NOKIA CORP
Form 6-K
July 20, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a -16 or 15d -16 of
the Securities Exchange Act of 1934

Report on Form 6-K dated July 20, 2006

Nokia Corporation

Nokia House

Keilalahdentie 4
02150 Espoo

Finland

(Name and address of registrant s principal executive office)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F x Form 40-F o

Enclosures:

1. Nokia stock exchange release dated July 20, 2006 and titled: Nokia reports Q2 2006 net sales of EUR 9.8 billion and EPS of EUR 0.28

PRESS RELEASE

July 20, 2006

Nokia reports Q2 2006 net sales of EUR 9.8 billion and EPS of EUR 0.28

Nokia delivers another strong quarter of growth, with net sales up 22%

EUR million	NOKIA IN THE SECOND QUARTER 2006 Q2/2006*		Q2/2005**		Change	
Net sales	9 813		8 059		22	%
Mobile Phones	5 875		4 864		21	%
Multimedia	1 891		1 377		37	%
Enterprise Solutions	283		198		43	%
Networks	1 766		1 620		9	%
Operating profit	1 502		1 004		50	%
Mobile Phones	979		789		24	%
Multimedia	304		126		141	%
Enterprise Solutions	-63		-76			
Networks	399		209		91	%
Common Group Expenses	-117		-44			
Operating margin (%)	15.3	%	12.5	%		
Mobile Phones (%)	16.7	%	16.2	%		
Multimedia (%)	16.1	%	9.2	%		
Enterprise Solutions (%)	-22.3	%	-38.4	%		
Networks (%)	22.6	%	12.9	%		
Net profit	1 140		799		43	%
EPS, EUR						
Basic	0.28		0.18		56	%
Diluted	0.28		0.18		56	%

Q2 2006 special items:

- *Networks operating profit includes a gain of EUR 276 million representing Nokia s share of the proceeds from the Telsim sale.*
- *Excluding this special item, diluted EPS was EUR 0.23.*

*****Q2 2005 special items:***

- *Nokia s operating profit includes a gain of EUR 37 million related to real estate sales booked in the group common other income.*
- *Nokia s financial income was positively affected by a gain of EUR 17 million representing the sale of the remaining portion of the France Telecom bond.*
- *Excluding these special items, diluted EPS was EUR 0.17.*

SECOND QUARTER 2006 HIGHLIGHTS

- Estimated industry device volumes of 230 million units, up 7% sequentially and up 26% year on year.
- Nokia device volumes of 78.4 million units, up 4% sequentially and up 29% year on year.
- Nokia estimated device market share 34%, down from 35% in Q1 2006 and up from 33% in Q2 2005.
- Nokia device ASP of EUR 102, down from EUR 103 in Q1 2006.
- Nokia diluted EPS was EUR 0.28, and excluding the EUR 276 million Telsim gain was EUR 0.23.
- Nokia Nseries multimedia computer volumes up almost 60% sequentially to more than 3 million units.
- Nokia Q2 WCDMA global device market share up significantly to over 30%.

OLLI-PEKKA KALLASVUO, NOKIA CEO:

In the second quarter, Nokia delivered strong year-on-year growth in net sales, operating profit and EPS. At an industry level, the markets for both mobile devices and mobile infrastructure continued to show healthy growth.

In devices, we started initial shipments of several new products including important ones in Mobile Phones mid-range, the Nokia Nseries and the Nokia Eseries further strengthening our product portfolio. In the WCDMA device market Nokia continued to build on its excellent position, with our volumes growing almost 50 percent from the first quarter, yielding a considerable increase in our WCDMA global market share to well over 30 percent. In infrastructure, Networks has continued with its focused strategy of building scale by taking market share and increasing its footprint in the high growth geographies.

During the second quarter Nokia made two significant strategic announcements. We stated our intention to restructure our CDMA business, following the decision not to proceed with the proposed CDMA company with Sanyo. Once completed, this restructuring is expected to have a positive impact on Nokia s operating margin. In addition, Nokia and Siemens announced a definitive agreement to merge Nokia s Networks business group and Siemens carrier-related operations into a new company, creating a powerful leader in the wireless and wireline carrier market.

INDUSTRY AND NOKIA OUTLOOK FOR THE THIRD QUARTER AND FULL YEAR 2006

- Nokia expects industry mobile device volumes in the third quarter 2006 to be up sequentially, although to be less than the second quarter 2006 sequential increase.

- We expect Nokia s device market share in the third quarter 2006 to be approximately at the same level sequentially.

- Sales in our networks business are expected to develop according to normal seasonality in the third quarter.

- Nokia continues to expect the mobile device market volume to grow by 15% or more in 2006, from our estimate of approximately 795 million units in 2005.

- We continue to expect the device industry to experience value growth in 2006, but expect some decline in industry ASPs, primarily reflecting the increasing impact of the emerging markets and competitive factors in general.

- Nokia continues to expect moderate growth in the mobile infrastructure market in euro terms in 2006.

- Nokia continues to target an increase in its 2006 market share in mobile devices and infrastructure.

Q2 2006 FINANCIAL HIGHLIGHTS

(Comparisons are given to the second quarter 2005 results, unless otherwise indicated.)

NOKIA GROUP

Nokia s second quarter 2006 net sales increased 22% to EUR 9.8 billion, compared with EUR 8.1 billion in the second quarter 2005. At constant currency, group net sales would have increased 17%.

Nokia s second quarter 2006 operating profit grew 50% to EUR 1.5 billion (including the positive impact of the EUR 276 million special item), compared with EUR 1.0 billion in the second quarter 2005 (including the positive impact of a EUR 37 million special item). Nokia s second quarter 2006 operating margin was 15.3% (12.5%), including the positive impact of the respective special items.

Operating cash flow for the second quarter 2006 was EUR 0.9 billion, compared with EUR 510 million for the second quarter 2005, and total combined cash and other liquid assets were EUR 7.9 billion, compared with EUR 9.9 billion at December 31, 2005. As of June 30, 2006, our net debt-equity ratio (gearing) was -67%, compared with -77% at December 31, 2005.

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Mobile devices

In the second quarter 2006, the total mobile device volume achieved by our Mobile Phones, Multimedia and Enterprise Solutions business groups reached 78.4 million units, representing 29% year-on-year growth and a 4% sequential increase. The overall industry volume for the same period reached an estimated 230 million units, representing 26% year-on-year growth and a 7% sequential increase.

Converged device (smartphone) industry volumes increased to an estimated 18.3 million units, compared with 12 million units in Q2 2005. Nokia s own converged device volume rose to 9.0 million units, compared with 6.7 million units in Q2 2005. The converged device segment continued to be the fastest growing area in mobile device volumes globally.

The following chart sets out Nokia s mobile device volumes for the periods indicated, as well as the year-on-year and sequential growth rates by geographic area.

NOKIA MOBILE DEVICE VOLUME BY GEOGRAPHIC AREA

(million units)	Q2 2006	Q2 2005	YoY Change (%)	Q1 2006	QoQ Change (%)
Europe	21.1	18.8	12.2	20.4	3.4
Middle East & Africa	12.5	9.0	38.9	11.9	5.0
China	11.7	7.4	58.1	10.9	7.3
Asia-Pacific	18.8	10.5	79.0	16.4	14.6
North America	5.2	6.0	-13.3	8.4	-38.1
Latin America	9.1	9.1	0.0	7.1	28.2
Total	**78.4**	**60.8**	**28.9**	**75.1**	**4.4**

Based on our preliminary market estimate, Nokia s market share for the second quarter 2006 was 34%, compared with 33% in the second quarter 2005 and 35% in the first quarter 2006. Nokia s year-on-year market share increase was driven primarily by strong gains in China and Asia-Pacific. Sequential market share gains in Europe, Asia-Pacific and China were more than offset by sequential market share declines in North America, Latin America and Middle East & Africa. The decline in Nokia s volumes in North America was impacted by a significant order cancellation at one of our customers in the pre-pay market. While Nokia experienced sequential volume growth in Latin America, it was slower than the market growth. Nokia s significant sequential market share growth in Europe was driven by very strong gains in its European WCDMA market share.

