charges		**1,223**	1,682
Taxes paid		**(24)**	(141)
Payments relating to exceptional charges		**(90)**	(173)
Net cash flow from operating activities		**1,109**	1,368
Purchase of businesses, net of cash acquired	11(a)	**(3)**	(132)
Sale of businesses	11(d)	**28**	24
Purchase of property, plant and equipment and intangible assets	4(e)	**(382)**	(424)
Sale of property, plant and equipment and intangible assets		**11**	4
Investments in joint ventures and associates		**(4)**	(13)
Dividends received from joint ventures and associates		**20**	49
Repayments of loans to, and disposal of investments in, joint ventures and associates		**219**	97
Interest received		**15**	56
(Purchase)/sale of securities	12(b)	**(6)**	31
Net cash flow from investing activities		**(102)**	(308)
Issue and surrender of ordinary share capital, including issue for share awards		**–**	694
Distribution to non-controlling interests		**(5)**	–
Payments for own shares		**(11)**	(7)
Financing interest paid		**(143)**	(111)
Repayment of borrowings and finance leases	12(b)	**(178)**	(128)
Cash received from borrowings	12(b)	**–**	138
Equity dividends paid		**(258)**	(365)
Net cash flow from financing activities		**(595)**	221
Net increase in cash and cash equivalents		**412**	1,281
Cash and cash equivalents including overdrafts at 1 January		**1,960**	860
Effect of foreign exchange rate changes		**(12)**	25
Cash and cash equivalents including overdrafts at 30 June		**2,360**	2,166
Included in the following lines of the Group Balance Sheet:			
Cash and cash equivalents		**2,398**	2,249
Overdrafts included within current bank overdrafts, loans and other borrowings		**(81)**	(83)
Assets of disposal groups classified as held for sale		**43**	–

The notes on pages 29 to 52 form part of these condensed interim Financial Statements.

Notes to the condensed interim Financial Statements

Notes to the condensed interim Financial Statements provide additional information required by statute, accounting standards or Listing Rules to explain a particular feature of the condensed interim Financial Statements. These condensed interim Financial Statements should be read in conjunction with the information that was released in the Group's consolidated Financial Statements for the year ended 31 December 2016.

1. GENERAL INFORMATION

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

The condensed interim Financial Statements for the six months ended 30 June 2017 included in this announcement were authorised for issue in accordance with a resolution of the Board of Directors on 31 July 2017.

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 2016 were approved by the Board of Directors on 23 February 2017 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 2017 and the Group Balance Sheet as at 30 June 2017 and related notes have been reviewed by the auditors and their report to the Company is set out on page 24.

2. BASIS OF PREPARATION

These condensed interim Financial Statements for the six months ended 30 June 2017 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34: 'Interim financial reporting', as adopted by the European Union.

These condensed interim Financial Statements should be read in conjunction with the Group's consolidated Financial Statements for the year ended 31 December 2016, 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, estimates and assumptions made by management in applying the Group's accounting policies were consistent with those applied in the Group's consolidated Financial Statements for the year ended 31 December 2016. Further details on the impairment reviews of the long-lived assets are included in note 3(c).

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

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

3. ACCOUNTING POLICIES

This section details new accounting standards, amendments and interpretations, whether these are effective in 2017 or later years, and if and how these are expected to impact the financial position and performance of the Group. In addition, this section sets out the Group's specific accounting measures applied in the preparation of the condensed interim Financial Statements. These measures enable the users of the accounts to understand the Group's underlying and statutory business performance separately.

The accounting policies applied in these condensed interim Financial Statements are consistent with those of the Group's consolidated Financial Statements for the year ended 31 December 2016, as described in those annual Financial Statements, with the exception of standards, amendments and interpretations effective as of 1 January 2017. The Group has not early adopted other standards, amendments to standards or interpretations that have been issued but are not yet effective. The nature and effect of these changes are disclosed next in sections (a) and (b).

(a) Standards, amendments and interpretations effective or adopted in 2017

From 1 January 2017, the following standards and amendments are effective in the Group's consolidated Financial Statements, subject to European Union endorsement. Since they are all expected to be endorsed in 2017, they have been applied to these condensed interim Financial Statements. Their first time adoption does not have a material impact on the Group's consolidated Financial Statements.

- Amendment to IAS 7: 'Statement of cash flows' related to the disclosure initiative;
- Amendment to IAS 12: 'Income taxes'; and
- 'Annual Improvement Project 2014-2016'.

Notes to the condensed interim Financial Statements

3. ACCOUNTING POLICIES

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

The Group has not yet applied the following standards and limited amendments to standards:

- IFRS 9: 'Financial instruments'. Effective from 1 January 2018;
- IFRS 15: 'Revenue from contracts with customers'. Effective from 1 January 2018;
- IFRS 16: 'Leases'. Effective from 1 January 2019, subject to European Union endorsement;
- IFRS 17: 'Insurance contracts'. Effective from 1 January 2021, subject to European Union endorsement;
- IFRIC interpretation 22: 'Foreign currency transactions and advance consideration'. Effective from 1 January 2018, subject to European Union endorsement;
- IFRIC interpretation 23: 'Uncertainty over income tax treatments'. Effective from 1 January 2019, subject to European Union endorsement;
- Amendment to IFRS 2: 'Classification and measurement of share-based payment transactions'. Effective from 1 January 2018, subject to European Union endorsement; and
- Clarifications to IFRS 15: 'Revenue from contracts with customers'. Effective from 1 January 2018, subject to European Union endorsement.

Management do not anticipate that the application of IFRIC 22, IFRIC 23 and the amendment to IFRS 2 will have a material impact on the Group's consolidated Financial Statements. The clarification of IFRS 15 has been considered as part of the wider IFRS 15 project discussed below.

Detailed disclosure of the progress on the projects to oversee the implementation of IFRS 9 and IFRS 15 was provided in note 1(c) of the Group's consolidated Financial Statements for the year ended 31 December 2016. No changes to those assessments have arisen as the projects have progressed. The Group is currently compiling information to enable restatements and additional disclosures to be prepared in relation to 2017, and further disclosure of the financial impacts will be provided in the Group's consolidated Financial Statements for the year ended 31 December 2017. The IFRS 15 project is also reviewing new product offerings, including bundled products, as these are developed through 2017.

IFRS 16: 'Leases' was issued in January 2016 and is likely to have a significant impact on the Group's future consolidated Financial Statements. A project to oversee the implementation of this standard has commenced, however, at this stage, it has not been practicable to quantify the full effect that this standard will have on the Group's consolidated Financial Statements. Currently the Group is considering the transition options available under IFRS 16.

IFRS 17: 'Insurance contracts' was issued in May 2017. This new standard will not be effective before 1 January 2021 (assuming it is endorsed by the European Union). The Group currently has fixed fee service contracts that it accounts for as insurance contracts under IFRS 4: 'Insurance contracts'. Under IFRS 17, subject to certain conditions, there is an accounting policy choice whether to account for these contracts under IFRS 17 or IFRS 15. This could change the accounting for these contracts and will be considered in the implementation of this new standard.

(c) Centrica specific accounting measures and critical accounting judgements

Use of adjusted profit, cash flow and earnings measures

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

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

- exceptional items; and
- certain re-measurements;

but including:

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

Note 4(c) contains an analysis of adjusted operating profit by segment and a reconciliation of adjusted operating profit to operating profit after exceptional items and certain re-measurements. Note 4(c) also details an analysis of adjusted operating profit after taxation by segment and a reconciliation to statutory profit for the period. Adjusted operating profit after taxation is defined as segment operating profit after taxation, before exceptional items and certain re-measurements. This includes the operating results of equity-accounted interests, net of associated taxation, before interest and associated taxation.

