centrica

Interim results for the period ended 30 June 2020

CHRIS O'SHEA, GROUP CHIEF EXECUTIVE

"Centrica delivered a resilient performance against the unprecedented backdrop of the Covid-19 crisis during the first half of the year. That is due to the response of colleagues across the Group to keep our customers warm, safe and supplied with energy and services during the pandemic. I am truly grateful for their efforts. Our mission now is to turn around the Company by putting customers at the heart of everything we do and creating a simpler, leaner, more modern and more sustainable company. The sale of Direct Energy is a fundamental step towards this, and although we have a lot more to do, we have the people, the brands and the market positions to deliver a successful turnaround."

FINANCIAL SUMMARY

Six months ended 30 June	2020	2019	Change
EBITDA	**£869m**	£1,075m	(19%)
Adjusted operating profit	**£343m**	£399m	(14%)
Adjusted basic earnings per share (EPS)	**2.5p**	2.4p	4%
Interim dividend per share	**-**	1.5p	nm
Free cash flow	**£750m**	£430m	74%
Group net debt	**£2,779m**	£3,376m	(18%)
Statutory operating loss	**(£135m)**	(£446m)	70%
Net exceptional items included in statutory operating loss	**(£1,036m)**	(£346m)	(199%)
Basic earnings per share	**(3.3p)**	(9.6p)	66%
Statutory net cash flow from operating activities	**£903m**	£177m	410%

See notes 2, 5 and 10 to the Financial Statements and pages 56 to 57 for an explanation of the use of adjusted performance measures.

RESILIENT FIRST HALF PERFORMANCE

- Resilient performance overall against the backdrop of Covid-19. Focus has been on protecting the business and keeping customers warm, safe and supplied with energy.
- Good customer service levels maintained and continued high customer retention. Total customers down 0.8% since the start of the year with a number of sales channels unavailable in Q2.
- Adjusted operating profit down 14% or £56m compared to H1 2019. Negative impacts of Covid-19, low commodity prices and warm weather largely offset by mitigating actions and improved underlying performance.
- Adjusted EPS up slightly to 2.5p, reflecting a reduction in the Group adjusted effective tax rate from 47% to 35% with a shift in profit mix away from highly taxed E&P activities.
- Net exceptional charge of £1,036m, including restructuring costs of £251m, and impairments of E&P and power assets totalling £785m which reflect a reduction in commodity price forecasts and nuclear plant availability issues. Statutory operating loss of £135m.
- Robust cash flows and liquidity. Net debt down £0.4bn since the start of the year to £2.8bn, reflecting working capital inflows and prompt actions taken to reduce cash expenditure in response to Covid-19.
- No interim dividend declared.
- No specific full year guidance provided given continuing Covid-19 related uncertainties.
- Prompt actions already taken and the Group's cash flow flexibility leave us well positioned to navigate current and future uncertainties.

FOCUS ON BALANCE SHEET AND QUALITY OF EARNINGS

- Centrica remains a customer-focused energy services and solutions company, helping customers transition to a low carbon future.
- Accelerated focus on simplifying and modernising the Group, to become more sustainable.
- Agreement to sell Direct Energy to NRG Energy for $3.625bn (£2.85bn) further simplifies the Group, allows increased focus on core UK and Ireland activities and strengthens the Group's balance sheet.
- Significant restructure underway, putting the customer at the heart of everything we do and accelerating planned cost savings.
- Spirit Energy E&P divestment process to restart once commodity and financial markets have settled.
- Nuclear divestment process currently paused.

PERFORMANCE METRICS

Six months ended 30 June	2020	2019	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.98**	0.97	1%
Brand NPS			
British Gas Home	**8**	10	(2pt)
British Gas Business	**(1)**	(3)	2pt
Hive	**42**	42	0pt
Bord Gáis Energy	**(2)**	nm	nm
Direct Energy Home	**30**	32	(2pt)
Direct Energy Business	**40**	38	2pt
Centrica Business Solutions	**29**	29	0pt
Total customers ('000)			
UK Home energy only	**5,167**	5,432	(5%)
UK Home services only	**1,833**	1,876	(2%)
UK Home energy and services	**1,754**	1,742	1%
UK Business	**371**	326	14%
Home Solutions (active customers not taking energy or services)	**420**	231	82%
Total UK	**9,545**	9,607	(1%)
Ireland	**491**	513	(4%)
North America Home	**2,726**	2,762	(1%)
North America Business	**160**	176	(9%)
Total customers ('000)	**12,922**	13,058	(1%)
Account holdings per customer	**2.00**	1.98	1%
Total customer energy consumption (TWh)	**259**	274	(5%)
Group direct headcount	**25,835**	29,378	(12%)
E&P total production volumes (mmboe)	**25.4**	29.7	(14%)
Nuclear power generated (GWh)	**4,537**	4,900	(7%)

A pre-recorded results presentation will be available on Centrica.com at 8am BST on 24 July 2020 and Centrica will host a conference call for institutional investors and analysts at 9am BST on 24 July 2020. To register for the conference call please visit https://webcasts.centrica.com/centrica109/vip_connect. If you would like to join in listen only mode, please register at https://webcasts.centrica.com/centrica109.

ENQUIRIES

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Group Overview

HELPING COLLEAGUES, CUSTOMERS AND COMMUNITIES DURING COVID-19

Centrica was significantly impacted by the Covid-19 pandemic during the first half of the year. However, colleagues responded with incredible commitment and dedication, as we ensured the continuity of the supply of gas and electricity and the provision of essential energy services to homes and businesses, while following all advice from governments and relevant health authorities.

Looking after our colleagues

Looking after our colleagues to ensure they can continue to offer our customers the level of service they demand has been a key focus during the first half of the year. Our service engineers continued to carry out essential work such as boiler breakdowns, as we provided them with appropriate personal protection equipment. We were also able to provide our customer agents with all the necessary equipment to work from home.

We committed to find flexible working options for parents and carers to support them juggle work with their other responsibilities, and during the crisis our commitment to offer mental health and wellbeing support to our colleagues has been more important than ever, with a variety of options available to them to get any help they may need.

Being there for customers

We remained available to all our customers, while prioritising those who are vulnerable and needed additional support. Over 80,000 of British Gas' most vulnerable customers had additional help in the first half of the year, through advance credit for prepayment customers or deferred payments for credit customers, while there were over 90,000 occasions of Direct Energy customers in North America receiving assistance with their bill, including through its 'Neighbor-to-Neighbor' programme in Texas.

Supporting our communities

We also continued to help the communities we serve, and through our partnership with the Trussell Trust in the UK more than 1,500 British Gas engineers volunteered to help get food to people who need it most. Our engineers have now delivered the equivalent of over 4 million meals across the UK. We also helped fund extended helpline hours for Carers UK and partnered with the Sagesse charity in Alberta to promote the organisation's 'REAL Talk' campaign focusing on recognising signs of domestic violence.

RESILIENT OPERATIONAL AND COMMERCIAL PERFORMANCE

Customer satisfaction levels broadly maintained

Customer satisfaction levels were broadly maintained through the Covid-19 pandemic, with all businesses reacting flexibly to continue to meet customer needs.

- Customer complaint rates were lower in UK Home, UK Business and both North American businesses.
- We continued to fulfil over 98% of UK services essential breakdown appointments on the scheduled day during the Covid-19 pandemic.
- We continue to invest in our digital platforms and encourage our customers to interact with us online, particularly during the Covid-19 pandemic as we prioritised calls from more vulnerable customers. In UK Home, 67% of all transactions were completed online in H1 2020 compared to 50% in H1 2019. In North America Home it improved to 54% compared to 48% in H1 2019.
- Brand NPS levels were broadly stable overall compared to the end of 2019, with small improvements in Direct Energy Home, Direct Energy Business and Hive, no change in Centrica Business Solutions and small declines in British Gas Home and British Gas Business.

Customer retention remained high, although sales performance impacted by Covid-19

Covid-19 did impact our commercial performance, with some of our key sales channels not available during lockdown periods. As a result, although overall customer retention remained high at above 80%, overall customer numbers were down 102,000 or 0.8% compared to the start of the year to 12.9m.

The number of products per customer was stable at 2.00, and the number of customer accounts fell by 382,000 or 1.5% over the first six months of the year to 25.8m.

- UK Home energy supply customer accounts were down 226,000 or 2% with some core sales channels unavailable during Covid-19 related lockdowns. In addition, we limited our activity in the fiercely competitive price comparison website market as some competitors priced at negative gross margin while falling commodity prices helped unhedged smaller competitors.
- Although UK Home services retention remained high in core channels, the number of customer accounts fell by 130,000 or 2%, while the number of installs and on demand jobs were down 27% vs H1 2019. Both these activities were impacted by significantly reduced customer visits and therefore lower sales opportunities during the lockdown period. The restrictions to customer visits also impacted Home Solutions sales, with the number of active customers increasing by 71,000, lower than in recent periods.
- UK Business customer accounts fell by 19,000 or 3% in the six months to June, with the number of SME accounts stable. The number of industrial and commercial accounts reduced by 9,000 as part of an ongoing review to de-risk our customer book, with 10,000 reduction in services accounts due to increased customer price sensitivity at renewal following the Covid-19 outbreak.
- Ireland retention rates improved, however customer accounts reduced by 14,000 or 2% in the first half due to the impact of Covid-19 on services sales channels and aggressive competitor pricing in energy markets.
- North America Home customer accounts fell by 50,000 or 1% in the first half despite improved retention, largely due to the loss of face-to-face sales channels.
- North America Business customer sites reduced by 14,000 or 3% as we continue to focus our sales and retention activity on higher value, higher consuming customers. Demand was 6% lower in gas and 14% in electricity, which reflects reduced business activity due to Covid-19 lockdowns and warmer weather.
- Centrica Business Solutions delivered further growth, with customer sites up 4%. Order intake of £154m was 36% lower than in H1 2019 reflecting companies delaying investment decisions during the early stages of the Covid-19 pandemic. However, we are beginning to see signs of recovery, with June 2020 order intake the third highest month since the business was formed in 2016. The forward order book of £736m was 11% higher than at the end of 2019.
- Energy Marketing & Trading total route-to-market capacity under management increased slightly from 12.1GW to 12.6GW, with around 10GW of capacity relating to renewable assets.

Continuing to improve the customer experience and stabilising and growing the number of customers we serve remain key priorities. The significant restructure we announced in June 2020 to create a simpler, leaner, more modern organisation with a lower cost base will be a key enabler to help us deliver against these priorities.

E&P performance broadly in line with expectations, Nuclear impacted by operational issues

- Spirit Energy volumes were down 3% to 23.7mmboe, with natural field decline and lower Morecambe up-time only partially offset by higher production from Cygnus and Chiswick in the North Sea and Oda and Vale in Norway.
- Production volumes from CSL's Rough field of 1.7mmboe were 67% lower than H1 2019, reflecting the natural decline of the field.

- On the Greater Warwick Area oil development prospect, of which Spirit Energy owns 50%, activity levels have been significantly reduced due to the current environment. Spirit Energy continues to work with its partner Hurricane Energy on developing next steps, including on the Lincoln discovery.
- Nuclear generation volumes of 4.5TWh were 7% lower than H1 2019, which includes the impact of outages at Hinkley Point B and Heysham 2. Ongoing outages at Dungeness B and Hunterston B resulted in neither site generating power in the period, as was the case in H1 2019.

Operating profit impacted by Covid-19 and low commodity prices

Compared to the first half of 2019, EBITDA was down £206m or 19% to £869m, and when taking into account the impact of lower deprecation largely due to impairments of E&P assets at the end of 2019, adjusted operating profit was down £56m or 14% to £343m.

As we indicated was expected in our Trading Update in April, Covid-19 had a significant impact on financial performance in the first half of the year.

- The impact from Covid-19 on adjusted operating profit is estimated at around £220m before mitigating actions, with approximately £100m of the impact related to the combined effects of reduced overall energy consumption, the related sell back to the market of commodity not required, and higher balancing costs. Of the remainder, around £60m was driven by gross margin lost due to reduced services and solutions activity as only essential work was undertaken, and around £60m from increased bad debt provisions.
- Mitigating actions of approximately £160m meant the net impact of Covid-19 was approximately £60m. The largest element of these mitigating actions was due to our decision not to pay senior management bonuses relating to 2019 performance, which resulted in the release of an accrual made last year. The mitigating actions also included discretionary cost savings and the use of government job retention schemes.
- In addition, falling commodity prices impacted the Upstream division, with an estimated negative impact of approximately £190m compared to H1 2019, and warmer than normal weather impacted the energy supply businesses by an estimated £60m.
- However, we benefited from the non-recurrence of a one-off cost of £70m incurred in 2019 due to Ofgem's revision to the methodology calculating supplier wholesale costs during the transitional period in Q1 2019.
- In addition, underlying performance was resilient, with improved underlying gross margins in North America Business, benefits from efficiency delivery, in particular in UK services and Centrica Home Solutions, and strong trading performance in Energy Marketing & Trading.

Stable adjusted earnings per share

The net finance charge was broadly unchanged at £129m resulting in adjusted profit before tax of £214m, 22% lower than in H1 2019. The Group adjusted effective tax rate was 35% compared to 47% in H1 2019, which includes the impacts of a lower weighting of profit towards more highly taxed E&P activities, partially offset by a deferred tax charge due to a change in future UK corporation tax rates.

Reflecting the above, adjusted earnings attributable to shareholders rose by 10% to £147m and adjusted EPS was up 4% to 2.5p.

Significant exceptional charge due to restructuring costs and upstream impairments

A pre-tax exceptional charge of £1,036m was recognised in H1 2020, including restructuring costs of £251m and impairments of E&P assets and our investment in Nuclear totalling £785m. The impairments are predominantly due to the reduction in price forecasts and Nuclear plant availability issues. After tax, the exceptional charge was £888m compared to £260m in H1 2019.

When also including a gain from certain net re-measurements after tax of £459m, compared to a loss from these certain re-measurements in H1 2019, the statutory loss attributable to shareholders was

£193m compared to £550m in H1 2019. A statutory EPS loss of 3.3p was reported compared to a loss of 9.6p in H1 2019.

Robust cash flows and liquidity

Overall cash flows were robust, despite the reduced EBITDA. This includes £154m of working capital inflow compared to an outflow of £260m in H1 2019, including the impact of working capital requirements reducing as revenues fell in our business energy supply activities. However, it also includes approximately £250m related to a number of timing items, the most significant being a one month deferral of our Danish VAT bill, which we expect to reverse in the second half of the year.