Nokia s average selling price in the second quarter 2006 was EUR 102, down from EUR 105 in the second quarter 2005 and down from EUR 103 in the first quarter 2006. Our ASP in the second quarter 2006 was driven by a higher proportion of lower-priced devices and the ramp up of new mid-range products only towards the end of the quarter, balanced by strong sales of higher-priced products including WCDMA and Nokia Nseries devices.

Business Groups

Mobile Phones: Second quarter 2006 net sales grew 21% to EUR 5.9 billion, compared with EUR 4.9 billion in the second quarter 2005, driven by strong industry volumes and our competitive product portfolio. Net sales increased in all regions year on year except Middle East & Africa, with growth strongest in China, Asia-Pacific and Latin America.

Mobile Phones operating profit grew 24% to EUR 979 million, compared with EUR 789 million in the second quarter 2005, with an operating margin of 16.7% (16.2%). Operating profit growth in the second quarter 2006 was supported by strong net sales growth and improved operating-cost management compared with the second quarter 2005.

Multimedia: Second quarter 2006 net sales increased 37% to EUR 1.9 billion, compared with EUR 1.4 billion in the second quarter 2005. Net sales increased year on year in all regions expect for North America and Latin America. Multimedia net sales more than doubled year on year in Asia-Pacific and China.

Multimedia second quarter operating profit grew 141% to EUR 304 million, compared with EUR 126 million in the second quarter 2005, with an operating margin of 16.1% (9.2%). Operating profit growth in the second quarter 2006 was driven by

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strong net sales, particularly sales of Nokia Nseries multimedia computers, and positive operating leverage compared to the second quarter 2005.

Enterprise Solutions: Second quarter 2006 net sales increased 43% to EUR 283 million, compared with EUR 198 million in the second quarter 2005. Net sales were up significantly year on year in all regions except Latin America. Net sales were positively impacted by sales across all units, including mobile devices, security and mobile software.

In the second quarter 2006, Enterprise Solutions had an operating loss of EUR 63 million, compared with an operating loss of EUR 76 million in the second quarter 2005.

Networks: Second quarter 2006 net sales increased 9% to EUR 1.8 billion, compared with EUR 1.6 billion in the second quarter 2005. Net sales were positively impacted year on year by Nokia s improved position in the emerging markets, and increased in all regions except Latin America and Europe. Net sales more than doubled year on year in Middle East & Africa.

Networks second quarter operating profit increased 91% to EUR 399 million, compared with EUR 209 million in the second quarter 2005, with an operating margin of 22.6% (12.9%). Reported second quarter 2006 operating profit was positively impacted by a gain of EUR 276 million from Nokia s share of the proceeds of the Telsim sale. Operating profit excluding this gain for the second quarter 2006 was EUR 123 million, with an operating margin of 7.0%. Lower year-on-year profitability, excluding the special item, reflected concerted efforts to gain market share, a greater proportion of sales from the emerging markets, strong price competition, and a higher share of services sales.

Q2 2006 OPERATING HIGHLIGHTS

Mobile Phones

- Nokia announced that it will not be forming the proposed CDMA device company with Sanyo. Moving forward, Nokia intends to participate selectively in key CDMA markets, with a special focus on North America. Nokia plans to ramp down its own CDMA R&D and manufacturing by April 2007.
- Nokia introduced its lowest-cost camera phone, the Nokia 6080.
- There was strong initial demand for the stylish Nokia 6131 clamshell, which began shipping in Q2.
- Nokia introduced the Nokia 6151, its lowest-cost 3G model, adding to Nokia s growing 3G product portfolio.
- The Nokia 6233 and Nokia 6234 mid-range WCDMA phones began shipping in Q2.
- Since its launch in Q1, the Nokia 3250 music phone has sold more than 1 million units.
- Sales began of the Nokia 2610, Nokia 2310 and Nokia 1110, all of which are targeted at consumers in new growth markets.

Multimedia

- There was strong demand in Q2 for Nokia s new multimedia computers: the Nokia N80 and Nokia N91.
- Nokia announced three more Nokia Nseries products: the Nokia N72, Nokia N73 and Nokia N93.
- Nokia announced cooperation with Yahoo! and Flickr in Nokia Nseries multimedia computers.

- Technical Image Press Association (TIPA) chose the Nokia N80 as the best mobile imaging device.

- Digita and Nokia signed the world s first commercial DVB-H mobile TV platform supply contract, and Nokia N92 mobile TV devices were used during the World Cup football championships for live broadcasts over DVB-H technology.

- Nokia introduced a new software upgrade for the Nokia 770 Internet Tablet, including support for rich Internet communications with pre-installed Google Talk.

Enterprise Solutions

- Strong ramp up of the Nokia Eseries devices E60, E61, and E70 in Europe and Asia, with volume shipments expected to commence in Q3 2006.

- Launch of the Nokia E50, the latest of our Nokia Eseries devices and the smallest S60 Nokia device, expected to begin shipping in Q3 2006.

- Two device management announcements represented the first integration of Intellisync and Nokia assets, following the completion of Nokia s acquisition of Intellisync in February.

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- Nokia announced plans to offer Unified Threat Management (UTM) in our portfolio of high-performance IP Security Platforms.

Networks

- Nokia and Siemens announced a definitive agreement to merge Nokia s networks business and Siemens carrier-related operations into a new company, to be called Nokia Siemens Networks. The closing is expected to take place by January 1, 2007.

- Nokia announced a managed-services contract extension with Hutchison Essar in India.

- Nokia s HSDPA solution was launched by several customers, including Smart in the Philippines, Celcom in Malaysia, SFR in France and Elisa in Finland.

- Nokia announced a radio network contract with Warid Telecom, a GSM/EDGE agreement with BAE Systems, and GSM network contracts with MTPCS (Montana, USA) and Cable & Wireless in the British Virgin Islands. Nokia also won GSM network expansion deals with AIS Thailand, Sichuan Unicom, and Viaero Wireless.

- Nokia announced mobile softswitching contracts with several operators, including Sichuan Unicom, Hong Kong s CSL and Telenor Mobile Sweden.

- In WCDMA, Nokia signed contracts with Denmark s Sonofon and Cable & Wireless Channel Islands.

- New solution launches in the quarter included the Nokia Pico WCDMA Base Station, which will allow operators to capture more indoor network traffic, and the Nokia Business Communication Solution and Unified Charging Suite.

- Nokia announced an acquisition of LCC International s US deployment business, including civil works and site acquisition services.

For more information on the operating highlights mentioned above, please refer to related press announcements, which can be accessed at the following link: *http://www.nokia.com/press*

NOKIA IN THE SECOND QUARTER 2006

(International Financial Reporting Standards (IFRS) comparisons given to the second quarter 2005 results, unless otherwise indicated.)

Nokia s net sales increased 22% to EUR 9 813 million (EUR 8 059 million). Sales of Mobile Phones increased 21% to EUR 5 875 million (EUR 4 864 million). Sales of Multimedia increased 37% to EUR 1 891 million (EUR 1 377 million). Sales of Enterprise Solutions increased 43% and totaled EUR 283 million (EUR 198 million). Sales of Networks increased 9% to EUR 1 766 million (EUR 1 620 million).

Operating profit increased to EUR 1 502 million (EUR 1 004 million), representing an operating margin of 15.3% (12.5%). Operating profit in Mobile Phones increased 24% to EUR 979 million (EUR 789 million), representing an operating margin of 16.7% (16.2%). Operating profit in Multimedia increased 141% to EUR 304 million (EUR 126 million), representing an operating margin of 16.1% (9.2%). Enterprise Solutions reported an operating loss of EUR 63 million (operating loss of EUR 76 million). Operating profit in Networks increased 91% to EUR 399 million (EUR 209 million), representing an operating margin of 22.6% (12.9%). Networks operating profit includes a gain of EUR 276 million representing Nokia s share of the proceeds from the Telsim sale. Common Group expenses totaled EUR 117 million (EUR 44 million, including a EUR 37 million gain on the sale of real estate).