Adjusted earnings is defined as earnings before:

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

A reconciliation of adjusted earnings is provided in note 9.

Notes to the condensed interim Financial Statements

3. ACCOUNTING POLICIES

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

- payments relating to exceptional activities;
- deficit reduction payments made to the UK defined benefit pension schemes via Centrica's Scottish Partnership entities; and
- movements in variation margin and cash collateral which are included in net debt;

but including:

- dividends received from joint ventures and associates.

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

Note 4(f) contains a reconciliation of adjusted operating cash flow to net cash flow from operating activities.

Exceptional items and certain re-measurements

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

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

Primarily because some of these trades include terms that permit net settlement (hence they are prohibited from being designated as 'own use'), the rules within IAS 39: 'Financial instruments: Recognition and measurement' require them to be individually fair valued. Fair value movements on these commodity derivative trades do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. Therefore, these certain re-measurements are reported separately and are subsequently reflected in business performance when the underlying transaction or asset impacts profit or loss.

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

Exceptional items are those items which, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. Again, to ensure the business performance column reflects the underlying results of the Group, these exceptional items are also reported in a separate column in the Group Income Statement. Items that may be considered exceptional in nature include disposals of businesses or significant assets, business restructurings, significant onerous contract charges and asset write-downs/impairments.

Key areas of critical accounting judgement and estimation uncertainty that have the most significant effect on the consolidated Group Financial Statements are further disclosed in notes 3(a) and 3(b) of the Annual Report and Accounts for the financial year ended 31 December 2016.

Impairment of long-lived assets

During the period, an impairment of £3 million was recognised within business performance (see note 4(d)) and a further impairment of £4 million was recognised within exceptional restructuring costs.

An impairment of the Group's UK gas storage assets of £270 million pre-tax (£224 million post-tax) has been recognised as an exceptional cost in the period.

In June 2017, the Group announced that it had agreed to sell its existing Langage and South Humber Bank combined cycle gas turbine power stations, along with its King's Lynn B power station development, to EP UK Investments Ltd for £320 million in cash, subject to customary working capital and other completion adjustments, and pre-completion capital spend. This has resulted in an exceptional reversal of prior period impairments of £15 million pre-tax (£12 million post-tax).

In June 2017, the Group announced that it had agreed to sell its 60% interest in the CQ Energy Canada Partnership, its Canadian Exploration & Production business, for £413 million in cash, of which Centrica's net share of sale proceeds is expected to be approximately £240 million after adjustments. This has resulted in an exceptional impairment of £97 million pre-tax (£81 million post-tax).

Details of exceptional impairments are given in note 6.

Notes to the condensed interim Financial Statements

4. SEGMENTAL ANALYSIS

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

(a) Segmental structure

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

Segment	Description
Centrica Consumer	
UK Home	(i) The supply of gas and electricity to residential customers in the UK; and (ii) the installation, repair and maintenance of domestic central heating, plumbing and drains, gas appliances and kitchen appliances, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in the UK.
Ireland	(i) The supply of gas, electricity and energy management solutions to residential, commercial and industrial customers in the Republic of Ireland; (ii) power generation in the Republic of Ireland; and (iii) the repair and maintenance of domestic central heating in the Republic of Ireland.
North America Home	(i) The supply of gas and electricity to residential customers in North America; and (ii) the installation and maintenance of heating, ventilation and air conditioning (HVAC) equipment, water heaters, solar power generating equipment and the provision of breakdown services, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in North America.
Connected Home	The supply of energy efficiency solutions and new technologies to residential customers in all geographies in which the Group operates.
Centrica Business	
UK Business	The supply of gas and electricity and provision of energy-related services to business customers in the UK.
North America Business	(i) The supply of gas, electricity and energy-related services to business customers in North America; and (ii) procurement, trading and optimisation of energy in North America.
Distributed Energy & Power	The supply of energy efficiency solutions, flexible generation and new technologies to commercial and industrial customers in all geographies in which the Group operates. Flexible merchant generation is also provided to the UK system operator.
Energy Marketing & Trading	Trading and optimisation of energy in the UK and Europe.
Central Power Generation	Generation of power from combined cycle gas turbines (CCGT), wind and nuclear assets in the UK.
Exploration & Production	Production and processing of gas and oil and the development of new fields to maintain reserves in the UK, Europe and North America.
Centrica Storage	Gas storage in the UK.

4. SEGMENTAL ANALYSIS

(b) Revenue

Gross segment revenue represents revenue generated from the sale of products and services to both third parties and to other reportable segments of the Group. Group revenue reflects only the sale of products and services to third parties.

Six months ended 30 June	Gross segment revenue £m	Less inter-segment revenue £m	2017 Group revenue £m	Gross segment revenue £m	Less inter-segment revenue £m	2016 Group revenue £m
Centrica Consumer						
UK Home	**4,535**	**(2)**	**4,533**	5,066	(4)	5,062
Ireland	**422**	**–**	**422**	402	–	402
North America Home	**1,446**	**–**	**1,446**	1,242	–	1,242
Connected Home	**16**	**(5)**	**11**	12	(2)	10
	6,419	**(7)**	**6,412**	6,722	(6)	6,716
Centrica Business						
UK Business	**952**	**(2)**	**950**	1,094	–	1,094
North America Business	**4,179**	**–**	**4,179**	3,570	–	3,570
Distributed Energy & Power	**84**	**(1)**	**83**	67	(1)	66
Energy Marketing & Trading	**2,266**	**(104)**	**2,162**	1,335	(24)	1,311
Central Power Generation	**330**	**(103)**	**227**	312	(93)	219
	7,811	**(210)**	**7,601**	6,378	(118)	6,260
Exploration & Production	**796**	**(523)**	**273**	789	(449)	340
Centrica Storage	**12**	**(5)**	**7**	82	(18)	64
	15,038	**(745)**	**14,293**	13,971	(591)	13,380

Notes to the condensed interim Financial Statements

4. SEGMENTAL ANALYSIS

(c) Operating profit before and after taxation

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

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

Six months ended 30 June	Adjusted operating profit/(loss) before taxation 2017 £m	2016 £m	Adjusted operating profit/(loss) after taxation 2017 £m	2016 £m
Centrica Consumer				
UK Home	**489**	635	**399**	506
Ireland	**33**	24	**26**	22
North America Home	**60**	33	**37**	20
Connected Home	**(44)**	(23)	**(34)**	(16)
	538	669	**428**	532
Centrica Business				
UK Business	**–**	31	**–**	25
North America Business	**112**	62	**68**	38
Distributed Energy & Power	**(19)**	(11)	**(14)**	(8)
Energy Marketing & Trading	**105**	(14)	**85**	(10)
Central Power Generation	**24**	24	**17**	20
	222	92	**156**	65
Exploration & Production	**99**	88	**31**	21
Centrica Storage	**(43)**	4	**(25)**	(3)
Adjusted operating profit	**816**	853	**590**	615
Share of joint ventures'/associates' interest and taxation	**(15)**	(37)		
Operating profit before exceptional items and certain re-measurements	**801**	816		
Exceptional items (note 6(a))	**(331)**	(27)		
Certain re-measurements included within gross profit (note 6(b))	**(223)**	969		
Certain re-measurements of associates' energy contracts (net of taxation) (note 6(b))	**5**	8		
Operating profit after exceptional items and certain re-measurements	**252**	1,766		

Six months ended 30 June	2017 £m	2016 £m
Adjusted operating profit after taxation (i)	**590**	615
Corporate and other taxation, and interest (net of taxation) (ii)	**(139)**	(120)
Business performance profit for the period	**451**	495
Exceptional items and certain re-measurements (net of taxation) (note 6)	**(444)**	641
Statutory profit for the period	**7**	1,136

(i) Segmental adjusted operating profit after taxation includes a profit of £4 million (2016: loss of £9 million) attributable to non-controlling interests.
(ii) Includes joint ventures'/associates' interest, net of associated taxation.