The reduction in net debt further demonstrates the flexibility we have to manage our cash flows, and the prompt and prudent actions we took to reduce cash expenditure in response to the Covid-19 pandemic. Organic capital expenditure was down £54m compared to H1 2019 while exceptional cash flows were £114m lower.

Reflecting the above, Group free cash flow of £750m, which is reconciled to statutory operating cash flow in the Group Financial Review, was £320m higher than in H1 2019. After taking into account net interest and pension deficit cash payments, net cash inflow was £593m, which includes the impact of our decision announced in April to cancel the 2019 final dividend due for payment in 2020 in response to the uncertainties caused by Covid-19.

When including non-cash movements, net debt reduced by £402m over the first six months of the year to £2.8bn. We also retain significant access to liquidity. As at the end of June, the Company had £1.3bn of available cash and cash equivalents (net of bank overdrafts) and £2.9bn of undrawn credit facilities.

The IAS19 net pension deficit increased by £359m in the period to £522m.

WELL POSITIONED TO NAVIGATE THROUGH UNCERTAINTIES

Looking forward, as lockdowns ease in our core markets we have already seen some recovery in energy demand and more normal sales of services and solutions. We would expect these trends to continue into the second half of the year, assuming a second wave of Covid-19 does not lead to further severe lockdowns in our core markets.

However, we remain cautious on the potential for incremental working capital outflow and bad debt cost during the second half of the year, if customers delay or defer payments given the uncertain economic outlook and the implications for unemployment. Given the uncertainty this causes, we are not providing any specific financial guidance for the full year at this time, having withdrawn adjusted operating cash flow guidance at the time of our Trading Update in April.

Full year performance also remains subject to the usual variables of commodity price movements and volatility, weather patterns and operational and commercial performance. However, the prompt and prudent actions we have taken, and the flexibility we have in our cash expenditure, leave us well placed to navigate through the uncertainties.

SIGNIFICANT RESTRUCTURE UNDERWAY

Centrica has strong market positions

Centrica has leading positions in energy supply, services and solutions for both residential and business customers, with our principal geographic focus on the UK and Ireland. However, our organisational structure has been too complex and has got in the way of us being able to serve customers as effectively as we would want.

Creating a simpler, leaner, more modern Company

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

The Company now operates with fewer customer-facing business units, all of which report directly to the Group Chief Executive.

- British Gas will continue to serve UK residential energy supply and services customers as well as customers previously served by Centrica Home Solutions. Alongside British Gas we have also created a new business unit which will utilise a low-cost ‘software as a service’ platform for energy only customers and is designed to compete more effectively with challenger brands. We will look to migrate residential and smaller business customers to this platform over time.
- Centrica Business Solutions will continue to offer low carbon energy solutions for businesses and will also serve the energy supply needs of customers previously served by UK Business.
- Bord Gáis Energy (previously Ireland) and Energy Marketing & Trading will both continue as business units in their current form.
- Direct Energy Home (previously North America Home) and Direct Energy Business (previously North America Business) will both continue in their current form until the proposed sale of Direct Energy is complete.

Acceleration of targeted cost savings

With the majority of restructuring expected to take place in the second half of 2020 following consultation on the proposals with colleagues, the implementation of the revised operating model is expected to accelerate the delivery of targeted cost savings. We now expect to achieve the vast majority of our targeted annualised cost savings of £2bn between 2015 and 2022 by next year, having delivered £1.26bn by the end of 2019. This is planned to result in a more competitive cost structure, in particular in our UK energy supply and services businesses, an improved customer experience, and provide a platform for growth.

The reorganisation will lead to a reduction of around 5,000 roles across the Group, with the expected cost for this provided for in the first half exceptional restructuring charge of £251m. Over half of the reduction is expected to come from management roles and we have already commenced a process to decrease the number of organisational layers from nine to six, creating a flatter, less bureaucratic organisation which is closer to and focused on the customer. Group direct headcount was around 1,100 lower at the end of June compared to the end of 2019, and the number of roles at the three most senior levels of the organisation have been reduced by around 45% since the announcement of the restructure in June. The large majority of the role reductions are expected to take place in the UK, and therefore delivery of the cost savings is not expected to be materially impacted by the sale of Direct Energy.

A more flexible workforce

In addition to the proposed new organisational design, the company has commenced consultation to simplify terms and conditions for employees in the UK. Centrica has over 80 different employee contracts, each with multiple variants, with many of the agreements dating back over 35 years. We need to modernise these to enable us to best serve the changing expectations of today’s customers while retaining the quality of our service.

PROPOSED DIVESTMENT OF DIRECT ENERGY

We announced on 24 July 2020 that we had entered into an agreement to sell our North American business, Direct Energy, to NRG Energy for $3.625bn (£2.85bn) in cash, on a debt free, cash free basis.

Since Centrica’s entry into North America in 2000, Direct Energy has been a valuable and strategically important part of the Group. However, having received a highly compelling unsolicited offer from NRG Energy to acquire Direct Energy, we entered into a limited period of exclusive negotiations in May with NRG Energy, to explore further the basis for a transaction. The Board believes the transaction results in an attractive price for Direct Energy, representing a multiple of 7.9x 2019 Underlying Adjusted EBITDA of $457 million.

The transaction enables Centrica to simplify further its business, which alongside the significant restructuring that is now underway will create a simpler, leaner Company, focused on its core markets of the UK and Ireland.

It will also increase the long term strength of the Group's balance sheet, with net cash proceeds intended to be used to reduce net debt significantly and to make a material contribution to the Group's defined benefit pension schemes. In addition, it will result in a more stable financial profile for the Group, with an increased proportion of its cash flows generated from contracted services, and removal of volatility that is inherent within Direct Energy Business.

The transaction is conditional upon approval by Centrica's shareholders and various other approvals, including regulatory approvals, and is expected to complete in the fourth quarter of 2020.

E&P AND NUCLEAR DIVESTMENT PROCESSES ON PAUSE

Our intention remains to exit oil and gas production and nuclear power generation in line with our strategic shift towards the customer.

In 2019, we announced our intention to divest our 69% shareholding in Spirit Energy, in line with our strategy to exit E&P. We were due to receive initial bids around the end of March, however we took the decision to pause the process against the uncertain backdrop created by the Covid-19 pandemic. We still intend to exit E&P, and plan to restart the Spirit Energy process once commodity and financial markets have settled. While we still own this business we will actively manage it. The steps we have taken with our partner and the management team in Spirit mean we expect to be, at worst, free cash flow neutral in both 2020 and 2021, even in the current low commodity price environment.

In 2018, we announced our intention to divest our 20% interest in the UK operating nuclear fleet of power stations. We continue to consider options for the sale, however the divestment process is currently paused given the operational issues, and as previously stated we may still hold an interest in nuclear at the end of 2020.

NEAR-TERM PRIORITIES FOCUSED ON SIMPLIFYING CENTRICA

Centrica retains leading positions in energy supply and services in all its core markets, which generate significant and stable cash flows. These businesses will remain the Group's core focus, and they will be further strengthened by the actions we are taking to simplify the Group, to improve the customer experience and reduce operating costs. This is intended to position us for customer-facing growth.

Therefore, our near term priorities will be on delivering the restructure, alongside progressing the planned divestments and maintaining financial discipline to help us navigate Covid-19 related uncertainties.

We remain focused on becoming a wholly customer-focused energy services and solutions company and are well positioned to support and benefit from new market opportunities in the decarbonisation of power, heat and transport, while supporting a green economic recovery. However, we will pursue opportunities in a disciplined way and focus our attention on those that we believe will be beneficial to our customers and will add the most material value to the Group.

SUMMARY

Centrica's performance in the first half of the year was significantly impacted by the Covid-19 pandemic. However, the Group's performance was resilient and cash flow and liquidity remain robust, reflecting the flexibility the Group has in its cash expenditure. We are well positioned to navigate through the significant uncertainties that still exist in the second half of 2020.

There is a lot to achieve in the second half of the year, as we focus on progressing planned divestments and deliver a significant Group restructure, while maintaining tight discipline on all cash expenditure to ensure a strong balance sheet.

These changes will result in a simpler, leaner, more modern, more customer-focused energy services and solutions company, which will be able to better capitalise in its leading positions and capabilities and enable millions of customers to transition to a lower carbon future.

Group Financial Review

GROUP REVENUE

Group revenue included in business performance reduced by £1.3bn or 9% to £12.5bn (2019: £13.8bn). Gross segment revenue, which includes revenue generated from the sale of products and services between segments reduced by £1.7bn or 12% to £12.8bn (2019: £14.6bn). This was driven largely by lower demand for energy from businesses due to Covid-19.

OPERATING PROFIT

The statutory operating loss was £135m (2019: £446m). Adjusted operating profit was £343m (2019: £399m). The difference between the two measures of profit relates to exceptional items and certain remeasurements. A table reconciling the different profit measures is shown below:

		2020			2019		
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		**229**			181		
Ireland		**30**			31		
North America Home		**99**			77		
Centrica Home Solutions		**(29)**			(49)		
Rounding		***(1)***			-		
Centrica Consumer		**328**			240		
UK Business		**(39)**			19		
North America Business		**(47)**			(14)		
Centrica Business Solutions		**(34)**			(27)		
Energy Marketing & Trading (EM&T)		**115**			32		
Rounding		***1***			*(1)*		
Centrica Business		**(4)**			9		
Upstream		**19**			150		
Group operating profit/(loss)	4(c)	**343**	**(478)**	**(135)**	399	(845)	(446)
Net finance cost	7	**(129)**	**-**	**(129)**	(123)	-	(123)
Taxation	8	**(63)**	**49**	**(14)**	(133)	181	48
Profit/(loss) for the period		**151**	**(429)**	**(278)**	143	(664)	(521)
Profit attributable to non-controlling interests		**(4)**	**89**	**85**	(9)	(20)	(29)
Adjusted earnings		**147**	**(340)**	**(193)**	134	(684)	(550)

Adjusted operating profit

- In Centrica Consumer, adjusted operating profit was up £88m or 37%.
  - UK Home operating profit rose £48m or 27% compared to H1 2020.
  - UK Home energy supply profit increased by £7m or 8%, which includes a benefit from the non-repeat of the default tariff cap related one-off cost of £70m in Q1 2019. Excluding this impact, benefits from cost efficiency delivery were more than offset by lower average energy customer account holdings, and lower overall energy consumption as the impact of warmer weather more

than offset the increase in demand which resulted from more people working at home during Covid-19.

- UK Home services profit increased by £41m or 43%, with the benefit of cost efficiencies and higher average services customer account holdings in the period. The impact of Covid-19 was limited in the period, as reduced revenue and margin resulting from around a 40% reduction in boiler installations were mitigated by use of the Government's furlough scheme and tight cost control. However, reflecting the fact that we were not able to carry out non-essential workload in the first half of the year, there may be the need to compete additional workload in the second half.
- Ireland operating profit was down £1m or 3%, as gross margin growth from an improved customer mix and good trading performance was more than offset by factors including an increased bad debt charge as a result of Covid-19.
- North America Home operating profit increased by £22m or 29%, as cost efficiencies more than offset minor impacts from Covid-19 of a higher bad debt charge and lower services demand.
- Centrica Home Solutions operating loss reduced by £20m or 41%, with a significantly lower cost base following the decision in 2019 to focus activity on the UK and Ireland. Revenue was down by £14m reflecting reduced sales activity as a result of the Covid-19 pandemic, however overall gross margin was only £2m lower, as the revenue mix moved towards higher-margin offers.

- In Centrica Business, an adjusted operating loss of £4m was reported in H1 2020, compared to a £9m profit in H1 2019.
  - UK Business adjusted operating loss was £39m compared to a £19m profit in H1 2019. This reflects Covid-19 related energy demand reduction, which also required commodity hedges to be unwound at a loss and resulted in higher electricity balancing costs. The bad debt charge also roughly doubled due to increased provisions.
  - North America Business adjusted operating loss was £47m, compared to a £14m loss in H1 2019. Underlying retail power margins improved, reflecting lower capacity market charges. However, Covid-19 resulted in lower energy demand which required commodity hedges to be unwound at a loss, and an increase in bad debt provisions.
  - Centrica Business Solutions reported an adjusted operating loss of £34m compared to £27m in H1 2019, reflecting lower revenue as less sales and workload were carried out during Covid-19 lockdowns.
  - EM&T operating profit increased by 259% to £115m, with strong performance in proprietary and LNG trading. There was a partial offset from an increased loss of £27m from the one remaining legacy gas contract, compared to a loss of £18m in H1 2019.
- Upstream operating profit fell 87% to £19m.
  - Spirit Energy E&P adjusted operating profit fell by 63% to £33m, with the impact of lower achieved prices in the falling commodity price environment partially offset by lower depreciation resulting from 2019 impairments, lower field write-off costs and tight cost control.
  - CSL adjusted operating profit was £1m compared to £58m in H1 2019, due to lower achieved prices and lower production due to the natural decline of the Rough field.
  - Nuclear adjusted operating loss was £16m compared to profit of £2m in H1 2019, due to the impact of lower generation reflecting operational issues at a number of power stations and a deferred tax adjustment following the UK Government's decision to cancel the proposed reduction in the future corporation tax rate below its current level of 19%, partially offset by an increase in achieved power price.

Exceptional items

- A net exceptional pre-tax charge of £1,036m was included within Group operating loss before taxation in H1 2020 (H1 2019: £346m) including:
  - A £381m charge relating to the impairment of E&P assets, predominantly due to the reduction in near-term prices and long-term price forecasts.
  - A £404m charge relating to the impairment of power assets, including £395m related to the nuclear investment largely as a result of a reduction in price forecasts and availability issues at the Hunterston B, Dungeness B and Hinkley Point B power stations.
  - £251m of restructuring charges have arisen in the period relating to the Group's restructuring and headcount reduction announcement in June 2020 in relation to expected future severance costs. In addition, costs associated with the continuation of the Group's cost efficiency programme principally related to property rationalisation costs and other transformational activity have been incurred in the first half of 2020.
- These charges in total generated a taxation credit of £148m (2019: £86m). As a result, total net exceptional charges after taxation were £888m (2019: £260m).
- Further details on exceptional items, including on impairment accounting policy, process and sensitivities can be found in notes 6(a) and 6(c).