Financial income was EUR 55 million (EUR 103 million, including a gain of EUR 17 million representing the sale of the remaining portion of the France Telecom bond). Profit before tax and minority interests was EUR 1 565 million (EUR 1 108 million). Net profit totaled EUR 1 140 million (EUR 799 million). Earnings per share increased to EUR 0.28 (basic) and to EUR 0.28 (diluted), compared with EUR 0.18 (basic) and EUR 0.18 (diluted) in the second quarter of 2005.

NokIA IN January - june 2006

(International Financial Reporting Standards (IFRS) comparisons given to the January - June 2005 results, unless otherwise indicated.)

Nokia s net sales increased 25% to EUR 19 320 million (EUR 15 455 million). Sales of Mobile Phones increased 25% to EUR 11 744 million (EUR 9 391 million). Sales of Multimedia increased 45% to EUR 3 649 million
(EUR 2 510 million). Sales of Enterprise Solutions decreased 7% and totaled EUR 469 million (EUR 505 million). Sales of Networks increased 14% to EUR 3 465 million (EUR 3 051 million).

Operating profit increased to EUR 2 869 million (EUR 2 122 million), representing an operating margin of 14.8% (13.7%). Operating profit in Mobile Phones increased 24% to EUR 2 064 million (EUR 1 658 million), representing an operating margin of 17.6% (17.7%). Operating profit in Multimedia increased 123% to EUR 627 million (EUR 281 million), representing an operating margin of 17.2% (11.2%). Enterprise Solutions reported an operating loss of EUR 129 million (operating loss of EUR 85 million). Operating profit in Networks increased 27% to EUR 548 million (EUR 430 million), representing an operating margin of 15.8% (14.1%). Common Group expenses totaled EUR 241 million (EUR 162 million).

In the period from January to June 2006, net financial income was EUR 129 million (EUR 181 million). Profit before tax and minority interests was EUR 3 010 million (EUR 2 300 million). Net profit totaled EUR 2 188 million (EUR 1 662 million). Earnings per share increased to EUR 0.53 (basic) and to EUR 0.53 (diluted), compared with EUR 0.37 (basic) and EUR 0.37 (diluted).

PERSONNEL

The average number of employees during the first half was 62 860. At June 30, 2006, Nokia employed a total of 66 092 people (58 874 people at December 31, 2005).

SHARES AND SHARE CAPITAL

Nokia repurchased through its share repurchase plan a total of 35 600 000 Nokia shares on the Helsinki Stock Exchange at an aggregate price of approximately EUR 603.1 million, and an average price of EUR 16.94 per share, during the period from April 21, 2006 to June 22, 2006. The price paid was based on the market price at the time of repurchase. The shares were repurchased to be used for the purposes specified in the authorization held by the Board. The aggregate par value of the shares purchased was EUR 2 136 000, representing approximately 0.9% of the share capital of the company and of the total voting rights. These new holdings did not have any significant effect on the relative holdings of the other shareholders of the company, nor on their voting power.

Effective April 6, 2006, a total of 341 890 000 shares held by Nokia Corporation were cancelled pursuant to the shareholders resolution taken at the Annual General Meeting on March 30, 2006. As a result of the cancellation, the share capital was reduced by the aggregate par value of the shares cancelled, EUR 20 513 400, corresponding to less than 8.4% of the share capital of the company and of the total voting rights. The cancellation did not have a significant effect on the relative holdings of the other shareholders of the company, nor on their voting power.

As announced on April 21, 2006, Nokia disposed of and transferred a total of 2 014 437 Nokia shares held by it as settlement under the Performance Share Plan 2004 to the Plan participants, employees of Nokia Group. The aggregate par value of the shares transferred was EUR 120 866.22, representing approximately 0.05% of the share capital of the company and the total voting rights. The transfer did not have a significant effect on the relative holdings of the other shareholders of the company nor on their voting power.

Nokia was informed that the holdings of The Capital Group Companies, Inc, a holding company for several subsidiary companies engaged in investment management activities, had exceeded 5% of the share capital of Nokia. As of April 21, 2006, The Capital Group Companies, Inc. and its subsidiaries held through their clients a total of 211 684 445 Nokia shares consisting of both ADRs and ordinary shares, which corresponded to approximately 5.17% of the share capital of Nokia.

On June 30, 2006, Nokia and its subsidiary companies owned 38 404 407 Nokia shares. The shares had an aggregate par value of EUR 2 304 264.40, representing approximately 0.9% of the share capital of the company and of the total voting rights. The total number of shares on June 30, 2006 was 4 093 931 111 and the share capital was EUR 245 635 866.66.

Q2 2006 BY BUSINESS GROUP, EUR million (unaudited)

	Mobile Phones	**Multimedia**	**Enterprise Solutions**	**Networks**	**Common Group Functions**	**Eliminations**	**Group**
Net sales	5 875	1 891	283	1 766		-2	9 813
Gross profit	1 738	770	121	603	8		3 240
Gross margin,%	***29.6***	***40.7***	***42.8***	***34.1***			***33.0***
Research and development expenses	-315	-228	-87	-292	-59		-981
% of net sales	*5.4*	*12.1*	*30.7*	*16.5*			*10.0*
Selling and marketing expenses	-412	-222	-77	-131	-9		-851
% of net sales	*7.0*	*11.7*	*27.2*	*7.4*			*8.7*
Administrative and general expenses	-19	-11	-22	-55	-61		-168
% of net sales	*0.3*	*0.6*	*7.8*	*3.1*			*1.7*
Other operating income and expenses	-13	-5	2	274	4		262
Operating profit	979	304	-63	399	-117		1 502
Operating margin,%	***16.7***	***16.1***	***-22.3***	***22.6***			***15.3***

Q2 2005 BY BUSINESS GROUP, EUR million (unaudited)

	Mobile Phones	**Multimedia**	**Enterprise Solutions**	**Networks**	**Common Group Functions**	**Eliminations**	**Group**
Net sales	4 864	1 377	198	1 620		0	8 059
Gross profit	1 538	612	91	641	5		2 887
Gross margin,%	***31.6***	***44.4***	***46.0***	***39.6***			***35.8***
Research and development expenses	-332	-215	-83	-290	-51		-971
% of net sales	*6.8*	*15.6*	*41.9*	*17.9*			*12.0*
Selling and marketing expenses	-419	-220	-63	-118	-5		-825
% of net sales	*8.6*	*16.0*	*31.8*	*7.3*			*10.2*
Administrative and general expenses	-15	-9	-20	-57	-28		-129
% of net sales	*0.3*	*0.7*	*10.1*	*3.5*			*1.6*
Other operating income and expenses	17	-42	-1	33	35		42
Operating profit	789	126	-76	209	-44		1 004
Operating margin,%	***16.2***	***9.2***	***-38.4***	***12.9***			***12.5***

NOKIA NET SALES BY GEOGRAPHIC AREA, EUR million (unaudited)

	4-6/2006	**Y-o-Y change, %**	**4-6/2005**	**1-12/2005**
Europe	**3 636**	**13**	3 216	14 297
Middle-East & Africa	**1 335**	**11**	1 207	4 554
China	**1 242**	**44**	863	3 846
Asia-Pacific	**2 055**	**47**	1 396	6 007
North America	**674**	**5**	642	2 841
Latin America	**871**	**18**	735	2 646
Total	**9 813**	**22**	8 059	34 191

NOKIA PERSONNEL BY GEOGRAPHIC AREA

	30.06.2006	**Y-o-Y change, %**	**30.06.2005**	**31.12.2005**
Europe	**39 155**	**5**	37 131	37 053
Middle-East & Africa	**729**	**214**	232	355
China	**6 780**	**28**	5 301	6 119
Asia-Pacific	**7 925**	**133**	3 395	4 518
North America	**6 103**	**-8**	6 653	6 369
Latin America	**5 400**	**40**	3 857	4 460
Total	**66 092**	**17**	56 569	58 874