4. SEGMENTAL ANALYSIS

(d) Included within adjusted operating profit

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

Six months ended 30 June	Share of results of joint ventures and associates before interest and taxation 2017 £m	2016 £m	Depreciation and impairments of property, plant and equipment 2017 £m	2016 £m	Amortisation, write-downs and impairments of intangibles 2017 £m	2016 £m
Centrica Consumer						
UK Home	**–**	(1)	**(25)**	(25)	**(56)**	(48)
Ireland	**–**	–	**(1)**	(1)	**(4)**	(4)
North America Home	**–**	–	**(6)**	(3)	**(27)**	(24)
Connected Home	**–**	–	**–**	–	**(6)**	(3)
	–	(1)	**(32)**	(29)	**(93)**	(79)
Centrica Business						
UK Business	**–**	–	**(1)**	(1)	**(6)**	(5)
North America Business	**–**	–	**(4)**	(1)	**(19)**	(17)
Distributed Energy & Power	**(1)**	–	**(4)**	(1)	**(4)**	(2)
Energy Marketing & Trading	**–**	–	**(1)**	–	**(5)**	(3)
Central Power Generation	**39**	89	**(10)**	(13)	**–**	–
	38	89	**(20)**	(16)	**(34)**	(27)
Exploration & Production	**–**	–	**(307)**	(305)	**(6)**	(7)
Centrica Storage	**–**	–	**(13)**	(24)	**–**	(1)
Other (i)	**–**	–	**(3)**	(7)	**(4)**	(9)
	38	88	**(375)**	(381)	**(137)**	(123)

(i) The Other segment includes corporate functions, subsequently recharged.

Impairment of property, plant and equipment

During the period, no impairment charge was recognised within business performance. During the period to 30 June 2016, an impairment of £54 million was recognised in the Exploration & Production segment within business performance.

Write-downs of intangible assets

During the period, a write-down of £3 million (2016: £3 million) was recognised in the Exploration & Production segment within business performance, relating to exploration and evaluation assets.

Notes to the condensed interim Financial Statements

4. SEGMENTAL ANALYSIS

(e) Capital expenditure

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

	Capital expenditure on property, plant and equipment		Capital expenditure on intangible assets other than goodwill	
Six months ended 30 June	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Centrica Consumer				
UK Home	**16**	7	**212**	112
Ireland	**1**	–	**5**	4
North America Home	**2**	4	**3**	32
Connected Home	**2**	–	**16**	10
	21	11	**236**	158
Centrica Business				
UK Business	**–**	–	**108**	48
North America Business	**4**	3	**137**	138
Distributed Energy & Power	**19**	1	**2**	–
Energy Marketing & Trading	**2**	1	**15**	3
Central Power Generation	**39**	2	**–**	–
	64	7	**262**	189
Exploration & Production	**191**	281	**14**	4
Centrica Storage	**13**	10	**–**	–
Other (i)	**1**	5	**8**	23
Capital expenditure	**290**	314	**520**	374
Capitalised borrowing costs	**(5)**	(31)	**–**	(1)
Movements in payables and prepayments related to capital expenditure	**(12)**	42	**2**	2
Purchases of emissions allowances and renewable obligation certificates	**–**	–	**(413)**	(276)
Net cash outflow	**273**	325	**109**	99

(i) The Other segment relates to corporate assets.

4. SEGMENTAL ANALYSIS

(f) Adjusted operating cash flow

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

Six months ended 30 June	**2017 £m**	2016 £m
Centrica Consumer		
UK Home	**348**	505
Ireland	**70**	58
North America Home	**126**	78
Connected Home	**(60)**	(25)
	484	616
Centrica Business		
UK Business	**84**	259
North America Business	**147**	121
Distributed Energy & Power	**(13)**	(19)
Energy Marketing & Trading	**220**	103
Central Power Generation	**7**	(30)
	445	434
Exploration & Production	**276**	336
Centrica Storage	**(42)**	30
Other (i)	**79**	(44)
Adjusted operating cash flow	**1,242**	1,372
Dividends received from joint ventures and associates	**(20)**	(49)
UK pension deficit payments	**(76)**	–
Payments relating to exceptional charges	**(90)**	(173)
Margin and cash collateral included in net debt	**53**	218
Net cash flow from operating activities	**1,109**	1,368

(i) The Other segment includes corporate functions.

Notes to the condensed interim Financial Statements

5. SHARE OF RESULTS OF JOINT VENTURES AND ASSOCIATES

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

(a) Share of results of joint ventures and associates

The Group's share of results of joint ventures and associates for the six months ended 30 June 2017 principally arises from its interests in Lake Acquisitions Limited (Nuclear).

Six months ended 30 June	Associates Nuclear £m	Other £m	**2017 Total £m**	2016 Total £m
Income	280	(1)	**279**	341
Expenses excluding certain re-measurements	(241)	–	**(241)**	(253)
Certain re-measurements	5	–	**5**	8
	44	(1)	**43**	96
Interest paid	(6)	–	**(6)**	(24)
Taxation excluding certain re-measurements	(9)	–	**(9)**	(13)
Share of post-taxation results of joint ventures and associates	**29**	**(1)**	**28**	59

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

Six months ended 30 June	Associates Nuclear £m	Other £m	**2017 Total £m**	2016 Total £m
Share of post-taxation results of joint ventures and associates	29	(1)	**28**	59
Certain re-measurements (net of taxation)	(5)	–	**(5)**	(8)
Interest paid	6	–	**6**	24
Taxation (excluding taxation on certain re-measurements)	9	–	**9**	13
Share of adjusted results of joint ventures and associates	**39**	**(1)**	**38**	88

Notes to the condensed interim Financial Statements

6. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

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

(a) Exceptional items

Six months ended 30 June	**2017 £m**	2016 £m
Net gain on disposal of businesses and assets (i)	**55**	124
Impairment write-back of combined cycle gas turbine (CCGT) power stations (ii)	**15**	–
Impairment of exploration and production assets (iii)	**(97)**	–
Impairment of UK gas storage assets (iv)	**(270)**	(176)
Restructuring costs (v)	**(34)**	(89)
Pension past service credit	**–**	78
Net release of onerous power procurement contracts	**–**	36
Exceptional items included within Group operating profit	**(331)**	(27)
Net taxation on exceptional items (note 8)	**63**	9
Effect of change in UK upstream tax rates (note 8)	**–**	(45)
Net exceptional items after taxation	**(268)**	(63)

(i) On 17 February 2017, the Group disposed of its joint venture investment in Lincs Wind Farm for £214 million, giving rise to a pre-tax gain on disposal of £64 million (post-tax: £58 million). On 27 May 2017, the Group disposed of its remaining portfolio of gas assets in Trinidad and Tobago for consideration of $36 million (£28 million) giving rise to a pre and post-tax loss on disposal of £9 million. See note 11(d) for further details.
(ii) A pre-tax write-back of £15 million (post-tax £12 million) has been recorded in respect of the UK gas-fired power stations that have been classified as a disposal group held for sale. See note 11(c) for further details.
(iii) A pre-tax impairment charge of £97 million (post-tax £81 million) has been recorded in respect of the Canadian Exploration & Production assets that have been classified as a disposal group held for sale. See note 11(c) for further details.
(iv) A pre-tax impairment charge of £270 million (post-tax £224 million) has been recorded in the current period in respect of UK gas storage assets. See note 6(c) for further details.
(v) Following the Group's strategic review announced in 2015, the Group has incurred restructuring costs implementing the new organisational model relating principally to redundancy costs, impairment of assets on closure of businesses, transformational spend and consultancy costs.