Certain re-measurements

- The Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair valued under IFRS 9.
- The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued.
- The operating loss in the statutory results includes a net pre-tax profit of £558m (2019: loss of £499m) relating to these re-measurements, largely due to the unwind of out of the money positions from December 2019.
- These re-measurements generated a taxation charge of £99m (2019: credit of £95m). As a result, the total net re-measurement profit after taxation was £459m (2019: loss of £404m).
- The Group recognises the realised gains and losses on these contracts when the underlying transaction occurs. The business performance profits arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements.
- Further details can be found in note 6(b).

GROUP FINANCE CHARGE AND TAXATION

Finance costs

- Net finance costs increased to £129m (2019: £123m), due to a reduction in the interest income earned on items such as short-term investments in money market funds, bank deposits and government bonds.

Taxation

- Business performance taxation on profit decreased to £63m (2019: £133m). After taking account of tax on joint ventures and associates, the adjusted tax charge was £81m (2019: £128m). The resultant adjusted tax rate for the Group was 35% (2019: 47%).

- This included a deferred tax adjustment following the UK Government's decision to cancel the proposed reduction in the future corporation tax rate below its current level of 19%, which increased the tax charge by £35m.
- When excluding the impact of this deferred tax adjustment the underlying tax rate was 20%, reflecting the more highly taxed E&P businesses contributing 10% of adjusted operating profit compared to 37% in 2019.
- An effective tax rate calculation is shown below:

Six months ended 30 June	2020 £m	2019 £m
Adjusted operating profit before impacts of taxation	**343**	399
Add: JV/associate taxation included in adjusted operating profit	**18**	(5)
Net finance cost	**(129)**	(123)
Adjusted profit before taxation	**232**	271
Taxation on profit	**(63)**	(133)
Share of JV/associate taxation	**(18)**	5
Adjusted tax charge	**(81)**	(128)
Adjusted effective tax rate	**35%**	47%

GROUP EARNINGS

Adjusted earnings

- Profit for the period from business performance increased to £151m (2019: £143m) and after adjusting for non-controlling interest, adjusted earnings increased by 10% to £147m (2019: £134m). This reflects the decline in adjusted operating profit and small increase in net finance costs, more than offset by the lower adjusted tax charge as described above.
- Adjusted basic EPS was up 4% to 2.5p (2019: 2.4p).

Group statutory loss

- The statutory loss attributable to shareholders for the period was £193m (2019: £550m). 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 Group reported a statutory basic EPS loss of 3.3p (2019: 9.6p).

GROUP CASH FLOW, NET DEBT AND BALANCE SHEET

Group cash flow

- Free cash flow is being reported alongside adjusted operating cash flow as management believe it provides relevant information to show the cash generation of the business after taking account of the need to maintain its capital asset base. Free cash flow will be used as the primary measure of cash flow going forward. Free cash flow and adjusted operating cash flow are reconciled to statutory net cash flow from operating activities in the table below. See the explanatory notes on page 58 for further details.
- Adjusted operating cash flow increased by 34% to £998m despite lower adjusted operating profit, reflecting an inflow in working capital compared to an outflow over the same period last year.
- Free cash flow increased by 74% to £750m compared to H1 2019, reflecting the increase in adjusted operating cash flow, lower organic capital expenditure due to ongoing capital discipline and lower payments relating to exceptional charges as we delayed restructuring programmes during the first half of the year, partially offset by lower divestment proceeds.
- Net cash flow from operating activities increased from £177m in H1 2019 to £903m in 2020. This reflects the increase in adjusted operating cash flow as described above, lower defined benefit

pension deficit payments and a margin cash inflow in the period compared to an outflow in H1 2019.

Six months ended 30 June	2020 £m	2019 £m
Statutory cash flow from operating activities	**903**	177
Add back/(deduct):		
Net margin and cash collateral (inflow) / outflow [1]	**(65)**	241
Payments relating to exceptional charges	**61**	175
Dividends received from joint ventures and associates	**23**	-
Defined benefit pension deficit payment	**76**	151
Adjusted operating cash flow	**998**	744
Capital expenditure (including small acquisitions)	**(298)**	(355)
Sale of businesses	**108**	208
Sale of property, plant and equipment and intangible assets	**2**	8
Receipt of sub-lease payments	**1**	-
Payments relating to exceptional charges	**(61)**	(175)
Free cash flow	**750**	430

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

- Net cash outflow from investing activities reduced to £39m in H1 2020 (H1 2019: £100m), including the impact of lower proceeds from sale of businesses, lower capital expenditure and a higher cash inflow from the sale and settlement of securities.
- Net cash outflow from financing activities reduced to £169m in H1 2020 (H1 2019: £570m) as no dividend was paid to Centrica shareholders or Spirit Energy minority shareholders.

Net debt

- All of the above resulted in a £695m increase in cash and cash equivalents over the year, and when also including non-cash movements such as £124m of new leasing arrangements and exchange adjustments, net debt reduced by £402m to £2,779m, including cash collateral posted or received in support of wholesale energy procurement.
- Further details on the Group's net debt are included in note 12.

Balance sheet

- Net assets decreased to £1,419m (31 December 2019: £1,795m) reflecting the statutory loss and actuarial losses made in the period partially offset by exchange differences on translation of foreign operations.

Pension deficit

- The Group's IAS 19 net pension deficit increased by £359m to £522m in the period, with a reduction in the discount rate due to low interest rates increasing the obligation. The increase was partially offset by the effects of an increase in the value of the pension assets, inflation and agreed deficit payments.

2020 ACQUISITIONS AND DISPOSALS

- On 23 December 2019, the Group agreed to sell its 382MW King's Lynn combined cycle gas turbine power station to RWE Generation. The disposal was classified as held for sale as at 31 December 2019. The transaction completed on 12 February 2020, resulting in the receipt of consideration of £102m, after adjustments for final working capital balances and after transaction costs.
- Further details on assets purchased, acquisitions and disposals are included in notes 4(e) and 11.

EVENTS AFTER BALANCE SHEET DATE

- On 24 July 2020, the Group announced it had agreed to dispose of its North American supply, services and trading business, Direct Energy, to NRG for headline consideration $3.625 billion (£2.85bn) on a debt free, cash free basis.
- Details of events after the balance sheet date are described in note 17.

RISKS AND CAPITAL MANAGEMENT

- Whilst the nature of the Group's principal risks and uncertainties are unchanged from those set out in its 2019 Annual Report, the Group has actively responded to those risks heightened by Covid-19.
- Our top three Principal Risks continue to be Political & Regulatory Intervention, Financial Markets and Balance Sheet Strength and Credit Position and all have been amplified by Covid-19. The degree of government support globally, in the form of government aid and stimulus programmes, will ultimately determine the degree of customer debt we may see. It will also create implications in how we respond to debt management for vulnerable customers and will impact the speed of recovery in the commercial sector. These factors will also impact a number of other Principal Risks. Falls in commodity prices and asset valuations have heightened our risks associated with Financial Markets and Balance Sheet Strength and Credit position. People risk is also intensified as we progress through our programmes of change.
- Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note 19. Details of the Group's capital management processes are provided under sources of finance in note 12(a).

ACCOUNTING POLICIES

- 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.

Appendix: Business Unit metrics

UK Home

Six months ended 30 June	2020	2019	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.44**	1.36	6%
Brand NPS [1]	**8**	10	(2pt)
Complaints (per 100,000 customers) [2]			
Energy supply	**1,709**	2,866	(40%)
Services	**887**	1,119	(21%)
Customer account holdings ('000)			
Energy supply			
Standard variable tariff (SVT)	**3,491**	4,078	(14%)
Temporary	**1,576**	1,347	17%
Safeguard	**447**	487	(8%)
Prepayment	**1,968**	2,140	(8%)
Fixed term	**4,138**	3,902	6%
Total Energy supply	**11,620**	11,954	(3%)
Services	**7,746**	7,652	1%
Total customer account holdings ('000)	**19,366**	19,606	(1%)
Installs and on demand jobs ('000)	**128**	175	(27%)
Energy use per residential energy customer account			
Gas (therms)	**234**	238	(2%)
Electricity (kWh)	**1,629**	1,588	3%
Total energy use per residential energy customer account (kWh)	**4,506**	4,571	(1%)
Gross margin per UK energy customer (£)[3]	**126**	138	(9%)
Cost per UK energy customer (£)[3]	**105**	106	(1%)
Revenue per UK services customer (£)[3]	**366**	394	(7%)
Cost per UK services customer (£)[3]	**295**	347	(15%)
Adjusted gross revenue (£m)			
Energy supply	**3,475**	3,619	(4%)
Services	**624**	716	(13%)
Total adjusted gross revenue (£m)	**4,099**	4,335	(5%)
Total adjusted gross margin (£m)	**778**	797	(2%)
Adjusted operating profit (£m)			
Energy supply	**93**	86	8%
Services	**136**	95	43%
Total adjusted operating profit (£m)	**229**	181	27%
Adjusted operating cash flow (£m)	**193**	150	29%

1. 2019 Brand NPS has been restated to show the British Gas only score.
2. Complaints per 100,000 customers as reported to Ofgem for UK energy supply and the FCA for UK Home services.
3. Rolling 12-month average.

North America Home

Six months ended 30 June	2020	2019	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.00**	0.58	72%
Brand NPS	**30**	32	(2pt)
Energy supply complaints (per 100,000 customers) [1]	**21**	35	(40%)
Customer account holdings ('000)			
Energy supply			
Texas	**607**	643	(6%)
US North East	**1,221**	1,143	7%
Canada	**891**	902	(1%)
Total energy supply	**2,719**	2,688	1%
Services	**599**	622	(4%)
Total customer account holdings ('000)	**3,318**	3,310	0%
Installs and on demand jobs ('000)[2]	**39**	205	(81%)
Energy use per residential energy customer account			
Gas (therms)	**826**	849	(3%)
Electricity (kWh)	**4,732**	5,058	(6%)
Total energy use per residential energy customer account (kWh)	**13,118**	14,068	(7%)
Adjusted gross revenue (£m)			
Energy supply	**1,144**	1,134	1%
Services	**207**	232	(11%)
Total adjusted gross revenue (£m)	**1,351**	1,366	(1%)
Adjusted gross margin (£m)	**277**	307	(10%)
Adjusted gross margin ($m)	**352**	398	(12%)
Adjusted operating profit (£m)			
Energy supply	**98**	80	23%
Services	**1**	(3)	nm
Total adjusted operating profit (£m)	**99**	77	29%
Adjusted operating profit ($m)			
Energy supply	**123**	103	19%
Services	**2**	(3)	nm
Total adjusted operating profit ($m)	**125**	100	25%
Adjusted operating cash flow (£m)	**146**	83	76%
Adjusted operating cash flow ($m)	**184**	106	74%

1. Complaints per 100,000 customers as reported by various regulatory bodies.
2. 2019 includes four months of Clockwork Home Services, sold 30 April 2019.

Ireland

Six months ended 30 June	2020	2019	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.65**	1.13	(42%)
Brand NPS[1]	**(2)**	nm	nm
Complaints (per 100,000 customers)[2]	**2.8**	2.0	40%
Customer account holdings ('000)[3]	**712**	738	(4%)
Energy use per residential energy customer account (kWh)			
Gas (therms)	**224**	225	(0%)
Electricity (kWh)	**2,338**	2,331	0%
Total energy use per residential energy customer account (kWh)	**4,313**	4,327	(0%)
Adjusted gross revenue (£m)	**416**	464	(10%)
Adjusted gross margin (£m)	**83**	78	6%
Adjusted operating profit (£m)	**30**	31	(3%)
Adjusted operating profit (€m)	**35**	36	(3%)
Adjusted operating cash flow (£m)	**36**	49	(27%)
Adjusted operating cash flow (€m)	**40**	56	(29%)

1. 2019 not provided due to an alignment to group methodology.
2. Complaints per 100,000 customers as reported to the Commission for Regulation of Utilities, Water and Energy (CRU).
3. 2019 restated to include services account holdings.

Centrica Home Solutions

Six months ended 30 June	2020	2019	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.00**	0.19	(100%)
Brand NPS	**42**	42	0pt
Active customers ('000)	**1,273**	1,014	26%
New customers in period ('000)	**109**	200	(46%)
Products sold in period ('000)	**359**	559	(36%)
Active subscriptions ('000)	**191**	165	16%
Adjusted gross revenue (£m)	**20**	34	(41%)
Adjusted gross margin (£m)	**6**	8	(25%)
Adjusted operating loss (£m)	**(29)**	(49)	41%
Adjusted operating cash flow (£m)	**(21)**	(32)	34%

UK Business

Six months ended 30 June	2020	2019	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.18**	0.38	(53%)
Brand NPS	**(1)**	(3)	2pt
Complaints (per 100,000 customers) [1]	**1,971**	2,055	(4%)
Customer account holdings ('000)			
Small and medium enterprises (SME)	**561**	553	1%
Industrial and commercial (I&C)	**83**	101	(18%)
Services	**46**	54	(15%)
Total customer account holdings ('000) [2]	**690**	708	(3%)
Total customer energy consumption			
Gas (mmth)	**263**	258	2%
Electricity (GWh)	**5,050**	5,255	(3%)
Adjusted gross revenue (£m)	**986**	1,023	(4%)
Adjusted gross margin (£m)	**49**	106	(54%)
Adjusted operating (loss) / profit (£m)	**(39)**	19	nm
Adjusted operating cash flow (£m)	**42**	111	(62%)

1. Complaints per 100,000 customers as reported to Ofgem.
2. Includes services account holdings. 2019 has been restated accordingly.

North America Business

Six months ended 30 June	2020	2019	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.11**	0.10	10%
Brand NPS	**40**	38	2pt
Complaints (per 100,000 customers) [1]	**8**	14	(43%)
Customer account holdings ('000)	**461**	495	(7%)
Total customer energy consumption			
Gas (mmth)	**3,974**	4,215	(6%)
Electricity (GWh)	**34,169**	39,681	(14%)
Adjusted gross revenue (£m)	**3,443**	4,225	(19%)
Adjusted gross margin (£m)			
Gas retail and wholesale	**70**	109	(36%)
Power retail and wholesale	**48**	46	4%
Total adjusted gross margin (£m)	**118**	155	(24%)
Adjusted gross margin ($m)			
Gas retail and wholesale	**90**	142	(37%)
Power retail and wholesale	**60**	58	3%
Total adjusted gross margin ($m)	**150**	200	(25%)
Adjusted operating loss (£m)	**(47)**	(14)	(236%)
Adjusted operating loss ($m)	**(60)**	(19)	(216%)
Adjusted operating cash flow (£m)	**96**	(30)	nm
Adjusted operating cash flow ($m)	**120**	(41)	nm

1. Complaints per 100,000 customers as reported by various regulatory bodies.

Centrica Business Solutions

Six months ended 30 June	2020	2019	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.71**	1.14	(38%)
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)	**0.18**	0.00	nm
Brand NPS	**29**	29	0pt
Optimisation capacity under management (MW)	**2,167**	2,161	0%
Active customer sites	**6,338**	5,821	9%
Order book (£m)	**736**	695	6%
Adjusted gross revenue (£m)	**109**	120	(9%)
Adjusted gross margin (£m)	**26**	32	(19%)
Adjusted operating loss (£m)	**(34)**	(27)	(26%)
Adjusted operating cash flow (£m)	**(13)**	(39)	67%

Energy Marketing & Trading

Six months ended 30 June	2020	2019	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.00**	0.00	nm
Adjusted operating profit (£m) [1]	**115**	32	259%
Adjusted operating cash flow (£m) [1]	**216**	(7)	nm

1. 2019 has been restated to include the Spalding tolling agreement.