CONSOLIDATED PROFIT AND LOSS ACCOUNT, IFRS, EUR million (unaudited)

	4-6/2006	4-6/2005	1-6/2006	1-6/2005	1-12/2005
Net sales	**9 813**	8 059	**19 320**	15 455	34 191
Cost of sales	**-6 573**	-5 172	**-12 856**	-9 829	-22 209
Gross profit	**3 240**	2 887	**6 464**	5 626	11 982
Research and development expenses	**-981**	-971	**-1 927**	-1 890	-3 825
Selling and marketing expenses	**-851**	-825	**-1 539**	-1 382	-2 961
Administrative and general expenses	**-168**	-129	**-333**	-292	-609
Other income	**335**	91	**387**	144	285
Other expenses	**-73**	-49	**-183**	-84	-233
Operating profit	**1 502**	1 004	**2 869**	2 122	4 639
Share of results of associated companies	**8**	1	**12**	-3	10
Financial income and expenses	**55**	103	**129**	181	322
Profit before tax	**1 565**	1 108	**3 010**	2 300	4 971
Tax	**-401**	-297	**-782**	-617	-1281
Profit before minority interests	**1 164**	811	**2 228**	1 683	3 690
Minority interests	**-24**	-12	**-40**	-21	-74
Profit attributable to equity holders of the parent	**1 140**	799	**2 188**	1 662	3 616
Earnings per share, EUR					
(for profit attributable to the equity holders of the parent)					
Basic	**0.28**	0.18	**0.53**	0.37	0.83
Diluted	**0.28**	0.18	**0.53**	0.37	0.83
Average number of shares (1 000 shares)					
Basic	**4 075 726**	4 414 689	**4 112 804**	4 437 052	4 365 547
Diluted	**4 093 122**	4 416 894	**4 127 661**	4 438 919	4 371 239
Depreciation and amortization, total	**163**	171	**352**	351	712
Share-based compensation expense, total	**28**	14	**57**	25	104

CONSOLIDATED BALANCE SHEET, IFRS, EUR million (unaudited)

	30.06.2006	30.06.2005	31.12.2005	
ASSETS				
Non-current assets				
Capitalized development costs	**248**	265	260	
Goodwill	**452**	90	90	
Other intangible assets	**272**	213	211	
Property, plant and equipment	**1 603**	1 564	1 585	
Investments in associated companies	**204**	192	193	
Available-for-sale investments	**247**	220	246	
Deferred tax assets	**695**	705	692	
Long-term loans receivable	**19**	8	63	
Other non-current assets	**8**	19	7	
	3 748	3 276	3 347	
Current assets				663

Total consolidated	$	3,381	$	273	$ 3,654

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(a) Increases consist of $144 million of goodwill at U.S. Transmission associated with the May 2009 acquisition of NOARK (See Note 2 for further discussion) and foreign currency translation.

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12. Debt and Credit Facilities
Available Credit Facilities and Restrictive Debt Covenants

	Expiration Date	Credit Facilities Capacity	Outstanding at June 30, 2009 Commercial Paper	Revolving Loan (in millions)	Letters of Credit	Total
Spectra Energy Capital, LLC	2012	$ 1,500(a)	$	$	$ 11	$ 11
Westcoast Energy, Inc.	2011	172(b)				
Union Gas	2012	430(c)				
Spectra Energy Partners	2012	500		240		240
Total		$ 2,602	$	$ 240	$ 11	$ 251

(a) Credit facility contains a covenant requiring the debt-to-total capitalization ratio to not exceed 65%. Amounts outstanding under the revolving credit facility are classified within Short-Term Borrowings and Commercial Paper on the Condensed Consolidated Balance Sheets.
(b) U.S. dollar equivalent at June 30, 2009. Credit facility is denominated in Canadian dollars totaling 200 million Canadian dollars and contains a covenant that requires the debt-to-total capitalization ratio to not exceed 75%.
(c) U.S. dollar equivalent at June 30, 2009. Credit facility is denominated in Canadian dollars totaling 500 million Canadian dollars and contains a covenant that requires the debt-to-total capitalization ratio to not exceed 75% and a provision which requires Union Gas to repay all borrowings under the facility for a period of two days during the second quarter of each year.

The issuance of commercial paper, letters of credit and other borrowings reduces the amount available under the credit facilities.

Our credit agreements contain various financial and other covenants, including the maintenance of certain financial ratios. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of June 30, 2009, we were in compliance with those covenants. In addition, our credit agreements allow for acceleration of payments or termination of the agreements due to nonpayment, or in some cases, due to the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. None of the debt or credit agreements contain material adverse change clauses.

Debt Issuance

On May 14, 2009, M&N LLC, a 78% owned subsidiary, issued $500 million aggregate principal amount of its 7.5% Senior Notes due 2014. Net proceeds from the offering were used to fund cash distributions to its members. Spectra Energy s share of those cash distributions were used for general corporate purposes.

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13. Fair Value Measurements

The following table presents, for each of the fair value hierarchy levels, assets and liabilities that are measured at fair value on a recurring basis:

Description	Balance Sheet Caption	Total	Level 1	Level 2	Level 3
		June 30, 2009 (in millions)			
Money market instruments	Cash and cash equivalents	$ 113	$	$ 113	$
Corporate debt securities	Cash and cash equivalents	132		132	
Long-term derivative assets	Investments and other assets-other	33		9	24
Money market funds	Investments and other assets-other	30	30		
Total Assets		$ 308	$ 30	$ 254	$ 24
Long-term derivative liabilities	Deferred credits and other liabilities-regulatory and other	$ 18	$	$ 18	$
Total Liabilities		$ 18	$	$ 18	$

Description	Balance Sheet Caption	Total	Level 1	Level 2	Level 3
		December 31, 2008 (in millions)			
Money market funds	Cash and cash equivalents	$ 60	$ 60	$	$
Debt securities issued by foreign governments	Cash and cash equivalents	6	6		
Corporate debt securities	Cash and cash equivalents	105		105	
Money market funds	Current assets-other	13	13		
Short-term derivative assets	Current assets-other	13		13	
Money market funds	Investments and other assets-other	51	51		
Corporate debt securities	Investments and other assets-other	25		25	
Long-term derivative assets	Investments and other assets-other	89		53	36
Total Assets		$ 362	$ 130	$ 196	$ 36
Long-term derivative liabilities	Deferred credits and other liabilities-regulatory and other	$ 23	$	$ 23	$
Total Liabilities		$ 23	$	$ 23	$

The following table reconciles assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

	Short-Term Derivative Assets	Short-Term Derivative Liabilities	Long-Term Derivative Assets	Long-Term Derivative Liabilities
		(in millions)		
Three Months Ended June 30, 2009				
Fair value at March 31, 2009	$	$	$ 26	$
Total gains or losses (realized/unrealized):				
Included in earnings			(3)	
Included in Investments and Other Assets Other			3	
Included in other comprehensive income			(2)	

Fair value at June 30, 2009	$	$	$ 24	$
Total gains (losses) for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets held at June 30, 2009	$	$	$ (3)	$

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	Short-Term Derivative Assets	Short-Term Derivative Liabilities	Long-Term Derivative Assets	Long-Term Derivative Liabilities
		(in millions)		
Three Months Ended June 30, 2008				
Fair value at March 31, 2008	$ 51	$ (7)	$ 62	$
Total gains or losses (realized/unrealized):				
Included in earnings				
Included in regulatory assets	55			
Included in other comprehensive income		2	17	
Normal purchases and sales election under SFAS No. 133				
Purchases, issuances and settlements	2	5		
Fair value at June 30, 2008	$ 108	$	$ 79	$
Total gains (losses) for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets held at June 30, 2008	$	$	$	$
Six Months Ended June 30, 2009				
Fair value at December 31, 2008	$	$	$ 36	$
Total gains or losses (realized/unrealized):				
Included in earnings			(4)	
Included in Investments and Other Assets Other			1	
Included in other comprehensive income			(9)	
Fair value at June 30, 2009	$	$	$ 24	$
Total gains (losses) for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets held at June 30, 2009	$	$	$ (4)	$
Six Months Ended June 30, 2008				
Fair value at December 31, 2007	$	$	$ 47	$ (21)
Total gains or losses (realized/unrealized):				
Included in earnings			11	(11)
Included in regulatory assets	105			
Included in other comprehensive income		(5)	21	
Normal purchases and sales election under SFAS No. 133				32
Purchases, issuances and settlements	3	5		
Fair value at June 30, 2008	$ 108	$	$ 79	$
Total gains (losses) for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets held at June 30, 2008	$	$	$ 11	$ (11)

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Level 2 Valuation Techniques

Fair values of our financial instruments, primarily money market instruments and corporate debt securities that are actively traded in the secondary market, are determined based on market-based prices. These valuations may include inputs such as quoted market prices of the exact or similar instruments, broker or dealer quotations, or alternative pricing sources that may include models or matrix pricing tools, with reasonable levels of price transparency.