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

(b) Certain re-measurements

Six months ended 30 June	**2017 £m**	2016 £m
Certain re-measurements recognised in relation to energy contracts (note 3):		
Net (losses)/gains arising on delivery of contracts	**(110)**	748
Net (losses)/gains arising on market price movements and new contracts	**(113)**	221
Net re-measurements included within gross profit	**(223)**	969
Net gains arising on re-measurement of associates' energy contracts (net of taxation) (note 5)	**5**	8
Net re-measurements included within Group operating profit	**(218)**	977
Taxation on certain re-measurements (note 8)	**42**	(273)
Net re-measurements after taxation	**(176)**	704

(c) Impairment of UK Rough gas storage assets

The recoverable amount of the Group's storage facility (Rough) is calculated on a fair value less costs of disposal (FVLCD) basis by discounting the post-tax cash flows expected to be generated by the asset. In June 2017, the Group announced that the Rough facility could not be safely returned to injection and storage operations and it therefore intended to make all relevant applications to permanently end Rough's status as a storage facility. The Group will now also apply for a production consent to produce the remaining cushion gas. Since the cash generating unit that comprises the UK gas storage assets will continue to operate, the Storage business does not qualify as a discontinued operation under IFRS 5: 'Non-current assets held for sale and discontinued operations'.

The cash flow estimates in the recoverable amount calculation have been based on the revenue from extracting the cushion gas less any related capital, operating and decommissioning expenditure. The key assumptions in these estimates are forward gas prices, the timing of government consent for production, the amount of gas available and the rate of extraction. Where forward market gas prices are not available, prices are determined based on internal model inputs. Note 14(b) provides additional detail on the active period of each of the commodity markets in which the Group operates. The future post-tax cash flows are discounted using a post-tax nominal discount rate of 7.5% (2016: 7.5%) to determine FVLCD.

A pre-tax impairment charge of £270 million (post-tax £224 million) has been recorded within exceptional items in the current period.

Notes to the condensed interim Financial Statements

7. NET FINANCE COST

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

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

Six months ended 30 June	Financing costs £m	Investment income £m	2017 Total £m	Financing costs £m	Investment income £m	2016 Total £m
Cost of servicing net debt						
Interest income	–	10	10	–	21	21
Interest cost on bonds, bank loans and overdrafts	(143)	–	(143)	(148)	–	(148)
Interest cost on finance leases	(7)	–	(7)	(8)	–	(8)
	(150)	10	(140)	(156)	21	(135)
Net gains on revaluation (i)	–	2	2	–	1	1
Notional interest arising from discounting and other interest	(38)	–	(38)	(39)	–	(39)
	(188)	12	(176)	(195)	22	(173)
Capitalised borrowing costs (ii)	5	–	5	32	–	32
(Cost)/income	**(183)**	**12**	**(171)**	(163)	22	(141)

(i) Includes gains and losses on fair value hedges, movements in fair value of other derivatives primarily used to hedge foreign exchange exposure associated with intercompany loans and foreign currency gains and losses on the translation of intercompany loans.

(ii) Borrowing costs have been capitalised using an average rate of 4.64% (2016: 4.51%). Capitalised interest has attracted tax deductions totalling £1 million (2016: £10 million), with deferred tax liabilities being set up for the same amounts.

8. TAXATION

The taxation note details the different tax charges arising in the Group. This tax charge excludes share of taxation on the results of joint ventures and associates. The Group's adjusted effective tax rate for the six months to 30 June 2017 was 29% (2016: 28%) and is reconciled to this note in the Group Financial Review on page 21.

Analysis of tax charge

Six months ended 30 June	Business performance £m	Exceptional items and certain re-measurements £m	2017 Results for the period £m	Business performance £m	Exceptional items and certain re-measurements (i) £m	2016 Results for the period £m
The taxation charge comprises:						
UK corporation tax	(1)	65	64	(79)	(4)	(83)
UK petroleum revenue tax	10	–	10	(13)	(90)	(103)
Non-UK tax	(188)	40	(148)	(88)	(215)	(303)
Total tax on profit (ii)	**(179)**	**105**	**(74)**	(180)	(309)	(489)

(i) UK petroleum revenue tax was reduced from 35% to 0% with effect from 1 January 2016. The consequential reduction in net deferred tax assets of £45 million was recognised within exceptional items and included a petroleum revenue tax charge of £90 million in the prior period. A corporate tax credit of £45 million was recognised during 2016 within UK corporation tax.

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

9. EARNINGS PER ORDINARY SHARE

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

Basic earnings per ordinary share has been calculated by dividing the profit attributable to equity holders of the Company for the period of £44 million (2016: £1,148 million) by the weighted average number of ordinary shares in issue during the period of 5,484 million (2016: 5,168 million).

The number of shares excludes 55 million ordinary shares (2016: 62 million), being the weighted average number of the Company's own shares held in the employee share trust and treasury shares purchased by the Group as part of the share repurchase programme.

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

In May 2016, 350 million new ordinary shares were issued at 200.0 pence per share which represented approximately 7% of the issued ordinary share capital prior to the placing.

In addition to basic and adjusted basic earnings per ordinary share, information is presented for diluted and adjusted diluted earnings per ordinary share. Under this presentation, no adjustments are made to the reported profit for either 2017 or 2016; however, the weighted average number of shares used as the denominator is adjusted for potentially dilutive ordinary shares.

Weighted average number of shares

Six months ended 30 June	**2017 Million shares**	2016 Million shares
Weighted average number of shares – basic	**5,484**	5,168
Dilutive impact of share-based payment schemes (i)	**50**	47
Weighted average number of shares – diluted	**5,534**	5,215

(i) The dilutive impact of share-based payment schemes is included in the calculation of diluted EPS, unless it has the effect of increasing the profit or decreasing the loss attributable to each share.

Basic to adjusted basic earnings per share reconciliation

Six months ended 30 June	**2017 £m**	**2017 Pence per ordinary share**	2016 £m	2016 Pence per ordinary share
Earnings – basic	**44**	**0.8**	1,148	22.2
Net exceptional items after taxation (notes 3 and 6) (i)	**229**	**4.2**	63	1.2
Certain re-measurement losses/(gains) after taxation (notes 3 and 6)	**176**	**3.2**	(704)	(13.6)
Earnings – adjusted basic	**449**	**8.2**	507	9.8
Earnings – diluted	**44**	**0.8**	1,148	22.0
Earnings – adjusted diluted	**449**	**8.1**	507	9.7

(i) Net exceptional loss after tax of £268 million (2016: £63 million) is reduced by £39 million (2016: nil) for the purpose of calculating adjusted basic and adjusted diluted EPS. The adjustment reflects the share of net exceptional items attributable to non-controlling interests.