Nuclear

Six months ended 30 June	2020	2019	Change
Nuclear power generated (GWh)	**4,537**	4,900	(7%)
Nuclear achieved power price (£/MWh)	**53.0**	47.5	12%
Adjusted operating (loss) / profit (£m)	**(16)**	2	nm
Adjusted operating cash flow (£m)	**19**	27	(30%)

Exploration & Production

Six months ended 30 June	2020	2019	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.28**	0.20	40%
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)	**0.00**	0.09	(100%)
Gas production volumes (mmth)			
Spirit Energy	**930**	1,053	(12%)
CSL	**104**	323	(68%)
Total gas production volumes (mmth)	**1,034**	1,376	(25%)
Liquids production volumes (mmboe)			
Spirit Energy	**8.5**	7.3	16%
CSL	**0.0**	0.1	(100%)
Total liquids production volumes (mmboe)	**8.5**	7.4	15%
Total production volumes (mmboe)			
Spirit Energy	**23.7**	24.5	(3%)
CSL	**1.7**	5.2	(67%)
Total production volumes (mmboe)	**25.4**	29.7	(14%)
Average achieved gas sales prices (p/therm)			
Spirit Energy	**33.9**	43.8	(23%)
CSL	**45.0**	43.0	5%
Average achieved liquid sales prices (£/boe)			
Spirit Energy	**34.6**	44.2	(22%)
CSL	**18.4**	39.6	(54%)
Lifting and other cash production costs (£/boe) [1]			
Spirit Energy	**12.3**	14.4	(15%)
CSL	**21.0**	7.1	196%
Gas and liquids realisations (£m) [2]	**667**	972	(31%)
Unit DDA rate (£/boe)			
Spirit Energy	**11.7**	13.8	(15%)
CSL	**3.9**	8.3	(53%)
Adjusted operating profit (£m)			
Spirit Energy	**33**	90	(63%)
CSL	**1**	58	(98%)
Adjusted operating profit (£m)	**34**	148	(77%)
Adjusted operating cash flow (£m)	**283**	433	(35%)
Net investment (£m) [3]			
Capital expenditure (including small acquisitions)	**204**	183	11%
Net disposals	**(9)**	(6)	50%
Net investment (£m)	**195**	177	10%
Free cash flow (£m) [3]	**87**	246	(65%)

1. Lifting and other cash production costs are total operating costs and cost of sales excluding depreciation and amortisation, dry hole costs, exploration costs and profit on disposal.
2. Realisations are total revenues from sales of gas and liquids including hedging and net of Spirit NTS costs.
3. 2019 restated to be aligned to group methodology. See pages 56 to 57 for an explanation of the use of adjusted performance measures.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Interim Results for the six-month period ended 30 June 2020 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 2019 Annual Report and Accounts. A list of current Directors is maintained on the Centrica plc website which can be found at www.centrica.com.

On behalf of the Board on 24 July 2020

Chris O'Shea	**Johnathan Ford**
Group Chief Executive	**Group Chief Financial Officer**

Independent Review Report to Centrica plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Cash Flow Statement and related notes 1 to 20. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

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

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of report

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

Deloitte LLP

Statutory Auditor

London, United Kingdom

24 July 2020

Group Income Statement

Six months ended 30 June	Notes	2020 Business performance £m	2020 Exceptional items and certain re-measurements £m	2020 Results for the period £m	2019 Business performance £m	2019 Exceptional items and certain re-measurements £m	2019 Results for the period £m
Group revenue	4, 6	**12,521**	**(1,826)**	**10,695**	13,808	(2,240)	11,568
Cost of sales	6	**(10,940)**	**3,082**	**(7,858)**	(11,881)	4,222	(7,659)
Re-measurement and settlement of energy contracts	6	**–**	**(700)**	**(700)**	–	(2,481)	(2,481)
Gross profit/(loss)	4, 6	**1,581**	**556**	**2,137**	1,927	(499)	1,428
Operating costs before exceptional items and credit losses on financial assets		**(1,074)**	**–**	**(1,074)**	(1,400)	–	(1,400)
Credit losses on financial assets		**(162)**	**–**	**(162)**	(104)	–	(104)
Exceptional items – impairment of exploration and production assets	6	**–**	**(381)**	**(381)**	–	(49)	(49)
Exceptional items – impairment of power assets	6	**–**	**(404)**	**(404)**	–	–	–
Exceptional items – impairment of Centrica Home Solutions	6	**–**	**–**	**–**	–	(39)	(39)
Exceptional items – gain on disposal	6	**–**	**–**	**–**	–	63	63
Exceptional items – restructuring costs	6	**–**	**(251)**	**(251)**	–	(257)	(257)
Exceptional items – pension change costs	6	**–**	**–**	**–**	–	(64)	(64)
Operating costs		**(1,236)**	**(1,036)**	**(2,272)**	(1,504)	(346)	(1,850)
Share of (losses)/profits of joint ventures and associates, net of interest and taxation	5	**(2)**	**2**	**–**	(24)	–	(24)
Group operating profit/(loss)	4	**343**	**(478)**	**(135)**	399	(845)	(446)
Net finance cost	7	**(129)**	**–**	**(129)**	(123)	–	(123)
Profit/(loss) before taxation		**214**	**(478)**	**(264)**	276	(845)	(569)
Taxation on profit/(loss)	8	**(63)**	**49**	**(14)**	(133)	181	48
Profit/(loss) for the period		**151**	**(429)**	**(278)**	143	(664)	(521)
Attributable to:							
Owners of the parent		**147**	**(340)**	**(193)**	134	(684)	(550)
Non-controlling interests		**4**	**(89)**	**(85)**	9	20	29

Earnings per ordinary share	Notes	2020 Pence	2019 Pence
Basic	9	**(3.3)**	(9.6)
Diluted	9	**(3.3)**	(9.6)

The notes on pages 28 to 55 form part of these condensed interim Financial Statements.

Group Statement of Comprehensive Income

Six months ended 30 June	2020 £m	2019 £m
Loss for the period	**(278)**	(521)
Other comprehensive income/(loss)		
Items that will be or have been reclassified to the Group Income Statement:		
Impact of cash flow hedging (net of taxation)	**8**	6
Exchange differences on translation of foreign operations	**108**	52
Exchange differences reclassified to Group Income Statement on disposal	**–**	(18)
Items that will not be reclassified to the Group Income Statement:		
Net actuarial losses on defined benefit pension schemes (net of taxation)	**(238)**	(158)
(Losses)/gains on revaluation of equity instruments measured at fair value through other comprehensive income (net of taxation)	**(3)**	1
Share of other comprehensive income of joint ventures and associates (net of taxation)	**–**	13
Other comprehensive loss, net of taxation	**(125)**	(104)
Total comprehensive loss for the period	**(403)**	(625)
Attributable to:		
Owners of the parent	**(311)**	(659)
Non-controlling interests	**(92)**	34

The notes on pages 28 to 55 form part of these condensed interim Financial Statements.

Group Statement of Changes in Equity

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

	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	Total £m	Non-controlling interests £m	Total equity £m
1 January 2019	354	2,240	725	(174)	3,145	803	3,948
(Loss)/profit for the period	–	–	(550)	–	(550)	29	(521)
Other comprehensive (loss)/income	–	–	–	(109)	(109)	5	(104)
Employee share schemes	–	–	(16)	40	24	–	24
Scrip dividend (note 10)	6	90	–	–	96	–	96
Dividends paid to equity holders (note 10)	–	–	(474)	–	(474)	–	(474)
Distributions to non-controlling interests	–	–	–	–	–	(124)	(124)
30 June 2019	360	2,330	(315)	(243)	2,132	713	2,845

The notes on pages 28 to 55 form part of these condensed interim Financial Statements.

Group Balance Sheet

	Notes	30 June 2020 £m	31 December 2019 £m
Non-current assets			
Property, plant and equipment		**2,635**	3,133
Interests in joint ventures and associates		**889**	1,306
Other intangible assets		**1,603**	1,455
Goodwill		**2,689**	2,578
Deferred tax assets		**616**	553
Trade and other receivables, and contract-related assets	14	**166**	154
Derivative financial instruments	15	**560**	493
Retirement benefit assets	13	**–**	56
Securities	12,15	**134**	131
		9,292	9,859
Current assets			
Trade and other receivables, and contract-related assets	14	**3,923**	4,839
Inventories		**399**	431
Derivative financial instruments	15	**1,225**	1,320
Current tax assets		**165**	115
Securities	12,15	**–**	124
Cash and cash equivalents	12	**1,603**	1,342
		7,315	8,171
Assets of disposal groups classified as held for sale	11	**17**	124
		7,332	8,295
Total assets		**16,624**	18,154
Current liabilities			
Derivative financial instruments	15	**(1,168)**	(1,854)
Trade and other payables, and contract-related liabilities		**(4,829)**	(5,533)
Current tax liabilities		**(266)**	(339)
Provisions for other liabilities and charges		**(317)**	(284)
Bank overdrafts, loans and other borrowings	12	**(442)**	(857)
		(7,022)	(8,867)
Liabilities of disposal groups classified as held for sale	11	**(52)**	(18)
		(7,074)	(8,885)
Non-current liabilities			
Deferred tax liabilities		**(207)**	(151)
Derivative financial instruments	15	**(263)**	(291)
Trade and other payables, and contract-related liabilities		**(284)**	(152)
Provisions for other liabilities and charges		**(2,137)**	(2,175)
Retirement benefit obligations	13	**(522)**	(219)
Bank loans and other borrowings	12	**(4,718)**	(4,486)
		(8,131)	(7,474)
Total liabilities		**(15,205)**	(16,359)
Net assets		**1,419**	1,795
Share capital		**360**	360
Share premium		**2,345**	2,330
Retained earnings		**(1,074)**	(869)
Other equity		**(703)**	(609)
Total shareholders' equity		**928**	1,212
Non-controlling interests		**491**	583
Total shareholders' equity and non-controlling interests		**1,419**	1,795

The notes on pages 28 to 55 form part of these condensed interim Financial Statements.

Group Cash Flow Statement

Six months ended 30 June	Notes	2020 £m	2019 £m
Group operating loss including share of results of joint ventures and associates		**(135)**	(446)
Add back share of losses of joint ventures and associates, net of interest and taxation	5	**–**	24
Group operating loss before share of results of joint ventures and associates		**(135)**	(422)
Add back/(deduct):			
Depreciation, amortisation, write-downs, impairments and write-backs		**1,312**	775
Profit on disposals		**(3)**	(134)
Increase in provisions		**60**	152
Cash contributions to defined benefit schemes less than/(in excess of) service cost income statement charge		**37**	(153)
Employee share scheme costs		**28**	21
Unrealised (gains)/losses arising from re-measurement of energy contracts		**(561)**	142
Exceptional charges reflected directly in operating profit		**25**	157
Operating cash flows before movements in working capital relating to business performance and payments relating to taxes and exceptional charges		**763**	538
Decrease in inventories relating to business performance		**39**	94
Decrease in trade and other receivables and contract-related assets relating to business performance		**1,044**	807
Decrease in trade and other payables and contract-related liabilities relating to business performance		**(833)**	(1,008)
Operating cash flows before payments relating to taxes and exceptional charges		**1,013**	431
Taxes paid		**(49)**	(79)
Payments relating to exceptional charges in operating costs		**(61)**	(175)
Net cash flow from operating activities		**903**	177
Purchase of businesses, net of cash acquired		**–**	(3)
Sale of businesses		**108**	208
Purchase of property, plant and equipment and intangible assets	4	**(298)**	(352)
Sale of property, plant and equipment and intangible assets		**2**	8
Dividends received from joint ventures and associates		**23**	–
Receipt of sub-lease capital payments	12	**1**	–
Interest received		**3**	5
Sale and settlement of securities	12	**122**	34
Net cash flow from investing activities		**(39)**	(100)
Payments for own shares		**(1)**	–
Net cash inflow from short-term borrowings		**–**	180
Proceeds from sale of forfeited share capital		**–**	2
Distribution to non-controlling interests		**–**	(124)
Financing interest paid	12	**(85)**	(84)
Repayment of borrowings and capital element of leases	12	**(83)**	(161)
Equity dividends paid		**–**	(383)
Net cash flow from financing activities		**(169)**	(570)
Net increase/(decrease) in cash and cash equivalents		**695**	(493)
Cash and cash equivalents including overdrafts at 1 January		**794**	1,128
Effect of foreign exchange rate changes	12	**14**	4
Cash and cash equivalents including overdrafts at 30 June	12	**1,503**	639
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents		**1,603**	715
Overdrafts included within current bank overdrafts, loans and other borrowings		**(100)**	(76)

The notes on pages 28 to 55 form part of these condensed interim Financial Statements.

Notes to the condensed interim Financial Statements

Notes to the condensed interim Financial Statements provide additional information required by statute, accounting standards or Listing Rules to explain a particular feature of the condensed interim Financial Statements. These condensed interim Financial Statements should be read in conjunction with the information that was released in the Group's consolidated Financial Statements for the year ended 31 December 2019

1. General information

Centrica plc (the 'Company') 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 Company, together with its subsidiaries comprise the 'Group'.

The condensed interim Financial Statements for the six months ended 30 June 2020 included in this announcement were authorised for issue in accordance with a resolution of the Board of Directors on 24 July 2020.

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 2019 were approved by the Board of Directors on 12 February 2020 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006. The financial information contained in these condensed interim Financial Statements is unaudited. The Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Changes in Equity, Group Cash Flow Statement for the interim period to 30 June 2020, the Group Balance Sheet as at 30 June 2020, and the related notes have been reviewed by the auditors and their report to the Company is set out on page 22.