Level 3 Valuation Techniques

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques where at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

The fair values of Level 3 derivative instruments are estimated using proprietary valuation models that utilize both market observable and unobservable parameters. The long-term derivative asset and liability is valued using internal valuation models and techniques that include such inputs as forward natural gas and power prices, forward interest rates and foreign currency assumptions. The short-term derivative asset is valued based upon interest rates, natural gas options pricing for current and future months including volatility, foreign exchange fluctuations and swap values.

Financial Instruments. The fair value of financial instruments, excluding derivatives included elsewhere in this Note and in Note 16, is summarized in the following table. Judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates determined as of June 30, 2009 and December 31, 2008, are not necessarily indicative of the amounts we could have realized in current markets.

	June 30, 2009		December 31, 2008	
	Book Value	Approximate Fair Value	Book Value	Approximate Fair Value
	(in millions)			
Long-term debt (a)	$ 9,584	$ 10,022	$ 9,111	$ 8,996
Long-term SFAS No. 115 securities	10	10	46	46
Other long-term assets	444	438	430	427

(a) Includes current maturities.

The fair value of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, accounts payable, short-term borrowings and commercial paper are not materially different from their carrying amounts because of the short-term nature of these instruments or because the stated rates approximate market rates.

During 2009, there were no adjustments to assets and liabilities measured at fair value on a nonrecurring basis.

14. Commitments and Contingencies

Environmental

We are subject to various international, federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. These regulations can change from time to time, imposing new obligations on us.

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Like others in the energy industry, we and our affiliates are responsible for environmental remediation at various contaminated sites. These include some properties that are part of our ongoing operations, sites formerly owned or used by us, and sites owned by third parties. Remediation typically involves management of contaminated soils and may involve groundwater remediation. Managed in conjunction with relevant international, federal, state/provincial and local agencies, activities vary with site conditions and locations, remedial requirements, complexity and sharing of responsibility. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, we or our affiliates could potentially be held responsible for contamination caused by other parties. In some instances, we may share liability associated with contamination with other potentially responsible parties, and may also benefit from insurance policies or contractual indemnities that cover some or all cleanup costs. All of these sites generally are managed in the normal course of business or affiliated operations.

Included in Deferred Credits and Other Liabilities Regulatory and Other on the Condensed Consolidated Balance Sheets are accruals related to extended environmental-related activities totaling $17 million at both June 30, 2009 and December 31, 2008. These accruals represent provisions for costs associated with remediation activities at some of our current and former sites, as well as other environmental contingent liabilities.

Litigation

Duke Energy Retirement Cash Balance Plan. A class action lawsuit was filed in federal court in South Carolina in 2006 against Duke Energy Corporation (Duke Energy) and the Duke Energy Retirement Cash Balance Plan. A second similar class action was also filed in 2006 alleging similar claims and seeking to represent the same class of plaintiffs, but this second case was dismissed without prejudice, and only the first case has moved forward. Various causes of action were alleged in the class action lawsuit, including violations of the Employee Retirement Income Security Act of 1974 (ERISA) and the Age Discrimination in Employment Act. These allegations arise out of the conversion of the Duke Power Company Employees Retirement Plan into the Duke Power Company Retirement Cash Balance Plan. The plaintiffs seek to represent present and former participants in the Duke Energy Retirement Cash Balance Plan. This group is estimated to include approximately 36,000 persons. Duke Energy filed its answer in March 2006, and various motions were thereafter filed by the parties, including plaintiffs motion to certify a class, Duke Energy s motion to dismiss, and cross motions for summary judgment filed by both the plaintiffs and Duke Energy. The Court issued a series of rulings in June 2008 denying the plaintiffs class certification motion, dismissing certain of the causes of action originally filed by plaintiffs and allowing other causes of action to proceed. As a result of these rulings, the plaintiffs re-filed a new Amended Class Action Complaint in June 2008 asserting and re-pleading the claims which the Court is allowing to proceed. Duke Energy filed a motion to dismiss in July 2008 requesting the dismissal of plaintiffs breach of fiduciary claims. Plaintiffs filed a new motion to certify a class action in August 2008 and Duke Energy has filed a response to this motion. The Court issued an Order on March 31, 2009 denying Duke Energy s motion to dismiss plaintiffs breach of fiduciary claims. A hearing on the issue of class certification of plaintiffs remaining claims was held on April 29, 2009. We await the Court s decision.

In connection with the spin-off from Duke Energy in January 2007, we agreed to share with Duke Energy any liabilities or damages associated with this matter that relate to our employees that may be members of a plaintiff class if one is certified. At mediation, plaintiffs quantified their claims as being in excess of $150 million. It is not possible to predict with certainty the damages, if any, that we might incur in connection with this matter. However, based upon our current estimate of the number of our employees that could be included in any plaintiff class, we believe that the final disposition of this matter will not have a material adverse effect on our consolidated results of operations, financial position or cash flows.

Other Litigation and Legal Proceedings. We are involved in other legal, tax and regulatory proceedings in various forums arising in the ordinary course of business, including matters regarding contract, royalty, measurement and payment claims, some of which involve substantial monetary amounts. We have insurance

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coverage for certain of these losses should they be incurred. We believe that the final disposition of these proceedings will not have a material adverse effect on our consolidated results of operations, financial position or cash flows.

We had no material reserves as of June 30, 2009 or December 31, 2008 related to litigation matters in accordance with our best estimate of probable loss as defined by SFAS No. 5, Accounting for Contingencies.

Legal costs related to the defense of loss contingencies are expensed as incurred.

Other Commitments and Contingencies

See Note 15 for a discussion of guarantees and indemnifications.

15. Guarantees and Indemnifications

We have various financial guarantees and indemnifications which are issued in the normal course of business. As discussed below, these contracts include financial guarantees, stand-by letters of credit, debt guarantees, surety bonds and indemnifications. We enter into these arrangements to facilitate a commercial transaction with a third party by enhancing the value of the transaction to the third party. To varying degrees, these guarantees involve elements of performance and credit risk, which are not included on the Condensed Consolidated Balance Sheets. The possibility of having to honor our contingencies is largely dependent upon future operations of various subsidiaries, investees and other third parties, or the occurrence of certain future events.

We have issued performance guarantees to customers and other third parties that guarantee the payment and performance of other parties, including certain non-wholly owned entities. In connection with our spin-off from Duke Energy, certain guarantees that were previously issued by us have been assigned to, or replaced by, Duke Energy as guarantor in 2006. For any remaining guarantees of other Duke Energy obligations, Duke Energy has indemnified us against any losses incurred under these guarantee arrangements. The maximum potential amount of future payments we could have been required to make under these performance guarantees as of June 30, 2009 was approximately $431 million, which has been indemnified by Duke Energy, as discussed above. Approximately $5 million of the performance guarantees expire in 2009 and 2010, with the remaining performance guarantees expiring after 2010 or having no contractual expiration.