Notes to the condensed interim Financial Statements

10. DIVIDENDS

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

	£m	Pence per share	2017 Date of payment	£m	Pence per share	2016 Date of payment
Prior year final dividend (i)	**459**	**8.40**	**29 Jun 2017**	454	8.43	23 Jun 2016

(i) Included within the prior year final dividend are forfeited dividends of £2 million (2016: £3 million) older than 12 years that were written back in accordance with Group policy.

Since 2015, the Company has offered a scrip dividend alternative to its shareholders. £191 million of the £459 million prior year final dividend was in the form of ordinary shares to shareholders opting in to the scrip dividend alternative. The market value per share at the date of payment was £1.93 per share resulting in the issue of 99 million new shares and £185 million being credited to the share premium account. Similarly, £84 million of the £454 million 2015 interim dividend was taken as a scrip dividend. The market value per share at the date of payment was £2.02 resulting in the issue of 41 million new shares and £81 million of share premium.

An interim dividend of 3.60 pence (2016: 3.60 pence) per ordinary share, totalling £203 million (2016: £199 million), will be paid on 30 November 2017 (24 November 2016) to shareholders on the register on 13 October 2017.

11. ACQUISITIONS AND DISPOSALS

(a) 2017 business combinations

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

On 3 May 2017, the Group acquired, through its Centrica Innovations business, the assets of Rokitt Inc. for cash consideration of $4 million (£3 million) and contingent consideration of $8 million (£6 million).

(b) 2016 business combinations – measurement period adjustments

During the period, there have been no material updates to the fair value of assets and liabilities recognised for businesses acquired in 2016.

(c) Assets and liabilities of disposal groups classified as held for sale

Assets and associated liabilities that are expected to be recovered principally through a sale have been classified as held for sale and are presented separately on the face of the Group Balance Sheet.

In June 2017, the Group agreed to sell its 60% interest in the CQ Energy Canada partnership (CQECP), its Canadian Exploration & Production business, to a consortium comprising MIE Holdings Corporation (MIE), the Can-China Global Resource Fund and Mercuria for a purchase price of C$722 million (£413 million) in cash. Centrica's net share of sale proceeds is expected to be approximately £240 million after adjustments.

The transaction is subject to customary regulatory approvals, including under the Canadian Competition Act and the Investment Canada Act, and is also subject to approval from MIE's shareholders. Management have considered these conditions and have concluded that it is highly probable that these conditions will be met and the business should be classified as held for sale. The transaction is expected to complete during the second half of 2017.

As detailed in note 6(a), prior to classification of these assets as held for sale, an exceptional pre-tax impairment of £97 million (£81 million post-tax) was recorded to recognise the asset at the lower of carrying amount and fair value less costs of disposal.

These interests are currently shown in the Exploration & Production segment.

In June 2017, the Group agreed to sell its existing Langage and South Humber Bank combined cycle gas turbine power stations and its King's Lynn B power station development to EP UK Investments Ltd for £320 million in cash, subject to customary working capital and other completion adjustments, and pre-completion capital spend.

The transaction was subject to EU merger clearance and management assessed that it was highly probable that this clearance would be given and therefore the assets were classified as held for sale at 30 June 2017. This clearance was granted in July. The transaction is expected to complete during the second half of 2017.

As detailed in note 6(a), prior to the classification of these assets as held for sale, a net pre-tax impairment write-back of £15 million (£12 million post-tax) was recorded.

These interests are currently shown in the Central Power Generation segment.

11. ACQUISITIONS AND DISPOSALS

	UK gas-fired power stations £m	Canadian Exploration & Production £m	**Total £m**
Non-current assets	338	905	**1,243**
Current assets [(i)]	23	73	**96**
Assets of disposal groups classified as held for sale	361	978	**1,339**
Current liabilities	(33)	(61)	**(94)**
Non-current liabilities	(23)	(497)	**(520)**
Liabilities of disposal groups classified as held for sale	(56)	(558)	**(614)**
Net assets of disposal groups classified as held for sale	305	420	**725**

(i) Includes cash and cash equivalents of £43 million.

None of the above disposal groups are shown as discontinued operations on the face of the Group Income Statement. The Group continues to hold other UK gas-fired power station assets. The Exploration & Production business is a global business and the Group will continue to have other operations in Canada. Accordingly, the disposal groups do not represent separate major lines of business or geographical areas of operation.

(d) Disposals

The Group's interest in the Lincs Wind Farm joint venture and the gas assets in Trinidad and Tobago were classified as disposal groups held for sale at 31 December 2016 and have now been disposed. This note details the consideration received, the assets and liabilities disposed of and the profit or loss before and after tax arising on disposal.

Date of disposal:	27 May 2017	17 February 2017
Business/assets disposed of by the Group:	Trinidad and Tobago gas assets (i)	Lincs Wind Farm (i)
Reporting segment:	Exploration & Production	Central Power Generation
Sold to:	Shell Exploration and Production £m	Green Investment Bank £m
Property, plant and equipment	66	–
Interests in joint ventures (including shareholder loans)	–	168
Other assets	7	–
Non-current provisions for other liabilities and charges	(40)	–
Net assets disposed of	**33**	**168**
Consideration received net of associated transaction costs	28	214
Release of share of cash flow hedge reserve on disposal	–	(10)
Release of share of foreign currency translation reserve on disposal	(4)	–
Profit on termination of related power purchase agreement	–	28
(Loss)/profit on disposal before taxation	**(9)**	**64**
Taxation	–	(6)
(Loss)/profit on disposal after taxation	**(9)**	**58**

(i) As the disposed assets were identified as areas of the business to exit as part of the strategic review in 2015, the net pre-tax profit on disposal of £55 million has been identified as an exceptional item. See note 6.

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

None of the disposals are shown as discontinued operations on the face of the Group Income Statement as they do not represent a separate major line of business or geographical area of operation that is material to the Group's results.

Notes to the condensed interim Financial Statements

12. SOURCES OF FINANCE

(a) Capital structure

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

	30 June 2017 £m	31 December 2016 £m
Net debt	**2,941**	3,473
Equity	**2,552**	2,666
Capital	**5,493**	6,139

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

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

Under the terms of the Company's Articles of Association, the Group's borrowings are subject to certain limits. Gross borrowings are restricted to the higher of £10 billion and three times adjusted capital and reserves and the Group is operating within this limitation.

British Gas Insurance Limited (BGIL) is required under PRA regulations to hold a minimum capital amount and has complied with this requirement in 2017 (and 2016).