2. Basis of preparation

These condensed interim Financial Statements for the six months ended 30 June 2020 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 2019, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and applied by the Group at the time.

Preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense. Actual amounts may differ from these estimates. In preparing these condensed interim Financial Statements, the significant judgements, estimates and assumptions made by management in applying the Group's accounting policies were consistent with those applied in the Group's consolidated Financial Statements for the year ended 31 December 2019, unless amended by the application of new accounting policies, standards or interpretations, or as a result of changes in estimation uncertainty or judgements as described in note 3.

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

In the context of the economic uncertainty caused by Covid-19 and commodity price falls, the Directors have updated their going concern assessment to factor in the Group's updated principal risks, strategy and forecasts, together with modelling further downside sensitivities. The going concern assessment has considered the financial impact on the Group's credit and liquidity headroom of certain stress events impacting the Group's key risks: commodity price, weather, regulatory, liquidity and further impacts of Covid-19, over a 12-18 month horizon. Potential mitigating actions such as reducing costs, capital expenditure and future dividend payments were also considered. The Group's forecasts show that the Group should maintain sufficient headroom even before such mitigations are applied, underpinned by c£2.9bn of undrawn committed facilities, which remain committed until at least 2024. Accordingly, the Directors continue to believe it is appropriate to adopt the going concern basis of accounting in preparing the condensed interim Financial Statements, and note the significant level of undrawn credit facilities available to the Group.

3. Accounting policies

This section details new accounting policies, standards, amendments and interpretations, whether these are effective in 2020 or later years, and if and how these are expected to impact the financial position and performance of the Group. In addition, this section sets out the Group's specific accounting measures applied in the preparation of the condensed interim Financial Statements. These measures enable the users of the accounts to understand the Group's underlying and statutory business performance separately.

The accounting policies applied in these condensed interim Financial Statements are consistent with those used in the preparation of the Group's consolidated Financial Statements for the year ended 31 December 2019, as described in those annual Financial Statements, with the exception of policies, standards, amendments and interpretations effective as of 1 January 2020 and other changes detailed below.

(a) New accounting policies, standards, amendments and interpretations effective or adopted in 2020

From 1 January 2020, the following standards and amendments are effective in the Group's consolidated Financial Statements:

- Amendments to IFRS 3: 'Business combinations';
- Amendments to IAS 1: 'Presentation of financial statements' and IAS 8: 'Accounting policies, changes in accounting estimates and errors'; and
- Amendments to the Conceptual Framework for Financial Reporting.

The amendments to IFRS 3 modify the definition of a business in order to assist entities in determining whether an acquisition falls within the scope of the standard.

The amendments to IAS 1 and IAS 8 clarify the definition and application of the materiality concept in financial reporting.

The amendments to the Conceptual Framework make a number of clarifications and modifications to the concepts underpinning IFRS.

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

As a result of the economic impacts of the Covid-19 pandemic, a number of government programmes have been put into place to support businesses and consumers. Examples of such initiatives include the UK's Coronavirus Job Retention Scheme. In accounting for the impacts of these measures, the Group has applied IAS 20: 'Government grants'. Under the Group's accounting policy, grants are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to them, and that the grant will be received. Government grants are recognised in the Group Income Statement on a systematic basis over the periods in which the related costs that they are intended to compensate are recognised. Grants related to income are deducted in reporting the related expense and are therefore presented net in the Group Income Statement. Government grants received in advance of the Group meeting the criteria for recognition in the Group Income Statement are deferred and presented within Trade and other payables. There is no impact of this policy on prior periods.

During the six months to 30 June 2020, the Group recognised an amount totalling £25 million receivable under the UK Government's Coronavirus Job Retention Scheme. This has been presented net in Cost of sales and Operating costs before exceptional items and credit losses on financial assets in the Group Income Statement.

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

Amendments to IAS 37: 'Provisions, contingent assets and contingent liabilities' are effective from 1 January 2022, subject to EU endorsement. The amendments specify which costs an entity should include when assessing whether a contract is onerous and therefore requires a provision.

Amendments to IAS 1 relating to the classification of financial liabilities are effective from 1 January 2023, subject to EU endorsement. The amendments clarify the meaning of settlement in the context of liabilities, and the circumstances in which liabilities are classified as current or non-current.

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

In March 2020 the International Accounting Standards Board decided to defer the effective date of IFRS 17: 'Insurance Contracts' to 1 January 2023. The Group will complete its assessment of the impact the standard will have on the consolidated Financial Statements in line with this revised effective date.

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

(c) Centrica specific accounting measures

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

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

- exceptional items; and
- certain re-measurements.

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

Adjusted earnings is defined as earnings before:

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

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

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

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

but including:

- dividends received from joint ventures and associates.

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

Exceptional items and certain re-measurements

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

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

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

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

The effects of these certain re-measurements are presented within either revenue or cost of sales when recognised in business performance depending on the nature of the contract. They are managed separately from proprietary energy trading activities where trades are entered into speculatively for the purpose of making profits in their own right. These proprietary trades are included in revenue in the business performance column of the Group Income Statement.

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

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

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

are considered to be exceptional. Other impairments that would be expected in the normal course of business, such as unsuccessful exploration activity (dry holes), are reflected in business performance.

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

With the exception of the items noted below, key areas of critical accounting judgement and estimation uncertainty that have the most significant effect on the consolidated Group Financial Statements remain as disclosed in note 3(a) and 3(b) of the Annual Report and Accounts for the year ended 31 December 2019.

Covid-19

The Covid-19 pandemic has had a profoundly negative impact on the global economy, and there is significant uncertainty around the timing and shape of any economic recovery. This has given rise to an increase in estimation uncertainty for the Group, particularly regarding the matters noted below.

Impairment of long-lived assets

Upstream gas and oil assets

Forward prices for gas and liquids are a key input in the determination of the recoverable amount of the Group's gas and oil assets. The first half of 2020 saw significant falls in the prices for such commodities, both in terms of observable market prices and forecast forward prices in periods in which market prices are not available. This fall was exacerbated by the reduction in demand for commodities experienced as a result of the Covid-19 pandemic.

Details of impairments of gas and oil assets recorded as a result of this fall in prices, along with associated sensitivities, are provided in note 6.

Centrica Business Solutions – customer cash generating unit

The recoverable amount of the customer cash generating unit within Centrica Business Solutions is particularly sensitive to cash flows forecast in the final year of the model used to determine the fair value less costs of disposal of the unit. This is because the final modelled year is used to compute a terminal value, and therefore to give the value of the ongoing, mature business.

The carrying value of the cash generating unit (including goodwill and other intangible assets, and property, plant and equipment) is £316 million. The impairment test carried out at 30 June 2020 demonstrates limited headroom on this amount. Were operating cash flows forecast in the final year of the cash flow model to decrease by 6%, this headroom would be eroded. Any further deterioration in operating cash flows forecast in this year would give rise to an impairment.

Credit provisions for trade and other receivables

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

Pensions and other post-employment benefits – asset valuation

The Group's defined benefit pension schemes hold part of their plan asset portfolio as unquoted assets. These include private equity and property interests that are typically subject to valuation uncertainty. The economic uncertainty arising as a result of the Covid-19 pandemic has increased this level of uncertainty. The valuation of these assets is based on the latest asset manager views and other relevant benchmarks. Further details of the Group's pension schemes are provided in note 13.

LNG contracts - valuation

The Group's 20-year agreement with Cheniere, under which LNG is purchased from the Sabine Pass liquefaction plant in the US, has been assessed to determine if the contract should be considered onerous. The contract has an intrinsic value that depends heavily on the gas price spread between both Henry Hub and NBP, and Henry Hub and Asian LNG markets. During the period these spreads have narrowed considerably, meaning that the intrinsic value of the contract is now close to nil based on forecast spreads as at 30 June 2020. The Group is satisfied that value remains in the contract as a whole, but this is reliant on the capture of extrinsic value. Based on forecasts as at the reporting date, on an intrinsic-only basis, a 1% movement in the aforementioned spreads would change the estimated value of the contract by c.£35 million. As at 30 June 2020, the Group is committed to make minimum payments of $4.7 billion (£3.8 billion) over the remaining life of the arrangement. Further details of the Cheniere contract are provided in note 23 to the Annual Report and Accounts for the year ended 31 December 2019.

North American business disposal – asset held for sale judgement

On 24 July 2020, the Group announced it had agreed to dispose of its North American supply, services and trading business, Direct Energy, to NRG for headline consideration of $3.6 billion (£2.85 billion) on a debt free, cash free basis. This disposal is (amongst other things) subject to shareholder and regulatory approval. The business was not classified as a disposal group held for sale as at 30 June 2020, because, at that time, the Group judged that the disposal was not highly probable, as there was insufficient certainty around reaching agreement with NRG, and then obtaining shareholder and regulatory approval. The businesses to be sold are reported as part of the Centrica Consumer and Centrica Business segments. Subject to the aforementioned approvals, the disposal is expected to complete in late 2020, or early 2021.

4. Segmental analysis

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

(a) Segmental structure

During the second half of 2019 the Group's reportable operating segments were amended due to a change in the way management review and make decisions about the business. Previously reported segments have now been amalgamated into the higher-level Centrica Consumer, Centrica Business or Upstream areas as shown below. The exception to this was Central Power Generation, where the Nuclear investment was reallocated to Upstream, whilst the Spalding power station tolling contract remained within Centrica Business.

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

Segment	Description
Centrica Consumer	(i) The supply of gas and electricity to residential customers in the UK, North America and to residential and commercial and industrial customers in the Republic of Ireland; (ii) the installation, repair and maintenance of domestic central heating and cooling systems and related appliances in the UK, North America and the Republic of Ireland, and the provision of fixed-fee maintenance/breakdown service and insurance contracts in the UK and North America; (iii) power generation in the Republic of Ireland; and (iv) the supply of new technologies and energy efficiency solutions in all geographies in which the Group operates.
Centrica Business	(i) The supply of gas and electricity and provision of energy-related services to business customers and trading counterparties in the UK and North America; (ii) the supply of energy efficiency solutions, flexible generation and new technologies to commercial and industrial customers in all geographies in which the Group operates. Flexible merchant generation is also provided to the UK system operator; (iii) the generation of power from the Spalding combined cycle gas turbine tolling contract and other thermal assets in the UK; and (iv) the procurement, trading and optimisation of energy in the UK and North America. This income stream is included in re-measurement and settlement of energy contracts.
Upstream	(i) The production and processing of gas and oil and the development of new fields, principally within Spirit Energy, to maintain reserves in the UK and Europe; and (ii) the sale of power from nuclear assets in the UK.

(b) Revenue

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

	2020			2019 (restated) (i)		
Six months ended 30 June	**Gross segment revenue £m**	**Less inter-segment revenue £m**	**Group revenue £m**	Gross segment revenue £m	Less inter-segment revenue £m	Group revenue £m
Centrica Consumer	**5,878**	**–**	**5,878**	6,185	–	6,185
Centrica Business	**5,989**	**(78)**	**5,911**	7,117	(177)	6,940
Upstream	**982**	**(250)**	**732**	1,289	(606)	683
Group revenue included in business performance	**12,849**	**(328)**	**12,521**	14,591	(783)	13,808
Less: revenue arising on contracts in scope of IFRS 9 included in business performance			**(1,826)**			(2,240)
Group Revenue			**10,695**			11,568

(i) Segmental revenues have been restated to reflect the current operating structure of the Group, as described in note 4a.

4. Segmental analysis

The table below shows the Group revenue arising from contracts with customers, and therefore in the scope of IFRS 15, and revenue arising from contracts in the scope of other standards.

	2020				
Six months ended 30 June	**Revenue from contracts with customers in scope of IFRS 15 £m**	**Revenue from fixed-fee service and insurance contracts in scope of IFRS 4, and leasing contracts in scope of IFRS 16 £m**	**Group Revenue £m**	**Revenue in business performance arising from contracts in scope of IFRS 9 £m**	**Group Revenue included in business performance £m**
Energy supply – UK and Republic of Ireland	**3,802**				
Energy supply – North America	**1,145**				
Energy services	**351**				
Centrica Consumer	**5,298**	**531**	**5,829**	**49**	**5,878**
Energy supply – UK and Republic of Ireland	**746**				
Energy supply – North America	**3,009**				
Energy sales to trading and energy procurement counterparties	**644**				
Other	**120**				
Centrica Business	**4,519**	**7**	**4,526**	**1,385**	**5,911**
Oil and gas production	**340**				
Upstream	**340**	**–**	**340**	**392**	**732**
	10,157	**538**	**10,695**	**1,826**	**12,521**

	2019 (restated) (i)				
Six months ended 30 June	Revenue from contracts with customers in scope of IFRS 15 £m	Revenue from fixed-fee service and insurance contracts in scope of IFRS 4, and leasing contracts in scope of IFRS 16 £m	Group Revenue £m	Revenue in business performance arising from contracts in scope of IFRS 9 £m	Group Revenue included in business performance £m
Energy supply – UK and Republic of Ireland	3,889				
Energy supply – North America	1,134				
Energy services	520				
Centrica Consumer	5,543	550	6,093	92	6,185
Energy supply – UK and Republic of Ireland	789				
Energy supply – North America	3,541				
Energy sales to trading and energy procurement counterparties	557				
Other	125				
Centrica Business	5,012	5	5,017	1,923	6,940
Oil and gas production	458				
Upstream	458	–	458	225	683
	11,013	555	11,568	2,240	13,808

(i) Segmental revenues have been restated to reflect the current operating structure of the Group, as described in note 4a.

The Group applies the practical expedient in paragraph 121 of IFRS 15 and therefore does not disclose information related to the transaction price allocated to remaining performance obligations on the basis that the Group recognises revenue from the satisfaction of the performance obligations within energy supply contracts in accordance with Paragraph B16.

4. Segmental analysis

(c) Adjusted gross margin and adjusted operating profit

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

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

	Adjusted Gross Margin		Adjusted Operating Profit	
Six months ended 30 June	**2020 £m**	2019 £m	**2020 £m**	2019 (restated) (i) £m
Centrica Consumer	**1,145**	1,190	**328**	240
Centrica Business	**340**	404	**(4)**	9
Upstream	**96**	333	**19**	150
Adjusted gross margin/adjusted operating profit	**1,581**	1,927	**343**	399
Certain re-measurements	**556**	(499)	**556**	(499)
Share of re-measurement of certain associates' energy contracts (net of taxation)	**–**	–	**2**	–
Gross profit	**2,137**	1,428		
Exceptional items in operating loss			**(1,036)**	(346)
Total exceptional items and certain re-measurements included in operating loss			**(478)**	(845)
Operating loss after exceptional items and certain re-measurements			**(135)**	(446)

(i) Segmental results have been restated to reflect the current operating structure of the Group, as described in note 4a.