We have also issued joint and several guarantees to some of the Duke/Fluor Daniel (D/FD) project owners, guaranteeing the performance of D/FD under its engineering, procurement and construction contracts and other contractual commitments. D/FD is one of the entities transferred to Duke Energy in connection with our spin-off from Duke Energy. Substantially all of these guarantees have no contractual expiration and no stated maximum amount of future payments that we could be required to make. Fluor Enterprises Inc., as 50% owner in D/FD, has issued similar joint and several guarantees to the same D/FD project owners. In accordance with the D/FD partnership agreement, each of the partners is responsible for 50% of any payments to be made under those guarantees.

Westcoast Energy Inc. (Westcoast), a wholly owned subsidiary, has issued performance guarantees to third parties guaranteeing the performance of unconsolidated entities, such as equity method investments, and of entities previously sold by Westcoast to third parties. Those guarantees require Westcoast to make payment to the guaranteed third party upon the failure of such unconsolidated or sold entity to make payment under some of its contractual obligations, such as debt, purchase contracts and leases. Certain guarantees that were previously issued by Westcoast for obligations of entities that remained a part of Duke Energy are considered guarantees of third-party performance; however, Duke Energy has indemnified us against any losses incurred under these guarantee arrangements. The maximum potential amount of future payments Westcoast could have been required to make under those performance guarantees of non-wholly owned entities and third-party entities as of June 30, 2009 was $56 million. These guarantees have no contractual expiration.

We have entered into various indemnification agreements related to purchase and sale agreements and other types of contractual agreements with vendors and other third parties. These agreements typically cover environmental, tax, litigation and other matters, as well as breaches of representations, warranties and covenants. Typically, claims may be made by third parties for various periods of time, depending on the nature of the claim. Our potential exposure under these indemnification agreements can range from a specified amount, such as the purchase price, to an unlimited dollar amount, depending on the nature of the claim and the particular transaction. We are unable to estimate the total potential amount of future payments under these indemnification agreements due to several factors, such as the unlimited exposure under certain guarantees.

At June 30, 2009, the amounts recorded for the guarantees and indemnifications described above, including the indemnifications by Duke Energy to us, are not material, both individually and in the aggregate.

16. Risk Management and Hedging Activities, Credit Risk and Financial Instruments

We are exposed to the impact of market fluctuations in the prices of NGLs and natural gas marketed and purchased primarily as a result of our investment in DCP Midstream and ownership of the Empress operations in Canada. Exposure to interest rate risk exists as a result of the issuance of variable and fixed-rate debt and commercial paper. We are exposed to foreign currency risk from our Canadian operations. We employ established policies and procedures to manage our risks associated with these market fluctuations, which may include the use of forward physical transactions as well as other commodity derivatives, primarily within DCP Midstream, such as swaps and options.

Derivative Portfolio Carrying Value as of June 30, 2009

Asset/(Liability)	Maturity in 2009	Maturity in 2010	Maturity in 2011	Maturity in 2012 and Thereafter	Total Carrying Value
			(in millions)		
Hedging	$ (1)	$ 3	$ 4	$ 27	$ 33
Undesignated				(18)	(18)
Total	$ (1)	$ 3	$ 4	$ 9	$ 15

These amounts represent the combination of amounts presented as assets (liabilities) for unrealized gains and losses on mark-to-market and hedging transactions on our Condensed Consolidated Balance Sheets and do not include any derivative positions of DCP Midstream.

Commodity Cash Flow Hedges. Certain of our operations are exposed to market fluctuations in the prices of natural gas and NGLs related to natural gas gathering, distribution, processing and marketing activities. We closely monitor the potential effects of commodity price changes and may choose to enter into contracts to protect margins for a portion of future sales and fuel expenses by using financial commodity instruments, such as swaps, forward contracts and options, as cash flow hedges for natural gas and NGL transactions, primarily within the operations of DCP Midstream and Western Canada Transmission & Processing.

The ineffective portion of commodity cash flow hedges from continuing operations is reported in Other Income and Expenses, net in the Condensed Consolidated Statements of Operations. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. We are party to natural gas purchase contracts to hedge forecasted purchases. These contracts are for notional amounts of 32 million British thermal units as of June 30, 2009.

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As of June 30, 2009, $1 million of pre-tax deferred net losses on derivative instruments related to commodity cash flow hedges were accumulated in Accumulated Other Comprehensive Income (AOCI) on the Condensed Consolidated Balance Sheet and are expected to be recognized in earnings during the next twelve months as the hedged transactions occur. However, due to the volatility of the commodity markets, the corresponding value in AOCI will likely change prior to its reclassification into earnings.

Interest Rate Hedges. Changes in interest rates expose us to risk as a result of our issuance of variable and fixed-rate debt and commercial paper. We manage our interest rate exposure by limiting our variable-rate exposures to percentages of total capitalization and by monitoring the effects of market changes in interest rates. We also enter into financial derivative instruments, including, but not limited to, interest rate swaps and U.S. Treasury lock agreements to manage and mitigate interest rate risk exposure.

For interest rate derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk is recognized in the Condensed Consolidated Statements of Operations. Gains and losses recognized were as follows:

	Three Months Ended June 30, (in millions)			
	2009		2008	
Condensed Consolidated Statements of Operations Caption	**Gain (Loss) on Swaps**	**Gain (Loss) on Borrowings**	**Gain (Loss) on Swaps**	**Gain (Loss) on Borrowings**
Interest expense	$	$	$ 2	$ (1)

	Six Months Ended June 30, (in millions)			
	2009		2008	
Condensed Consolidated Statements of Operations Caption	**Gain (Loss) on Swaps**	**Gain (Loss) on Borrowings**	**Gain (Loss) on Swaps**	**Gain (Loss) on Borrowings**
Interest expense	$	$	$ (3)	$ 3

In the first quarter of 2009, as a result of low interest rates, we settled existing fixed-to-floating interest rate swaps on $848 million of long-term debt. Gains on the settlements, totaling $67 million, were recorded as follows in the Condensed Consolidated Balance Sheet: $5 million as a reduction to Interest Accrued, $21 million as a reduction to Current Maturities of Long-term Debt and $41 million as a reduction to Long-term Debt. The gains recorded as reductions of debt will be amortized in Interest Expense over the lives of the associated debt. In the first half of 2009, we entered into interest rate swap agreements to mitigate our exposure to variable interest rates on $190 million of loans outstanding under certain revolving loan facilities. As of June 30, 2009, the notional amount of our total outstanding interest rate swaps was $190 million.

Foreign Currency Hedges. We are exposed to foreign currency risk from investments and operations in international affiliate businesses, which is limited to Canada. To mitigate risks associated with foreign currency fluctuations, contracts may be denominated in or indexed to the U.S. dollar and/or local inflation rates, or investments may be naturally hedged through debt denominated or issued in the foreign currency. We may also use foreign currency derivatives, where possible, to manage risk related to foreign currency fluctuations. There were no significant foreign currency derivative transactions during the six-month periods ended June 30, 2009 or 2008. To monitor our currency exchange rate risks, we use sensitivity analysis, which measures the effect of devaluation of the Canadian dollar.