12. SOURCES OF FINANCE

(b) Net debt summary

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

	Cash and cash equivalents, net of bank overdrafts (i) (ii) £m	Cash posted/ (received) as collateral (iii) £m	Current and non-current securities (iv) £m	Current and non-current borrowings, finance leases and interest accruals (ii) £m	Derivatives £m	**Net debt £m**
1 January 2017	1,960	496	232	(6,452)	291	**(3,473)**
Net cash outflow from purchase of securities	(6)	–	6	–	–	**–**
Cash outflow from payment of capital element of finance leases	(18)	–	–	18	–	**–**
Cash outflow from repayment of borrowings	(160)	–	–	160	–	**–**
Remaining cash inflow and movement in cash posted/(received) under margin and collateral agreements (v)	596	(53)	–	–	–	**543**
Revaluation	–	–	3	22	(21)	**4**
Increase in interest payable and amortisation of borrowings	–	–	–	(11)	(15)	**(26)**
New finance lease agreements	–	–	–	(13)	–	**(13)**
Exchange adjustments	(12)	(16)	(1)	53	–	**24**
30 June 2017	**2,360**	**427**	**240**	**(6,223)**	**255**	**(2,941)**

	Cash and cash equivalents, net of bank overdrafts (i) (ii) £m	Cash posted/ (received) as collateral (iii) £m	Current and non-current securities (iv) £m	Current and non-current borrowings, finance leases and interest accruals (ii) £m	Derivatives £m	Net debt £m
1 January 2016	860	535	244	(6,468)	82	(4,747)
Cash inflow from sale of securities (vi)	31	–	(31)	–	–	–
Cash inflow from additional borrowings	138	–	–	(138)	–	–
Cash outflow from payment of capital element of finance leases	(23)	–	–	23	–	–
Cash outflow from repayment of borrowings	(105)	–	–	105	–	–
Remaining cash inflow and movement in cash posted/(received) under margin and collateral agreements (v)	1,240	(218)	–	–	–	1,022
Revaluation	–	–	4	(89)	256	171
Increase in interest payable and amortisation of borrowings	–	–	–	(25)	(8)	(33)
Acquisition of businesses	–	–	–	(4)	–	(4)
Exchange adjustments	25	42	7	(267)	1	(192)
30 June 2016	2,166	359	224	(6,863)	331	(3,783)

(i) Cash and cash equivalents includes £130 million (2016: £122 million) of restricted cash mostly held by the Group's insurance undertakings that is not readily available to be used for other purposes within the Group. Cash and cash equivalents also includes £43 million (2016: nil) of cash included in assets of disposal groups classified as held for sale.
(ii) Cash and cash equivalents are net of £81 million bank overdrafts (2016: £83 million). This is offset by a corresponding gross up in current borrowings.
(iii) Collateral is posted or received to support energy trading and procurement activities. It is posted when contracts with marginable counterparties are out of the money and is received when contracts are in the money. These positions reverse when contracts are settled and the collateral is returned. Of the net cash collateral posted at the period end, £18 million (2016: £16 million) is included within trade payables, £282 million (2016: £175 million) within trade receivables and £163 million (2016: £200 million) has been offset against derivative financial assets and liabilities. The items, to which the cash posted or received as collateral under margin and collateral agreements relate, are not included within net debt.
(iv) Securities balances include £129 million (2016: £129 million) of index-linked gilts which the Group uses for short-term liquidity management purposes, £93 million (2016: £95 million) of available-for-sale financial assets and £18 million (2016: nil) of loan and receivables. The Group has posted £32 million (2016: £29 million) of non-current securities as collateral against an index-linked swap maturing on 16 April 2020.
(v) Including non-cash movements relating to the reversal of collateral amounts posted when the related derivative contract settles (where these daily margin amounts posted reduce the ultimate amount payable/receivable on settlement of the related derivative contract).
(vi) Shares in Enercare Inc. were sold for consideration of C$61 million (£31 million).

Notes to the condensed interim Financial Statements

12. SOURCES OF FINANCE

(c) Borrowings, finance leases and interest accruals summary

	Coupon rate %	Principal m	Current £m	Non-current £m	30 June 2017 Total £m	Current £m	Non-current £m	31 December 2016 Total £m
Bank overdrafts			**(81)**	**–**	**(81)**	(76)	–	(76)
Bank loans			**–**	**(143)**	**(143)**	–	(148)	(148)
Bonds (by maturity date):								
14 April 2017	Floating	$200	**–**	**–**	**–**	(162)	–	(162)
19 September 2018	7.000	£400	**–**	**(418)**	**(418)**	–	(425)	(425)
1 February 2019	3.213	€100	**–**	**(88)**	**(88)**	–	(85)	(85)
25 September 2020	Floating	$80	**–**	**(61)**	**(61)**	–	(65)	(65)
22 February 2022	3.680	HK$450	**–**	**(44)**	**(44)**	–	(47)	(47)
10 March 2022	6.375	£500	**–**	**(535)**	**(535)**	–	(541)	(541)
16 October 2023	4.000	$750	**–**	**(592)**	**(592)**	–	(622)	(622)
4 September 2026	6.400	£200	**–**	**(225)**	**(225)**	–	(228)	(228)
16 April 2027	5.900	$70	**–**	**(53)**	**(53)**	–	(56)	(56)
13 March 2029	4.375	£750	**–**	**(747)**	**(747)**	–	(751)	(751)
5 January 2032 (i)	Zero	€50	**–**	**(55)**	**(55)**	–	(54)	(54)
19 September 2033	7.000	£770	**–**	**(763)**	**(763)**	–	(763)	(763)
16 October 2043	5.375	$600	**–**	**(455)**	**(455)**	–	(480)	(480)
12 September 2044	4.250	£550	**–**	**(537)**	**(537)**	–	(537)	(537)
25 September 2045	5.250	$50	**–**	**(38)**	**(38)**	–	(40)	(40)
10 April 2075 (ii)	5.250	£450	**–**	**(454)**	**(454)**	–	(457)	(457)
10 April 2076 (iii)	3.000	€750	**–**	**(656)**	**(656)**	–	(637)	(637)
			–	**(5,721)**	**(5,721)**	(162)	(5,788)	(5,950)
Obligations under finance leases			**(41)**	**(188)**	**(229)**	(39)	(194)	(233)
Interest accruals			**(130)**	**–**	**(130)**	(121)	–	(121)
			(252)	**(6,052)**	**(6,304)**	(398)	(6,130)	(6,528)

(i) €50 million of zero coupon notes have an accrual yield of 4.200%, which will result in a €114 million repayment on maturity.
(ii) The Group has the right to repay at par on 10 April 2025 and every interest payment date thereafter.
(iii) The Group has the right to repay at par on 10 April 2021 and every interest payment date thereafter.

13. POST RETIREMENT BENEFITS

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

(a) Summary of main post retirement benefit schemes

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

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

Independent valuations

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

The latest full actuarial valuations have been updated to 30 June 2017 for the purposes of meeting the requirements of IAS 19: 'Employee benefits'. Investments held in all schemes have been valued for this purpose at market value.

Governance

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

(b) Accounting assumptions

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

Major assumptions used for the actuarial valuation	30 June 2017 %	31 December 2016 %
Rate of increase in employee earnings:		
Subject to 2% cap	**1.7**	1.7
Other not subject to cap	**3.1**	3.2
Rate of increase in pensions in payment	**3.1**	3.2
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	**2.0**	2.1
In line with RPI	**3.1**	3.2
Discount rate	**2.6**	2.7

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

Notes to the condensed interim Financial Statements

13. POST RETIREMENT BENEFITS

(c) Amounts included in the Group Balance Sheet

	30 June 2017 £m	31 December 2016 £m
Fair value of plan assets	8,207	7,938
Present value of defined benefit obligation	(9,129)	(9,075)
Net liability recognised in the Group Balance Sheet	(922)	(1,137)
Pension liability presented in the Group Balance Sheet as:		
Retirement benefit liabilities	(922)	(1,137)
Net pension liability	(922)	(1,137)

Included in the Group Balance Sheet within non-current securities are £89 million (31 December 2016: £85 million) of investments, held in trust on behalf of the Group, as security in respect of the Centrica Unfunded Pension Scheme. Of the pension liabilities above, £61 million (31 December 2016: £62 million) relates to this scheme.