(d) Included within adjusted operating profit

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

	Depreciation and impairments of property, plant and equipment		Amortisation, write-downs and impairments of intangibles	
Six months ended 30 June	**2020 £m**	2019 (restated) (i) £m	**2020 £m**	2019 (restated) (i) £m
Centrica Consumer	**(34)**	(36)	**(75)**	(75)
Centrica Business	**(21)**	(49)	**(42)**	(35)
Upstream	**(283)**	(376)	**(16)**	(43)
Other (ii)	**(25)**	(25)	**(28)**	(13)
	(363)	(486)	**(161)**	(166)

(i) Segmental results have been restated to reflect the current operating structure of the Group, as described in note 4a.
(ii) The Other segment includes corporate functions, subsequently recharged.

(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	**2020 £m**	2019 (restated) (i) £m	**2020 £m**	2019 (restated) (i) £m
Centrica Consumer	**9**	12	**120**	221
Centrica Business	**114**	28	**234**	265
Upstream	**140**	157	**57**	74
Other	**6**	17	**6**	11
Capital expenditure	**269**	214	**417**	571
Capitalised borrowing costs	**(3)**	(7)	**(3)**	–
Inception of new leases and movements in payables and prepayments related to capital expenditure	**(111)**	(49)	**39**	13
Purchases of emissions allowances and renewable obligation certificates	**–**	–	**(310)**	(390)
Net cash outflow	**155**	158	**143**	194

(i) Segmental results have been restated to reflect the current operating structure of the Group, as described in note 4a.

(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 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	**2020 £m**	2019 (restated) (i) £m
Centrica Consumer	**354**	250
Centrica Business	**342**	34
Upstream	**302**	460
Adjusted operating cash flow	**998**	744
Dividends received from joint ventures and associates	**(23)**	–
UK pension deficit payments	**(76)**	(151)
Payments relating to exceptional charges	**(61)**	(175)
Movements in collateral and margin cash included in net debt (note 12)	**65**	(241)
Net cash flow from operating activities	**903**	177

(i) Segmental results have been restated to reflect the current operating structure of the Group, as described in note 4a.

5. Joint ventures and associates

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

Share of results of joint ventures and associates

The Group's share of results of joint ventures and associates for the six months ended 30 June 2020 principally arises from its interest in Nuclear – Lake Acquisitions Limited, an associate, reported in the Upstream segment.

	2020			2019		
Six months ended 30 June	**Share of business performance £m**	**Share of exceptional items and certain re-measurements £m**	**Share of results for the period £m**	Share of business performance £m	Share of exceptional items and certain re-measurements £m	Share of results for the period £m
Income	**275**	**–**	**275**	203	–	203
Expenses before exceptional items and certain re-measurements	**(255)**	**–**	**(255)**	(227)	–	(227)
Exceptional items and re-measurement of certain energy contracts	**–**	**3**	**3**	–	–	–
Operating profit/(loss)	**20**	**3**	**23**	(24)	–	(24)
Financing costs	**(4)**	**–**	**(4)**	(5)	–	(5)
Taxation on profit/(loss)	**(18)**	**(1)**	**(19)**	5	–	5
Share of post-taxation results of joint ventures and associates	**(2)**	**2**	**–**	(24)	–	(24)

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 releases, pension change costs or credits, significant debt repurchase costs and asset write-downs/impairments and write-backs.

(a) Exceptional items

Six months ended 30 June	2020 £m	2019 £m
Impairment of exploration and production assets [(i)]	(381)	(49)
Impairment of power assets [(ii)]	(404)	–
Impairment of Centrica Home Solutions	–	(39)
Gain on disposal of Clockwork	–	63
Restructuring costs [(iii)]	(251)	(257)
Pension change costs	–	(64)
Exceptional items included within Group operating profit	**(1,036)**	(346)
Net taxation on exceptional items (note 8)	148	86
Net exceptional items after taxation	**(888)**	(260)

(i) In the Upstream segment, net impairments of exploration and production assets have been booked relating to the value of certain UK, Norwegian and Danish gas and oil fields. This amounted to a write-off of £381 million (post-tax £231 million) and was due to the impact of a reduction in near-term liquid prices and long-term price forecasts. Separately, in the taxation line, a net write-off of £56 million of deferred tax positions associated with exploration and production tax losses, decommissioning carry back and PRT has also been recorded related to these reductions in forecast prices.

(ii) In the Upstream segment, an impairment of the nuclear investment has been booked as a result of a reduction in price forecasts, and availability issues at Hunterston, Hinkley and Dungeness. The pre and post-tax impact was £395 million. Similarly, in the Centrica Business segment, an impairment of gas-fired power assets has also been recorded as a result of forecast price reductions. This gave rise to a charge of £9 million (post-tax £7 million).

(iii) Following the Group's strategic update and headcount reduction announcement, a redundancy provision has been recognised in relation to expected future severance costs (including pension strains) of £234 million. In addition, costs associated with the continuation of the Group's cost efficiency programme principally related to property rationalisation costs and other transformational activity have also been incurred in the first half of 2020. The total post-tax impact was £199 million.

(b) Certain re-measurements

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

Six months ended 30 June	2020 £m	2019 £m
Certain re-measurements recognised in relation to energy contracts:		
Net gains arising on delivery of contracts	751	102
Net losses arising on market price movements and new contracts	(195)	(601)
Net re-measurements included within gross profit	**556**	(499)
Net gains arising on re-measurement of certain associates' contracts (net of taxation)	2	–
Net re-measurements included within Group operating profit/(loss)	**558**	(499)
Taxation on certain re-measurements (note 8)	(99)	95
Net re-measurements after taxation	**459**	(404)

Six months ended 30 June	2020 £m	2019 £m
Total re-measurement and settlement of derivative energy contracts	(700)	(2,481)
Less: IFRS 9 business performance revenue	(1,826)	(2,240)
Less: IFRS 9 business performance cost of sales	3,082	4,222
Unrealised certain re-measurements recognised in relation to energy contracts included in gross profit	**556**	(499)

6. Exceptional items and certain re-measurements

(c) Impairment accounting policy, process and sensitivities

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

Exceptional impairments of assets measured on a FVLCD basis

Segment	Asset/CGU (or group of CGUs)	Basis for impairment	Recoverable amount £m	FV hierarchy	Impairment £m
Upstream	UK, Danish and Norwegian fields	Significant deterioration in forecast commodity prices	44	L3	381

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

Upstream oil and gas assets

For Upstream oil and gas assets, post-tax cash flows are derived from projected production profiles of each field, taking into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available (i.e. outside the active period for each commodity), prices are determined based on the median of third-party market comparator curves. The date of cessation of production depends on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, production costs, the contractual duration of the licence area and the selling price of the gas and liquids produced. As each field has specific reservoir characteristics and economic circumstances, the post-tax cash flows for each field are computed using individual economic models. Price assumptions are critical and use liquid market prices for the remainder of 2020 to September 2023, blended over two-seasons to long-term price forecasts from October 2024. Long-term price assumptions derived from third-party market comparator median curves are deemed best aligned with pricing that a reasonable market participant would use, due to inclusion of certain data points. These price curves are therefore deemed to reflect the impact of climate change and Covid-19.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 9.0% (2019: 9.0%).

As forward commodity prices are a key assumption in the valuations, average prices and associated, reasonably possible impairment sensitivities for Upstream oil and gas assets for the relevant periods are shown below:

	Five-year liquid and blended-period price (i)		Ten-year long-term average price (i)		Change in post-tax headroom/(impairment) (ii)			
					+10%		-10%	
	2020 - 2024	2020 - 2024	2025 – 2034	2025 - 2034				
	30 June 2020	31 December 2019	**30 June 2020**	31 December 2019	**30 June 2020 £m**	31 December 2019 £m	**30 June 2020 £m**	31 December 2019 £m
NBP (p/th)	**34**	43	**50**	58	**131**	180	**(225)**	(197)
Brent ($/bbl)	**44**	62	**74**	81				

(i) Prices are shown in real terms.
(ii) Sensitivity relates to Upstream exploration and production assets and CGUs. Included within -10% price sensitivity is £47 million related to goodwill (2019: nil).

Within the Upstream oil and gas assets, the FVLCD of the Greater Warwick Area exploration asset assumes that the asset is successfully developed. Were the development unsuccessful, a further impairment charge of £128 million would be required, of which £52 million would relate to impairment of goodwill.

Other

Included within restructuring costs is a net impairment of property assets of £3 million associated with the Group's property rationalisation programme.

Exceptional impairments of assets measured on a VIU basis

Segment	Asset/CGU (or group of CGUs)	Basis for impairment	Recoverable amount £m	Impairment £m
Upstream	Nuclear	Reduction in baseload power prices and outages at Hunterston, Hinkley and Dungeness	874	395

6. Exceptional items and certain re-measurements

Nuclear

A VIU calculation has been used to determine the recoverable amount of the Group's investment in Nuclear. The pre-tax cash flows incorporated in the valuation are derived from board approved forecasts, based on the expected generation profile of the fleet for its remaining life. Assumptions include forward commodity prices, capacity rates, transportation and fuel costs and balancing system charges. Price assumptions use liquid market prices for the remainder of 2020 to September 2023, blended over two seasons to long-term price forecasts from October 2024. Long-term price assumptions derived from third-party market comparator median curves are used due to alignment with pricing that a reasonable market participant would use, and the inclusion of certain data points. These price curves are therefore deemed to reflect the impact of climate change and Covid-19.

The VIU calculation assumes that the life of Sizewell is extended to 2055, reflecting a 20-year extension. In the absence of this extension, the Group's investment in Nuclear would be impaired by a further £274 million.

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

	Five-year liquid and blended-period price (i)		Ten-year long-term average price (i)		Change in pre/post-tax headroom/(impairment)			
					+10%		-10%	
	2020 - 2024	2020 - 2024	2025 – 2034	2025 – 2034				
	30 June 2020 £/MWh	31 December 2019 £/MWh	**30 June 2020 £/MWh**	31 December 2019 £/MWh	**30 June 2020 £m**	31 December 2019 £m	**30 June 2020 £m**	31 December 2019 £m
Baseload power	**42**	47	**55**	59	**318**	376	**(300)**	(376)

(i) Prices are shown in real terms.

The VIU calculation is also sensitive to changes in outage assumptions. A 1% increase in the unplanned outage rate applied to volumes across the nuclear fleet would increase impairment by £26 million.

The future pre-tax cash flows generated by the investment in the associate are discounted using a pre-tax nominal discount rate of 7.9% (2019: 8.4%).

Other

Included within impairment of power assets is an impairment of gas-fired power assets of £9 million.

7. Net finance cost

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

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

	2020			2019		
Six months ended 30 June	**Financing costs £m**	**Investment income £m**	**Total £m**	Financing costs £m	Investment income £m	Total £m
Cost of servicing net debt:						
Interest income	**–**	**5**	**5**	–	10	10
Interest cost on bonds, bank loans and overdrafts	**(108)**	**–**	**(108)**	(121)	–	(121)
Interest cost on lease liabilities	**(6)**	**–**	**(6)**	(7)	–	(7)
	(114)	**5**	**(109)**	(128)	10	(118)
Net (losses)/gains on revaluation	**(12)**	**–**	**(12)**	–	3	3
Notional interest arising from discounting	**(14)**	**–**	**(14)**	(16)	1	(15)
	(140)	**5**	**(135)**	(144)	14	(130)
Capitalised borrowing costs (i)	**6**	**–**	**6**	7	–	7
Financing (cost)/income	**(134)**	**5**	**(129)**	(137)	14	(123)

(i) Borrowing costs have been capitalised using an average rate of 4.55% (2019: 4.78%).

8. Taxation

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

Analysis of tax charge

	2020			2019		
Six months ended 30 June	**Business performance £m**	**Exceptional items and certain re-measurements £m**	**Results for the period £m**	Business performance £m	Exceptional items and certain re-measurements £m	Results for the period £m
The taxation (charge)/credit comprises						
UK corporation tax	**(78)**	**45**	**(33)**	(57)	49	(8)
UK petroleum revenue tax	**27**	**27**	**54**	4	–	4
Non-UK tax	**(12)**	**(23)**	**(35)**	(80)	132	52
Total taxation on profit/(loss) (i)	**(63)**	**49**	**(14)**	(133)	181	48

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

The substantively enacted UK corporation tax rate was increased from 17% to 19% on 1 April 2020, effectively cancelling the proposed reduction in the future corporation tax rate. The remeasurement of the Group's deferred tax balances resulted in a tax charge of £5 million, of which a charge of £20 million is reflected in taxation in the Business performance column, and a credit of £15 million in Exceptional items and certain re-measurements. Separately, there is a £15 million charge in respect of the Group's share of associated companies' and joint ventures' deferred tax balances, from this rate change. This is reported within the Share of (losses)/profits of joint ventures and associates, net of interest and taxation line item within the Group Income Statement.

The Group's adjusted effective tax rate for the six months ended 30 June 2020 was 35% (2019: 47%). This is reconciled to this note in the Group Financial Review on page 9.

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.

Basic earnings per ordinary share has been calculated by dividing the loss attributable to equity holders of the Company for the period of £193 million (2019: £550 million loss) by the weighted average number of ordinary shares in issue during the period of 5,824 million (2019: 5,702 million). The number of shares excludes 10 million ordinary shares (2019: 28 million), being the weighted average number of the Company's own shares held in the employee share trust and treasury shares purchased by the Group as part of share repurchase programmes.

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

Information presented for diluted and adjusted diluted earnings per ordinary share uses the weighted average number of shares as adjusted for 57 million (2019: 44 million) potentially dilutive ordinary shares as the denominator, unless it has the effect of increasing the profit or decreasing the loss attributable to each share.