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Asset and Liability Derivatives. The locations and amounts of derivative instruments, valued at fair value, in the Condensed Consolidated Balance Sheets follow:

Derivatives Designated as Hedging Instruments	Condensed Consolidated Balance Sheets Caption	June 30, 2009	December 31, 2008
		(in millions)	
Asset Derivatives			
Natural gas purchase contract	Investments and other assets other	$ 24	$ 36
Interest rate swaps	Investments and other assets other	9	53
Total		$ 33	$ 89

Derivatives Not Designated as Hedging Instruments	Condensed Consolidated Balance Sheets Caption	June 30, 2009	December 31, 2008
		(in millions)	
Liability Derivatives			
Interest rate swaps	Deferred credits and other liabilities regulatory and other	$ 18	$ 23

The effective portions of gains (losses), net of tax, recognized in AOCI on derivatives follow:

Cash Flow Hedging Derivatives	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in millions)			
Natural gas purchase contract	$ 8	$ 17	$ 1	$ 21
Interest rate swaps	3		4	(7)
Total	$ 11	$ 17	$ 5	$ 14

The ineffective portion of gains (losses), net of tax, recognized in income on derivatives follows:

Cash Flow Hedging Derivatives	Condensed Consolidated Statements of Operations Caption	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
		(in millions)			
Natural gas purchase contracts	Other income and expenses, net	$ 3	$	$ 2	$

The reclassifications from AOCI into income, net of tax, on our derivative assets and liabilities follow:

Cash Flow Hedging Derivatives	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in millions)			
Natural gas purchase contract	$ (5)	$	$ (5)	$
Interest rate swaps	1		1	

Total	$ (4)	$	$ (4)	$

Credit Risk. Our principal customers for natural gas transportation, storage and gathering and processing services are industrial end-users, marketers, exploration and production companies, local distribution companies and utilities located throughout the United States and Canada. We have concentrations of receivables from natural gas utilities and their affiliates, industrial customers and marketers throughout these regions, as well as retail distribution customers in Canada. These concentrations of customers may affect our overall credit risk in that risk factors can negatively affect the credit quality of the entire sector. Where exposed to credit risk, we

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analyze the counterparties financial condition prior to entering into an agreement, establish credit limits and monitor the appropriateness of those limits on an ongoing basis. We also obtain parental guarantees, cash or letters of credit from customers to provide credit support, where appropriate, based on our financial analysis of the customer and the regulatory or contractual terms and conditions applicable to each transaction.

Included in Other Current Liabilities and Deferred Credits and Other Liabilities Regulatory and Other are collateral liabilities of $85 million at June 30, 2009 and $121 million at December 31, 2008, which represent cash collateral posted by third parties with us.

17. Sales of Common Stock

On February 13, 2009, we issued 32.2 million shares of Spectra Energy common stock and received net proceeds of $448 million. We used the net proceeds to repay commercial paper as it matured. Borrowings from the commercial paper were used primarily for capital expenditures and for other general corporate purposes.

18. Sale of Spectra Energy Partners Partner Units

As previously discussed, in the second quarter of 2009, Spectra Energy Partners issued 9.8 million limited partner units and 0.2 million general partner units in connection with the refinancing of the purchase of NOARK, resulting in net proceeds of $212 million and a reduction of our ownership interest in Spectra Energy Partners from 84% to 74%. See Note 2 for further discussion.

In connection with the sale of the partner units, a $40 million gain ($25 million net of tax) resulting from the dilution of our ownership interest in Spectra Energy Partners was recorded to Additional Paid-in Capital on the Condensed Consolidated Balance Sheet.

The following table reflects Net Income Controlling Interests and transfers from Noncontrolling Interests related to the sale of the partner units.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Net Income Controlling Interests	$ 140	$ 295	$ 438	$ 662
Increase in Additional Paid-in Capital	25		25	
Total change from Net Income Controlling Interests and transfers from Noncontrolling Interests	$ 165	$ 295	$ 463	$ 662

19. Employee Benefit Plans

Retirement Plans. We have a qualified non-contributory defined benefit (DB) retirement plan for U.S. employees and non-qualified plans for various executive retirement and savings plans. Our Westcoast subsidiary maintains qualified and non-qualified contributory DB and defined contribution (DC) retirement plans covering substantially all employees of our Canadian operations.

Our policy is to fund amounts for our U.S. qualified retirement plans on an actuarial basis to provide assets sufficient to meet benefits to be paid to plan participants. We did not make contributions to our U.S. retirement plans in the six-month periods ended June 30, 2009 and 2008, and do not currently anticipate making contributions to these plans during the remainder of 2009.

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Our policy is to fund our DB retirement plans in Canada on an actuarial basis and in accordance with Canadian pension standards legislation in order to accumulate assets sufficient to meet benefit obligations. Contributions to the DC retirement plan are determined in accordance with the terms of the plan. We made contributions to the Canadian qualified DB plans of $17 million and $18 million during the six-month periods ended June 30, 2009 and 2008, respectively. We anticipate that we will make total contributions of approximately $53 million to the Canadian DB plans in 2009. We also made contributions to the Canadian DC plan of $2 million during each of the six-month periods ended June 30, 2009 and 2008. We anticipate that we will make total contributions of approximately $5 million to the Canadian DC plans in 2009.

Qualified Pension Plans Components of Net Periodic Pension Cost

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
U.S.				
Service cost benefit earned	$ 3	$ 3	$ 5	$ 5
Interest cost on projected benefit obligation	6	7	13	14
Expected return on plan assets	(8)	(9)	(16)	(18)
Amortization of loss	1		2	1
Net periodic pension cost	$ 2	$ 1	$ 4	$ 2
Canada				
Service cost benefit earned	$ 3	$ 4	$ 6	$ 8
Interest cost on projected benefit obligation	9	10	18	20
Expected return on plan assets	(10)	(12)	(20)	(24)
Amortization of loss		1	1	3
Amortization of prior service costs	1		1	
Net periodic pension cost	$ 3	$ 3	$ 6	$ 7

Non-Qualified Pension Benefits Plans Components of Net Periodic Pension Cost

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
U.S.				
Interest cost on projected benefit obligation	$ 1	$ 1	$ 1	$ 1
Net periodic pension cost	$ 1	$ 1	$ 1	$ 1
Canada				
Service cost benefit earned	$ 1	$	$ 1	$ 1
Interest cost on projected benefit obligation	1	2	2	3
Net periodic pension cost	$ 2	$ 2	$ 3	$ 4

Other Post-Retirement Benefit Plans. We provide certain health care and life insurance benefits for retired employees on a contributory and non-contributory basis. Employees are eligible for these benefits if they have met age and service requirements at retirement, as defined in the

plans.

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Other Post-Retirement Benefit Plans Components of Net Periodic Benefit Cost

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
U.S.				
Interest cost on accumulated post-retirement benefit obligation	$ 3	$ 3	$ 7	$ 7
Expected return on plan assets	(2)	(2)	(3)	(3)
Amortization of net transition liability	2	2	3	3
Amortization of loss	1	1	1	1
Net periodic other post-retirement benefit cost	$ 4	$ 4	$ 8	$ 8
Canada				
Service cost benefit earned	$	$	$ 1	$ 1
Interest cost on accumulated post-retirement benefit obligation	1	2	2	3
Net periodic other post-retirement benefit cost	$ 1	$ 2	$ 3	$ 4

20. Consolidating Financial Information

Spectra Energy Corp has agreed to fully and unconditionally guarantee the payment of principal and interest under all series of notes outstanding under the Senior Indenture of Spectra Energy Capital, LLC (Spectra Capital), a wholly owned, consolidated subsidiary. In accordance with Securities and Exchange Commission (SEC) rules, the following condensed consolidating financial information is presented. The information shown for us and Spectra Capital is presented utilizing the equity method of accounting for investments in subsidiaries, as required. The non-guarantor subsidiaries column represents all wholly owned subsidiaries of Spectra Capital. This information should be read in conjunction with our accompanying condensed consolidated financial statements and notes thereto.