14. FINANCIAL INSTRUMENTS

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

(a) Fair value hierarchy

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

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

	Level 1 £m	Level 2 £m	Level 3 £m	30 June 2017 Total £m	Level 1 £m	Level 2 £m	Level 3 £m	31 December 2016 Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	11	553	51	615	81	1,350	40	1,471
Interest rate derivatives	–	136	–	136	–	158	–	158
Foreign exchange derivatives	–	187	–	187	–	244	–	244
Treasury gilts designated at fair value through profit or loss	129	–	–	129	130	–	–	130
Debt instruments	85	–	–	85	64	–	–	64
Equity instruments	23	–	3	26	34	–	4	38
Total financial assets at fair value	248	876	54	1,178	309	1,752	44	2,105
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	(35)	(711)	(40)	(786)	(20)	(1,369)	(63)	(1,452)
Interest rate derivatives	–	(40)	–	(40)	–	(36)	–	(36)
Foreign exchange derivatives	–	(53)	–	(53)	–	(105)	–	(105)
Total financial liabilities at fair value	(35)	(804)	(40)	(879)	(20)	(1,510)	(63)	(1,593)

14. FINANCIAL INSTRUMENTS

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

Level 2 interest rate derivatives and foreign exchange derivatives comprise interest rate swaps and forward foreign exchange contracts. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Forward foreign exchange contracts are fair valued using forward exchange rates that are quoted in an active market.

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during 2017 was 1% (Europe) and 3% (North America) per annum (31 December 2016: average discount rate of 1% (Europe) and 3% (North America) per annum).

For Level 3 energy derivatives, the main input used by the Group pertains to deriving expected future commodity prices in markets that are not active as far into the future as some of our contractual terms. This applies to certain contracts within the UK and US. Fair values are then calculated by comparing and discounting the difference between the expected contractual cash flows and these derived future prices using an average discount rate of 1% (UK) and 3% (US) per annum for 2017 (31 December 2016: average discount rate of 1% (UK) and 3% (US) per annum).

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

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

It should be noted that the fair values disclosed in the tables above only concern those contracts entered into which are within the scope of IAS 39. The Group has numerous other commodity contracts which are outside the scope of IAS 39 and are not fair valued. The Group's actual exposure to market rates is constantly changing as the Group's portfolio of energy contracts changes.

The Group's valuation process includes specific teams of individuals that perform valuations of the Group's derivatives for financial reporting purposes, including Level 3 valuations. The Group has an independent team that derives future commodity price curves based on available external data and these prices feed into the energy derivative valuations. The price curves are subject to review and approval by the Group's Executive Committee and valuations of all derivatives, together with other contracts that are not within the scope of IAS 39, are also reviewed regularly as part of the overall risk management process.

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

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

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

		Notes	Carrying value £m	Fair value £m	30 June 2017 Fair value hierarchy	Carrying value £m	Fair value £m	31 December 2016 Fair value hierarchy
Bank loans		12(c)	(143)	(215)	Level 2	(148)	(223)	Level 2
Bonds	Level 1	12(c)	(5,619)	(6,406)	Level 1	(5,849)	(6,651)	Level 1
	Level 2	12(c)	(102)	(127)	Level 2	(101)	(133)	Level 2
Obligations under finance leases		12(c)	(229)	(249)	Level 2	(233)	(251)	Level 2

Notes to the condensed interim Financial Statements

15. COMMITMENTS AND CONTINGENCIES

(a) Commitments

Commitments are amounts that the Group is contractually required to pay in the future as long as the other party meets its contractual obligations. These amounts do not appear on the Group Balance Sheet.

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

Commodity purchase contract commitments have decreased by £4 billion since 31 December 2016 to £44 billion.

Operating lease commitments have decreased by £27 million since 31 December 2016 to £354 million.

During the period, the North America Business segment entered into a new transportation capacity contract covering the period 2019 to 2034, giving rise to a commitment of $380 million (£292 million). The arrangement is subject to customary regulatory approvals.

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

(b) Contingent liabilities

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

16. EVENTS AFTER THE BALANCE SHEET DATE

The Group updates disclosures in light of new information being received, or a significant event occurring, in the period between 30 June 2017 and the date of this report.

(a) European Exploration & Production Joint Venture

On 17 July 2017, Centrica announced plans to combine its European Exploration & Production (E&P) business with Bayerngas Norge. This will create a new joint venture company, with Centrica owning 69% and the remaining 31% held by Bayerngas Norge's current owners, led by Stadtwerke München. Centrica will control the relevant activities of this new company and consequently will fully consolidate the combined business, whilst also recognising the counterparty's non-controlling interest.

The effective date of the transaction is 1 January 2017 with deal completion expected in the last quarter of 2017.

As the Group wlll retain control of the existing European E&P business, these assets have not been treated as held for sale (or as a disposal group) at the balance sheet date.

(b) Dividends

An interim dividend of 3.60 pence (2016: 3.60 pence) per ordinary share, totalling £203 million (2016: £199 million), will be paid on 30 November 2017 (24 November 2016) to shareholders on the register on 13 October 2017.

17. RELATED PARTY TRANSACTIONS

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

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

				2017				2016
	Sale of goods and services (i) £m	**Purchase of goods and services (i) £m**	**Amounts owed from (ii) £m**	**Amounts owed to (ii) £m**	Sale of goods and services (i) £m	Purchase of goods and services (i) £m	Amounts owed from (iii) £m	Amounts owed to (iii) £m
Joint ventures:								
Lincs Wind Farm Limited (iv)	**1**	**(10)**	**–**	**–**	3	(34)	120	(43)
Associates:								
Lake Acquisitions Limited (Nuclear)	**–**	**(275)**	**–**	**(43)**	–	(304)	–	(57)
	1	**(285)**	**–**	**(43)**	3	(338)	120	(100)

(i) Six months ended 30 June.
(ii) As at 30 June.
(iii) As at 31 December.
(iv) Disposed on 17 February 2017. See note 11(d) for further details. Transactions have only been included above up to this disposal date.

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

At the balance sheet date, there were back to back committed facilities with Lake Acquisition Limited's facilities to members of EDF Energy Nuclear Generation Group Limited totalling £120 million for Centrica's share, but nothing has been drawn down to date.

18. FINANCIAL RISK MANAGEMENT

The Group's normal operating, investing and financing activities expose it to a variety of financial risks: market risk (including commodity price risk, currency risk and interest rate risk), credit risk and liquidity risk. These condensed interim Financial Statements do not include all financial risk management information and disclosures included in note S3 of the Group's consolidated Financial Statements for the year ended 31 December 2016.

During the period, financial risk management was 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 Committees and their respective financial risk management policies, as approved by the GFRMC under delegated authority from the Board. Treasury risk management, including management of currency risk, interest rate risk and liquidity risk is carried out by a central Group Treasury function in accordance with the Group's financing and treasury policy, as approved by the Board.

The wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with the Group's credit risk policy and collateral risk policy. Downstream customer credit risk management is carried out in accordance with individual business unit credit policies.