Basic to adjusted basic earnings per share reconciliation

	2020		2019	
Six months ended 30 June	**£m**	**Pence per ordinary share**	£m	Pence per ordinary share
Earnings – basic	**(193)**	**(3.3)**	(550)	(9.6)
Net exceptional items after taxation (notes 3 and 6) (i)	**798**	**13.7**	260	4.6
Certain re-measurement (gains)/losses after taxation (notes 3 and 6) (i)	**(458)**	**(7.9)**	424	7.4
Earnings – adjusted basic	**147**	**2.5**	134	2.4
Earnings – diluted	**(193)**	**(3.3)**	(550)	(9.6)
Earnings – adjusted diluted	**147**	**2.5**	134	2.3

(i) Net exceptional loss after taxation and certain re-measurement (gains)/losses after taxation are adjusted to reflect the share attributable to non-controlling interests.

10. Dividends

Dividends represent the return of profits to shareholders and 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.

	2020			2019		
Six months ended 30 June	**£m**	**Pence per share**	**Date of payment**	£m	Pence per share	Date of payment
Prior year final dividend (i)	**–**	**–**	**–**	474	8.4	27 Jun 2019

(i) In the prior period forfeited dividends of £5 million older than 12 years were written back in accordance with Group policy. No forfeited dividends have been written back in the current period.

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

The Company has previously offered a scrip dividend alternative to its shareholders. £96 million of the £474 million 2018 final dividend paid on 27 June 2019 was taken as a scrip dividend. The scrip reference share price was 94 pence per share resulting in the issue of 102 million new shares and £90 million of share premium.

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

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

(a) Business combinations and asset acquisitions

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

(b) Disposals

On 23 December 2019 the Group agreed to sell its 382MW King's Lynn combined cycle gas turbine power station to RWE Generation. The disposal group was classified as held for sale as at 31 December 2019. The transaction completed on 12 February 2020, resulting in the receipt of consideration of £102 million, after adjustments for final working capital balances and after transaction costs.

Prior to disposal the results of the disposed business were presented within the Centrica Business segment. The disposal is not deemed to be a discontinued operation as it did not represent a separate major line of business or geographical area of operation that was material to the Group's results.

	King's Lynn power station £m
Non-current assets	111
Current assets	2
Current liabilities	(4)
Non-current liabilities	(7)
Net assets disposed of	**102**
Consideration received (net of transaction costs)	102
Gain on disposal before and after taxation	–

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

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

In March 2020 the Group signed an agreement to divest its interests in two non-core Danish exploration and production assets, the Hejre and Solsort discoveries, to INEOS for a combination of firm and contingent consideration depending on the discoveries progressing to development and production. The Group may make further cash payments of approximately £70 million to the purchaser in respect of the decommissioning of the original facilities in the event that the development of the fields does not progress. The transaction is subject to approval from the relevant authorities and is expected to close in 2020. No material gain or loss is expected to arise on completion.

As the carrying amounts of the disposal group will be recovered principally through a sale transaction, the associated assets and liabilities have been classified as held for sale. The relevant amounts are shown below.

	£m
Non-current assets	6
Current assets	11
Assets of disposal groups classified as held for sale	**17**
Current liabilities	(1)
Non-current liabilities	(51)
Liabilities of disposal groups classified as held for sale	**(52)**
Net liabilities of disposal groups classified as held for sale	**(35)**

12. Sources of Finance

(a) Capital structure

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

	30 June 2020 £m	31 December 2019 £m
Net debt	**2,779**	3,181
Shareholders' equity	**928**	1,212
Capital	**3,707**	4,393

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

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

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

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

British Gas Insurance Limited (BGIL) is required under PRA regulations to hold a minimum capital amount and has complied with this requirement in 2020 (and 2019). BGIL's capital management policy and plan is subject to review and approval by the BGIL board. Reporting processes provide relevant and timely capital information to management and the board. A medium-term capital management plan forms part of BGIL's planning and forecasting process, embedded into approved timelines, management reviews and board approvals.

12. Sources of Finance

(b) Net debt summary

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

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

				Other assets and liabilities				
	Current and non-current borrowings, leases and interest accruals £m	Derivatives £m	Gross debt £m	Cash and cash equivalents, net of bank overdrafts (i) (ii) £m	Collateral posted/ (received) £m	Current and non-current securities (iii) £m	Sub-lease assets £m	Net debt £m
1 January 2020	(4,795)	234	**(4,561)**	794	326	255	5	**(3,181)**
Net cash inflow from sale and settlement of securities	–	–	**–**	122	–	(122)	–	**–**
Cash outflow from payment of capital element of leases	83	–	**83**	(83)	–	–	–	**–**
Remaining cash inflow, and movement in collateral and margin cash posted/received	–	–	**–**	741	(65)	–	(1)	**675**
Revaluation	(94)	148	**54**	–	–	(2)	–	**52**
Financing interest paid	98	(28)	**70**	(85)	–	–	–	**(15)**
Increase in interest payable and amortisation of borrowings	(109)	–	**(109)**	–	–	–	–	**(109)**
New lease agreements and re-measurement of existing lease liabilities (iv)	(124)	–	**(124)**	–	–	–	–	**(124)**
Exchange adjustments	(119)	–	**(119)**	14	25	3	–	**(77)**
30 June 2020	**(5,060)**	**354**	**(4,706)**	**1,503**	**286**	**134**	**4**	**(2,779)**

				Other assets and liabilities				
	Current and non-current borrowings, leases and interest accruals £m	Derivatives £m	Gross debt £m	Cash and cash equivalents, net of bank overdrafts (i) (ii) £m	Collateral posted/ (received) £m	Current and non-current securities (iii) £m	Sub-lease assets £m	Net debt £m
1 January 2019	(4,614)	233	(4,381)	1,128	290	307	–	(2,656)
Incremental lease liability recognised on transition to IFRS 16	(402)	–	(402)	–	–	–	–	(402)
Recognition of sub-lease asset on transition to IFRS 16	–	–	–	–	–	–	8	8
1 January 2019 post-adoption of IFRS 16	(5,016)	233	(4,783)	1,128	290	307	8	(3,050)
Net cash inflow from sale and purchase of securities	–	–	–	34	–	(34)	–	–
Cash outflow from payment of capital element of leases	75	–	75	(75)	–	–	–	–
Net cash inflow from short term borrowings	(180)	–	(180)	180	–	–	–	–
Cash outflow from repayment of borrowings	86	–	86	(86)	–	–	–	–
Remaining cash inflow, and movement in collateral and margin cash posted/received	–	–	–	(462)	241	–	–	(221)
Revaluation	(57)	62	5	–	–	3	–	8
Financing interest paid	99	(25)	74	(84)	–	–	–	(10)
Increase in interest payable and amortisation of borrowings	(109)	–	(109)	–	–	–	–	(109)
Business disposals and asset purchases	3	–	3	–	–	(6)	–	(3)
New finance lease agreements	4	–	4	–	–	–	–	4
Exchange adjustments	(1)	–	(1)	4	1	1	–	5
30 June 2019	(5,096)	270	(4,826)	639	532	271	8	(3,376)

(i) Cash and cash equivalents includes £174 million (2019: £185 million) of restricted cash. This includes cash totaling £46 million (2019: £52 million) within the Spirit Energy business that is not restricted by regulation, but is managed by Spirit Energy's own treasury department.

(ii) Cash and cash equivalents are net of £100 million bank overdrafts (2019: £76 million).

(iii) Securities balances include £78 million (2019: £73 million) of debt instruments and £56 million (2019: £51 million) of equity instruments, all measured at fair value. In the prior period securities balances also included £125 million index-linked gilts that the Group used for short-term liquidity management purposes, and £22 million of deposits with maturities greater than three months.

(iv) During 2020 a new lease arrangement for an LNG vessel commenced, giving rise to a lease liability of £103 million, and a corresponding right-of-use asset. The liability represents the discounted value of minimum lease payments to be made over the lease term. The arrangement has extension and termination options that have not been included in the determination of the lease term for the purposes of calculating the liability and asset to be recognised.

12. Sources of Finance

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

30 June	2020 £m	2019 £m
Collateral (received)/posted included within:		
Trade and other payables	**(93)**	(227)
Trade and other receivables	**130**	337
Net derivative liabilities	**248**	420
Inventories	**1**	2
Net collateral posted	**286**	532

(c) Borrowings, leases and interest accruals summary

	Coupon rate %	Principal m	30 June 2020 Current £m	Non-current £m	Total £m	31 December 2019 Current £m	Non-current £m	Total £m
Bank overdrafts			**(100)**	**–**	**(100)**	(548)	–	(548)
Bank loans (> 5 year maturity)			**–**	**(156)**	**(156)**	–	(144)	(144)
Bonds (by maturity date):								
25 September 2020	Floating	US$80	**(65)**	**–**	**(65)**	(60)	–	(60)
22 February 2022	3.680	HK$450	**–**	**(47)**	**(47)**	–	(44)	(44)
10 March 2022 [(i)]	6.375	£246	**–**	**(255)**	**(255)**	–	(254)	(254)
16 October 2023 [(i)]	4.000	US$302	**–**	**(260)**	**(260)**	–	(234)	(234)
4 September 2026 [(i)]	6.400	£52	**–**	**(59)**	**(59)**	–	(57)	(57)
16 April 2027	5.900	US$70	**–**	**(56)**	**(56)**	–	(52)	(52)
13 March 2029 [(i)]	4.375	£552	**–**	**(606)**	**(606)**	–	(574)	(574)
5 January 2032 [(ii)]	Zero	€50	**–**	**(64)**	**(64)**	–	(59)	(59)
19 September 2033 [(i)]	7.000	£770	**–**	**(828)**	**(828)**	–	(790)	(790)
16 October 2043	5.375	US$367	**–**	**(292)**	**(292)**	–	(272)	(272)
12 September 2044	4.250	£550	**–**	**(538)**	**(538)**	–	(538)	(538)
25 September 2045	5.250	US$50	**–**	**(40)**	**(40)**	–	(37)	(37)
10 April 2075 [(i)(iii)]	5.250	£450	**–**	**(473)**	**(473)**	–	(460)	(460)
10 April 2076 [(iv)]	3.000	€750	**–**	**(681)**	**(681)**	–	(634)	(634)
			(65)	**(4,199)**	**(4,264)**	(60)	(4,005)	(4,065)
Obligations under lease arrangements			**(184)**	**(363)**	**(547)**	(166)	(337)	(503)
Interest accruals			**(93)**	**–**	**(93)**	(83)	–	(83)
			(442)	**(4,718)**	**(5,160)**	(857)	(4,486)	(5,343)

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

The technical provisions deficit for the Registered Pension Schemes was £1,402 million at the date of the latest actuarial valuation as at 31 March 2018. The Group has committed to additional annual cash contributions to fund this pension deficit. The overall deficit contributions, including the previously disclosed asset-backed contribution arrangements, will amount to £175 million per annum from 2020 to 2025, with a balancing payment of £93 million in 2026. On a pure roll forward basis from 31 March 2018, using the same methodology and consequent assumptions, the technical provisions deficit would be c.£2.4 billion at the reporting date. Note that the next triennial review is scheduled for 31 March 2021, and the valuation methodology and assumptions may differ from those previously used. The latest full actuarial valuations for the other schemes were carried out at the following dates: the Bord Gáis Energy Company Defined Benefit Pension Scheme at 1 January 2017 and the Direct Energy Marketing Limited Pension Plan at 1 January 2018.

For the purpose of meeting the requirements of IAS 19: 'Employee benefits' all valuations have been updated to 30 June 2020 using the accounting assumptions disclosed in section (b) of this note. Investments held in all schemes have been valued for this purpose at market value.

Governance

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

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

13. Post-retirement benefits

(b) Accounting assumptions

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

Major assumptions used for the actuarial valuation	30 June 2020 %	31 December 2019 %
Rate of increase in employee earnings:		
Subject to 2% cap	**1.5**	1.6
Other not subject to cap	**2.1**	2.1
Rate of increase in pensions in payment	**2.7**	2.9
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	**1.9**	1.9
In line with RPI	**2.7**	2.9
Discount rate	**1.6**	2.2

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

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

Impact of changing material assumptions	30 June 2020		31 December 2019	
	Increase/ decrease in assumption	Indicative effect on scheme liabilities %	Increase/ decrease in assumption	Indicative effect on scheme liabilities %
Rate of increase in employee earnings subject to 2% cap	**0.25%**	**+/-0**	0.25%	+/-0
Rate of increase in pensions in payment and deferred pensions	**0.25%**	**+/-5**	0.25%	+/-5
Discount rate	**0.25%**	**-/+6**	0.25%	-/+6
Inflation assumption	**0.25%**	**+/-5**	0.25%	+/-5
Longevity assumption	**1 year**	**+/-3**	1 year	+/-3

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

(c) Amounts included in the Group Balance Sheet

	30 June 2020 £m	31 December 2019 £m
Fair value of plan assets	**9,778**	8,999
Present value of defined benefit obligation	**(10,300)**	(9,162)
Net liability recognised in the Group Balance Sheet	**(522)**	(163)
Pension liability presented in the Group Balance Sheet as:		
Retirement benefit assets	**–**	56
Retirement benefit liabilities	**(522)**	(219)

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

Included in the Group Balance Sheet within non-current securities are £101 million (31 December 2019: £103 million) of investments, held in trust on behalf of the Group as security in respect of the Centrica Unfunded Pension Scheme. Of the pension scheme liabilities above, £65 million (31 December 2019: £62 million) relates to this scheme.

Estimation uncertainty (asset valuation)

Within the plan asset portfolio, the proportion of unquoted assets remains broadly unchanged from last year. Within these assets, private equity and property have always exhibited the most valuation uncertainty, but they remain under 10% of the portfolio at 30 June 2020. A 10% reduction in the value of private equity and property assets would result in a £69 million reduction in the fair value of plan assets. Given the impact of Covid-19 versus more normal market conditions, there is potentially a greater level of uncertainty around these valuations. These asset values have been updated based on latest asset manager views and other benchmarks where relevant, but no further adjustments have been deemed necessary.

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

Due to an increase in estimation uncertainty in the determination of credit provisions for trade and other receivables, as described in note 3, this note has been provided to aid understanding of these amounts.

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

	30 June 2020		31 December 2019	
	Current £m	**Non-current £m**	Current £m	Non-current £m
Financial assets:				
Trade receivables	**2,196**	**2**	2,138	2
Unbilled downstream energy income	**967**	**–**	1,342	–
Other accrued energy income	**523**	**–**	1,003	–
Other accrued income	**106**	**–**	131	–
Cash collateral posted	**130**	**–**	155	–
Other receivables (including loans and contract assets)	**354**	**36**	301	38
	4,276	**38**	5,070	40
Less: provision for credit losses	**(662)**	**–**	(589)	–
	3,614	**38**	4,481	40
Non-financial assets: prepayments, other receivables and costs to obtain or fulfill a contract with a customer	**309**	**128**	358	114
	3,923	**166**	4,839	154

The amounts above include gross amounts arising from the Group's IFRS 15 contracts with customers of £2,064 million (31 December 2019: £2,019 million).