(a) Commodity price risk management

During the period, the Group continued to be exposed to commodity price risk in its upstream, downstream and proprietary energy trading activities. Specific limits are used to manage the exposure to commodity prices associated with the Group's activities to an acceptable level. Volumetric limits are supported by Profit at Risk (PaR) and Value at Risk (VaR) metrics in the UK and in North America to measure the Group's exposure to commodity price risk. Limits are also set on PaR and VaR measurements as a further control over exposure to market prices.

The Group measures and manages the commodity price risk associated with the Group's entire energy procurement, upstream and downstream portfolio, however only certain contracts constitute financial instruments under IAS 39.

The net loss of £218 million during the period (2016: gain of £977 million) from certain re-measurements of energy contracts included within Group operating profit, largely represents the unwinding of mark-to-market positions created by gas and power purchase contracts, that were priced below the current wholesale market value of energy at the start of the period and the impact of wholesale market price movements during the period. These balance sheet mark-to-market positions are 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.

(b) Credit risk management

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

(c) Liquidity risk management and going concern

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

At 30 June 2017, the Group had undrawn committed credit facilities of £4,359 million (31 December 2016: £4,497 million) and £2,311 million (31 December 2016: £1,881 million) of unrestricted cash and cash equivalents. 212% (31 December 2016: 186%) 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 11.4 years (31 December 2016: 11.6 years).

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

Notes to the condensed interim Financial Statements

19. SEASONALITY OF OPERATIONS

Certain activities of the Group are affected by weather and temperature conditions. As a result of this, amounts reported for the six month period ended 30 June 2017 may not be indicative of the amounts that would be reported for a full year due to seasonal fluctuations in customer demand for gas, electricity and services, the impact of weather on demand and commodity prices, market changes in commodity prices and changes in retail tariffs.

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

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

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

Power generation volumes 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.

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

Additional Information – Explanatory Notes

DEFINITIONS AND RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

Centrica's 2017 Interim Results include a number of non-GAAP measures. These measures are chosen as they provide additional useful information on business performance and underlying trends. They are also used to measure the Group's performance against its strategic financial framework. They are not however, defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Where possible they have been reconciled to the statutory equivalents from the primary statements (Group Income Statement (I/S), Group Balance Sheet (B/S), Group Cash Flow Statement (C/F)) or the notes to the condensed interim Financial Statements.

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

EBITDA

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

Six months ended 30 June		**2017 £m**	2016 £m	Change
Group operating profit	I/S	**252**	1,766	
Exceptional items and certain re-measurements before taxation	I/S	**549**	(950)	
Share of profits of joint ventures and associates, net of interest and taxation	I/S	**(23)**	(51)	
Depreciation and impairments of property, plant and equipment	4(d)	**375**	381	
Amortisation, write-downs and impairment of intangibles	4(d)	**137**	123	
Impairment of joint ventures and associates		**3**	3	
EBITDA		**1,293**	1,272	2%

Underlying adjusted operating cash flow

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

Six months ended 30 June		**2017 £m**	2016 £m	Change
Adjusted operating cash flow	4(f)	**1,242**	1,372	
Commodity price – Exploration & Production and Nuclear (i)		**–**	46	
Foreign exchange movements (ii)		**–**	38	
UK Business working capital impact		**–**	(218)	
Underlying adjusted operating cash flow		**1,242**	1,238	0.3%

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

Underlying adjusted operating cash flow is adjusted operating cash flow as defined in note 3 and reconciled in note 4(f). It has been adjusted for the impacts of commodity price movements on Exploration & Production and nuclear assets and foreign exchange movements. 2016 has also been adjusted for working capital movements in UK Business, which, as disclosed in the 2016 Preliminary Results, are considered to be one-off in nature and consequently have been removed from underlying adjusted operating cash flow in 2016.

The underlying adjusted operating cash flow growth for H1 2016 reported on page 2 of these Interim Results has been restated to be consistent with the methodology used in the 2016 Preliminary Results announcement to include foreign exchange movements. The H1 2016 growth rate of 4.9% has been calculated by updating for 2017 achieved commodity prices and foreign exchange rates, as well as an adjustment for the UK Business working capital movement. This gives rise to an overall 2015-2017 CAGR (compound annual growth rate) of 2.6%.

Additional Information – Explanatory Notes

DEFINITIONS AND RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

Group net investment

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

Six months ended 30 June		**2017 £m**	2016 £m	Change
Capital expenditure (including small acquisitions) (i)		**385**	424	(9%)
Material acquisitions (>£100 million) (ii)		**–**	132	nm
Net disposals (iii)		**(254)**	(112)	127%
Group net investment		**131**	444	(70%)
Dividends received from joint ventures and associates	C/F	**(20)**	(49)	
Interest received	C/F	**(15)**	(56)	
Purchase/(sale) of securities	C/F	**6**	(31)	
Net cash flow from investing activities	C/F	**102**	308	

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

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

(a) Capital expenditure (including small acquisitions)

Six months ended 30 June		**2017 £m**	2016 £m	Change
Purchase of property, plant and equipment and intangible assets	C/F	**382**	424	
Purchase of businesses, net of cash acquired	C/F	**3**	132	
Less: material acquisitions (>£100 million)		**–**	(132)	
Capital expenditure (including small acquisitions)		**385**	424	(9%)

(b) Material acquisitions (>£100 million)

Six months ended 30 June		**2017 £m**	2016 £m	Change
Purchase of businesses, net of cash acquired (i)	C/F	**3**	132	
Less: non-material acquisitions (<£100 million)		**(3)**	–	
Material acquisitions (>£100 million)		**–**	132	nm

(i) Cash consideration for ENER-G Cogen in 2016.

(c) Net disposals

Six months ended 30 June		**2017 £m**	2016 £m	Change
Repayments of loans to, and disposal of investments in, joint ventures and associates	C/F	**(219)**	(97)	
Sale of businesses	C/F	**(28)**	(24)	
Sale of property, plant and equipment and intangible assets	C/F	**(11)**	(4)	
Investments in joint ventures and associates	C/F	**4**	13	
Net disposals		**(254)**	(112)	127%

E&P free cash flow

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

Six months ended 30 June		**2017 £m**	2016 £m	Change
Exploration & Production adjusted operating cash flow	4(f)	**276**	336	
Capital expenditure (including small acquisitions)		**(220)**	(289)	
Net disposals (i)		**33**	25	
Free cash flow		**89**	72	24%

(i) 2017 net disposals include the remainder of the Trinidad and Tobago portfolio and some other small Exploration & Production assets. 2016 net disposals include Skene and Buckland, Trinidad and Tobago Blocks 1a and 1b and some other small Exploration & Production assets.

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

Disclosures

DISCLAIMERS

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

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

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

This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation.

FOR FURTHER INFORMATION

Centrica will hold its 2017 Interim Results presentation for analysts and institutional investors at 9.30am (UK) on Tuesday 1 August 2017. There will be a live audio webcast of the presentation and slides at www.centrica.com.

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

+ 44 (0) 20 3059 8125

The call title is "**Centrica 2017 Interim Results**".

An archived webcast and full transcript of the presentation and the question and answer session will be available on the website on 4 August 2017.

ENQUIRIES

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FINANCIAL CALENDAR

Ex-dividend date for 2017 interim dividend	12 October 2017
Record date for 2017 interim dividend	13 October 2017
Final date to elect to participate in 2017 interim scrip dividend programme	9 November 2017
Trading Update	23 November 2017
2017 interim dividend payment date	30 November 2017
2017 Preliminary Results announcement	22 February 2018

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