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

	30 June 2020		31 December 2019	
	Current £m	**Non-current £m**	Current £m	Non-current £m
Financial assets by class:				
Residential customers	**1,651**	**3**	1,722	12
Business customers	**1,713**	**27**	2,104	26
Treasury, trading and energy procurement counterparties	**912**	**8**	1,244	2
	4,276	**38**	5,070	40
Less provision for credit losses:				
Residential customers	**(426)**	**–**	(387)	–
Business customers	**(228)**	**–**	(198)	–
Treasury, trading and energy procurement counterparties	**(8)**	**–**	(4)	–
	(662)	**–**	(589)	–
	3,614	**38**	4,481	40

Receivables from residential and business customers are generally considered to be credit impaired when the payment is past the contractual due date. Contractual due dates range from falling due upon receipt to falling due in 30 days from receipt.

The table below shows the change in gross receivables between credit-impaired balances (those that are past due) and receivables that are not yet due and therefore not considered to be credit impaired.

Gross financial assets within trade and other receivables	**30 June 2020 £m**	31 December 2019 £m
Balances that are not past due	**2,796**	3,718
Balances that are past due	**1,480**	1,352
	4,276	5,070

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

The application of IFRS 9 to the Group's financial trade and other receivables and contract assets is described in the Annual Report and Accounts for the year ended 31 December 2019. The Group has continued to apply the simplified model in order to measure impairment provisions for credit losses on trade and other receivables, contract assets, and other financial assets that are not carried at fair value.

The economic impacts arising from the Covid-19 pandemic and associated government responses in the geographies in which the Group operates have increased the level of uncertainty around the estimates the Group makes in measuring provisions for the impairment of financial assets. Where customers experience difficulties in settling balances, the increased aging of these amounts results in an increase in provisions held in respect of them under the provision matrix approach employed. In measuring the provision for expected losses, the Group has also considered changes in customer payment patterns, such as direct debit cancellations, and, in the case of business counterparties, the specific circumstances of the customers and the economic impacts of Covid-19 on the sectors in which they operate. Where relevant, the Group has considered macroeconomic forecasts, although government support schemes currently in place for the benefit of customers are expected to mitigate, to some degree, the near-term impacts of any forecast economic decline on financial assets recognised at 30 June 2020.

During the six months to 30 June 2020, the Group incurred impairment charges of £162 million in respect of financial assets (2019: £104 million), representing 1.5% of Group revenue (2019: 0.9%).

The assumptions made in estimating the impairment charge for the period and provisions held at the reporting date are felt to be appropriate, however the current high level of economic uncertainty means that impairment charges and provisions in respect of financial assets are a matter of significant judgement. The impact of any worsening of the economic outlook and any future recession could impact receivables from residential and business customers to differing extents.

A provision of £426 million (31 December 2019: £387 million) has been recognised against gross current receivables from residential customers of £1,651 million (31 December 2019: £1,722 million) – a provision coverage of 25.8% (31 December 2019: 22.5%). Were this coverage to increase by one percentage point, a further impairment charge of £17 million would be recognised. A provision of £228 million (31 December 2019: £198 million) has been recognised against gross current receivables from business customers of £1,713 million (31 December 2019: £2,104 million) – a provision coverage of 13.3% (31 December 2019: 9.4%). Were this coverage to increase by one percentage point, a further impairment charge of £17 million would be recognised.

15. Financial instruments

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

(a) Fair value hierarchy

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

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

				30 June 2020				31 December 2019
	Level 1 £m	Level 2 £m	Level 3 £m	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	7	1,068	306	**1,381**	1	1,241	228	1,470
Interest rate derivatives	–	184	–	**184**	–	108	–	108
Foreign exchange derivatives	–	220	–	**220**	–	235	–	235
Treasury gilts designated FVTPL	–	–	–	**–**	124	–	–	124
Debt instruments	78	–	–	**78**	77	–	–	77
Equity instruments	23	–	33	**56**	26	–	28	54
Cash and cash equivalents	–	1,310	–	**1,310**	–	621	–	621
Total financial assets at fair value	108	2,782	339	**3,229**	228	2,205	256	2,689
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	(78)	(1,165)	(141)	**(1,384)**	(146)	(1,778)	(90)	(2,014)
Interest rate derivatives	–	(2)	–	**(2)**	–	(25)	–	(25)
Foreign exchange derivatives	–	(45)	–	**(45)**	–	(106)	–	(106)
Total financial liabilities at fair value	(78)	(1,212)	(141)	**(1,431)**	(146)	(1,909)	(90)	(2,145)

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

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

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during the period was 1% (Europe) and 1% (North America) per annum (31 December 2019 average discount rate of 1% (Europe) and 3% (North America) per annum).

For Level 3 energy derivatives, the main input used by the Group pertains to deriving expected future commodity prices in markets that are not active as far into the future as some of the Group's contractual terms. This applies to certain contracts within Europe and North America. Fair values are then calculated by comparing and discounting the difference between the expected contractual cash flows and these derived future prices using an average discount rate of 1% (Europe) and 1% (North America) per annum (31 December 2019 average discount rate of 2% (Europe) and 3% (North America) 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**

15. Financial instruments

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

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

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

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

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

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

			30 June 2020			31 December 2019		
		Notes	**Carrying value £m**	**Fair value £m**	**Fair value hierarchy**	Carrying value £m	Fair value £m	Fair value hierarchy
Bank loans		12	**(156)**	**(185)**	**Level 2**	(144)	(176)	Level 2
Bonds	Level 1	12	**(4,153)**	**(4,701)**	**Level 1**	(3,963)	(4,595)	Level 1
	Level 2	12	**(111)**	**(143)**	**Level 2**	(102)	(138)	Level 2

16. Commitments and contingencies

(a) Commitments

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

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

Commodity purchase contract commitments have decreased by £9.5 billion since 31 December 2019 to £36.9 billion.

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

(b) Contingent liabilities

The Group has no material contingent liabilities.

17. Events after the balance sheet date

The Group updates disclosures in light of new information being received, or a significant event occurring, in the period between 30 June 2020 and the date of this report.

On 24 July 2020, the Group announced it had agreed to dispose of its North American supply, services and trading business, Direct Energy, to NRG for headline consideration of £2.85 billion ($3.6 billion) on a debt free, cash free basis. The net asset carrying value of the business within the Group as at 30 June 2020 was £2.2 billion.

18. Related party transactions

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

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

	2020		2019	
	Purchase of goods and services (i) £m	**Amounts owed from/(to) (ii) £m**	Purchase of goods and services (i) £m	Amounts owed to (iii) £m
Associates:				
Nuclear	**(250)**	**(37)**	(201)	(51)
Joint Ventures	**(5)**	**–**	(8)	(1)
	(255)	**(37)**	(209)	(52)

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

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

At the balance sheet date, the Group had committed facilities to the Lake Acquisitions Group totalling £120 million (31 December 2019: £120 million), although nothing has been drawn down at 30 June 2020 (31 December 2019: £nil).

19. Financial Risk Management

The Group's normal operating, investing and financing activities expose it to a variety of financial risks: market risk (including commodity price risk, currency risk, and interest rate risk), credit risk and liquidity risk. These condensed interim Financial Statements do not include all financial risk management information and disclosures included in note S3 of the Group's consolidated Financial Statements for the year ended 31 December 2019.

The Group's normal operating, investing and financing activities expose it to a variety of risks. Risk management is fundamental to the way the Group is governed and managed. The Group's system of risk management and internal control is set out in the 2019 Annual Report and Accounts.

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

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

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

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

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

It is the Group's policy to maintain committed facilities and/or available surplus cash resources of at least £1,200 million, raise at least 75% of its 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 2020 the Group had undrawn committed credit facilities of £2,935 million (31 December 2019: £3,072 million) and £1,329 million (31 December 2019: £619 million) of unrestricted cash and cash equivalents, net of outstanding overdrafts. 93% (31 December 2019: 91%) of the Group's gross debt has been raised in the long-term debt market, and the forecast average term to settlement of the long-term debt portfolio was 10.6 years (31 December 2019: 11.1 years).

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

20. Seasonality of operations

Certain activities of the Group are affected by weather and temperature conditions. As a result of this, amounts reported for the six-month period ended 30 June 2020 may not be indicative of the amounts that would be reported for a full year due to seasonal fluctuations in customer demand for gas, electricity and services, the impact of weather on demand and commodity prices, and market changes in commodity prices and retail tariffs.

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

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

In addition to the effects of seasonality described above, there is significant uncertainty surrounding the timing and shape of any economic recovery from the effects of the Covid-19 pandemic. The response of the global economy to the pandemic and related government support and stimulus schemes could have a significant impact on the performance of the Group in the second half of 2020.

Additional Information – Explanatory Notes

Definitions and reconciliation of adjusted performance measures

Centrica's 2020 Interim Results include a number of non-GAAP measures. These measures are chosen as they provide additional useful information on business performance and underlying trends. They are also used to measure the Group's performance against its strategic financial framework. They are not however, defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Where possible they have been reconciled to the statutory equivalents from the primary statements (Group Income Statement ('I/S'), Group Balance Sheet ('B/S'), Group Cash Flow Statement ('C/F')) or the notes to the Financial Statements.

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

EBITDA

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

Six months ended 30 June		2020 £m	2019 £m	Change
Group operating loss	I/S	**(135)**	(446)	
Exceptional items included within Group operating profit and certain re-measurements before taxation	I/S	**478**	845	
Share of losses of joint ventures and associates, net of interest and taxation (i)	I/S	**2**	24	
Depreciation and impairments of property, plant and equipment (i)	4	**363**	486	
Amortisation, write-downs and impairments of intangibles (i)	4	**161**	166	
EBITDA		**869**	1,075	(19%)

(i) This relates to business performance only.

The table below shows how EBITDA reconciles to AOCF:

Six months ended 30 June		2020 £m	2019 £m
EBITDA		**869**	1,075
Profit on disposals (i)		**(3)**	(5)
Decrease in provisions (i)		**(50)**	(51)
Cash contributions to defined benefit pension schemes, net of service cost income statement charge (i)		**(68)**	(145)
UK pension deficit payments	4	**76**	151
Employee share scheme costs (i)		**19**	21
Re-measurement of energy contracts (i)		**(4)**	(357)
Net movement in working capital	C/F	**250**	(107)
Taxes paid	C/F	**(49)**	(79)
Dividends received from joint ventures and associates	C/F	**23**	–
Collateral and margin cash movements	4, 12	**(65)**	241
Adjusted operating cash flow		**998**	744

(i) These line items relate to business performance only and therefore differ from amounts quoted in the IFRS Financial Statements.

Free cash flow

Free cash flow is cash flow from operating and investing activities, adjusted for dividends received from joint ventures and associates, UK pension deficit payments and movements in collateral and margin cash. Adjustments are also made to remove interest received and sale and settlement of securities. Free cash flow gives a measure of the cash generation performance of the business after taking account of the need to maintain its capital asset base. By excluding deficit reduction payments and movements in collateral and margin cash, which are predominantly triggered by wider market factors and, in the case of collateral and margin movements, represent timing differences, free cash flow gives a measure of the underlying cash generation of the business. Dividends received from joint ventures and associates are included as these are considered by the Directors to represent operating cash flows generated by the Group's operations that are structured in this manner. Interest received and sale and settlement of securities are excluded from Free cash flow as these items are included in the Group's net debt measure, and are therefore viewed by the Directors as related to the manner in which the Group finances its operations.

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

Six months ended 30 June		2020 £m	2019 £m	Change
Net cash flow from operating activities	C/F	**903**	177	
Dividends received from joint ventures and associates	C/F	**23**	–	
UK pension deficit payments	4	**76**	151	
Payments relating to exceptional charges	C/F	**61**	175	
Movements in collateral and margin cash included in net debt	12	**(65)**	241	
Adjusted operating cash flow		**998**	744	
Capital expenditure (including small acquisitions)		**(298)**	(355)	
Sale of businesses	C/F	**108**	208	
Sale of property, plant and equipment and intangible assets	C/F	**2**	8	
Receipt of sub-lease capital payments	C/F	**1**	–	
Payments relating to exceptional charges	C/F	**(61)**	(175)	
Free cash flow		**750**	430	74%

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		2020 £m	2019 £m	Change
Capital expenditure (including small acquisitions) (i)		**298**	355	
Material acquisitions (>£100 million) (ii)		**–**	–	
Net disposals (iii)		**(110)**	(216)	
Group net investment		**188**	139	35%
Dividends received from joint ventures and associates	C/F	**(23)**	–	
Receipt of sub-lease capital payments	C/F	**(1)**	–	
Interest received	C/F	**(3)**	(5)	
Sale and settlement of securities	C/F	**(122)**	(34)	
Net cash flow from investing activities	C/F	**39**	100	(61%)

(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		2020 £m	2019 £m	Change
Purchase of property, plant and equipment and intangible assets	C/F	**298**	352	
Purchase of businesses, net of cash acquired	C/F	**–**	3	
Less: material acquisitions (>£100 million)		**–**	–	
Capital expenditure (including small acquisitions)		**298**	355	(16%)

(b) Material acquisitions (>£100 million)

Six months ended 30 June		2020 £m	2019 £m	Change
Purchase of businesses, net of cash acquired	C/F	**–**	3	
Less: non-material acquisitions (<£100 million)		**–**	(3)	
Material acquisitions (>£100 million)		**–**	–	nm

(c) Net disposals

Six months ended 30 June		2020 £m	2019 £m	Change
Sale of businesses	C/F	**(108)**	(208)	
Sale of property, plant and equipment and intangible assets	C/F	**(2)**	(8)	
Net disposals		**(110)**	(216)	(49%)

Disclosures

Disclaimers

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

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

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

For further information

A pre-recorded results presentation will be available on Centrica.com at 8am BST on 24 July 2020 and Centrica will host a conference call for institutional investors and analysts at 9am BST on 24 July 2020. To register for the conference call please visit:

https://webcasts.centrica.com/centrica109/vip_connect.

If you would like to join in listen only mode, please register at: https://webcasts.centrica.com/centrica109.

An archived webcast and full transcript of the presentation and the question and answer session will be available on the Centrica website by Tuesday 28 July 2020.

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Financial calendar

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

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