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Spectra Energy Corp

Condensed Consolidating Statement of Operations

Three Months Ended June 30, 2009

(In millions)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total operating revenues	$	$	$ 937	$	$ 937
Total operating expenses	(7)		627		620
Gains on sales of other assets and other, net					
Operating income	7		310		317
Equity in earnings of unconsolidated affiliates			40		40
Equity in earnings of subsidiaries	135	215		(350)	
Other income and expenses, net		16	(2)		14
Interest expense		52	94		146
Earnings from continuing operations before income taxes	142	179	254	(350)	225
Income tax expense from continuing operations	2	44	21		67
Income from continuing operations	140	135	233	(350)	158
Loss from discontinued operations, net of tax			(1)		(1)
Net income	140	135	232	(350)	157
Net income noncontrolling interests			17		17
Net income controlling interests	$ 140	$ 135	$ 215	$ (350)	$ 140

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Spectra Energy Corp

Condensed Consolidating Statement of Operations

Three Months Ended June 30, 2008

(In millions)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total operating revenues	$	$	$ 1,133	$	$ 1,133
Total operating expenses	5	1	816		822
Gains on sales of other assets and other, net			32		32
Operating income (loss)	(5)	(1)	349		343
Equity in earnings of unconsolidated affiliates			243		243
Equity in earnings of subsidiaries	299	475		(774)	
Other income and expenses, net	(1)	4	7		10
Interest expense		51	98		149
Earnings from continuing operations before income taxes	293	427	501	(774)	447
Income tax expense (benefit) from continuing operations	(2)	128	10		136
Income from continuing operations	295	299	491	(774)	311
Loss from discontinued operations, net of tax			(2)		(2)
Net income	295	299	489	(774)	309
Net income noncontrolling interests			14		14
Net income controlling interests	$ 295	$ 299	$ 475	$ (774)	$ 295

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Spectra Energy Corp

Condensed Consolidating Statement of Operations

Six Months Ended June 30, 2009

(In millions)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total operating revenues	$	$	$ 2,321	$	$ 2,321
Total operating expenses	5	1	1,583		1,589
Gains on sales of other assets and other, net			10		10
Operating income (loss)	(5)	(1)	748		742
Equity in earnings of unconsolidated affiliates			207		207
Equity in earnings of subsidiaries	441	681		(1,122)	
Other income and expenses, net		23			23
Interest expense		109	187		296
Earnings from continuing operations before income taxes	436	594	768	(1,122)	676
Income tax expense (benefit) from continuing operations	(2)	153	55		206
Income from continuing operations	438	441	713	(1,122)	470
Income from discontinued operations, net of tax			2		2
Net income	438	441	715	(1,122)	472
Net income noncontrolling interests			34		34
Net income controlling interests	$ 438	$ 441	$ 681	$ (1,122)	$ 438

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Spectra Energy Corp

Condensed Consolidating Statement of Operations

Six Months Ended June 30, 2008

(In millions)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total operating revenues	$	$	$ 2,733	$	$ 2,733
Total operating expenses	10	1	1,918		1,929
Gains on sales of other assets and other, net			32		32
Operating income (loss)	(10)	(1)	847		836
Equity in earnings of unconsolidated affiliates			452		452
Equity in earnings of subsidiaries	670	1,027		(1,697)	
Other income and expenses, net	(2)	6	17		21
Interest expense		109	198		307
Earnings from continuing operations before income taxes	658	923	1,118	(1,697)	1,002
Income tax expense (benefit) from continuing operations	(4)	253	59		308
Income from continuing operations	662	670	1,059	(1,697)	694
Income from discontinued operations, net of tax			1		1
Net income	662	670	1,060	(1,697)	695
Net income noncontrolling interests			33		33
Net income controlling interests	$ 662	$ 670	$ 1,027	$ (1,697)	$ 662

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Spectra Energy Corp

Condensed Consolidating Balance Sheet

June 30, 2009

(In millions)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$	$ 3	$ 298	$	$ 301
Receivables (payables) consolidated subsidiaries	(9)	248	(223)	(16)	
Receivables other		3	562		565
Other current assets	7	27	331		365
Total current assets	(2)	281	968	(16)	1,231
Investments in and loans to unconsolidated affiliates		391	1,823		2,214
Investments in consolidated subsidiaries	8,388	11,455		(19,843)	
Advances receivable (payable) consolidated subsidiaries	(1,762)	2,371	(262)	(347)	
Goodwill			3,654		3,654
Other assets	35	22	293		350
Property, plant and equipment, net			14,285		14,285
Regulatory assets and deferred debits	1	14	909		924
Total Assets	$ 6,660	$ 14,534	$ 21,670	$ (20,206)	$ 22,658
Accounts payable (receivable) consolidated subsidiaries	$	$ 41	$ (25)	$ (16)	$
Accounts payable other	6	72	182		260
Short-term borrowings and commercial paper		347		(347)	
Accrued taxes payable (receivable)	(51)	49	147		145
Current maturities of long-term debt		498	481		979
Other current liabilities	40	101	800		941
Total current liabilities	(5)	1,108	1,585	(363)	2,325
Long-term debt		2,979	5,626		8,605
Deferred credits and other liabilities	218	2,059	2,235		4,512
Preferred stock of subsidiaries			225		225
Total stockholders equity	6,447	8,388	11,999	(19,843)	6,991
Total Liabilities and Stockholders Equity	$ 6,660	$ 14,534	$ 21,670	$ (20,206)	$ 22,658

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Spectra Energy Corp

Condensed Consolidating Balance Sheet

December 31, 2008

(In millions)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$	$ 60	$ 154	$	$ 214
Receivables (payables) consolidated subsidiaries	(25)	250	(220)	(5)	
Receivables other	1	11	783		795
Other current assets	39	35	367		441
Total current assets	15	356	1,084	(5)	1,450
Investments in and loans to unconsolidated affiliates		368	1,784		2,152
Investments in consolidated subsidiaries	7,375	10,482		(17,857)	
Advances receivable (payable) consolidated subsidiaries	(1,937)	3,298	(992)	(369)	
Goodwill			3,381		3,381
Other assets	40	66	311		417
Property, plant and equipment, net			13,639		13,639
Regulatory assets and deferred debits	1	15	869		885
Total Assets	$ 5,494	$ 14,585	$ 20,076	$ (18,231)	$ 21,924
Accounts payable (receivable) consolidated subsidiaries	$ 5	$ 41	$ (41)	$ (5)	$
Accounts payable other	1	124	160		285
Short-term borrowings and commercial paper		1,137	168	(369)	936
Accrued taxes payable (receivable)	(297)	266	136		105
Current maturities of long-term debt		648	173		821
Other current liabilities	19	106	772		897
Total current liabilities	(272)	2,322	1,368	(374)	3,044
Long-term debt		3,009	5,281		8,290
Deferred credits and other liabilities	226	1,879	2,250		4,355
Preferred stock of subsidiaries			225		225
Total stockholders equity	5,540	7,375	10,952	(17,857)	6,010
Total Liabilities and Stockholders Equity	$ 5,494	$ 14,585	$ 20,076	$ (18,231)	$ 21,924

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Spectra Energy Corp

Condensed Consolidating Statements of Cash Flows

Six Months Ended June 30, 2009

(In millions)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income	$ 438	$ 441	$ 715	$ (1,122)	$ 472
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization			286		286
Equity in earnings of unconsolidated affiliates			(207)		(207)
Equity in earnings of subsidiaries	(441)	(681)		1,122	
Distributions received from unconsolidated affiliates			39		39
Other	53	200	176		429
Net cash provided by (used in) operating activities	50	(40)	1,009		1,019
CASH FLOWS FROM INVESTING ACTIVITIES					
Capital expenditures			(375)		(375)
Investments in and loans to unconsolidated affiliates		(23)	(28)		(51)
Acquisition of NOARK			(295)		(295)
Proceeds from sales and maturities of available-for-sale securities			32		32
Distributions received from unconsolidated affiliates			148		148
Other			(3)		(3)
Net cash used in investing activities		(23)	(521)		(544)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issuance of long-term debt			2,219		2,219
Payments for the redemption of long-term debt		(163)	(1,739)		(1,902)
Net decrease in short-term borrowings and commercial paper		(768)	(168)		(936)
Distributions to noncontrolling interests			(136)		(136)
Contributions from noncontrolling interests			2		2
Proceeds from the issuance of Spectra Energy common stock	448				448
Proceeds from the issuance of Spectra Energy Partners, LP common units			208		208
Dividends paid on common stock	(314)	(8)		8	(314)
Distributions and advances to parent	(196)	945	(741)	(8)	
Other	12		(3)		9
Net cash provided by (used in) financing activities	(50)	6	(358)		(402)

Effect of exchange rate changes on cash			14		14
Net increase (decrease) in cash and cash equivalents		(57)	144		87
Cash and cash equivalents at beginning of period		60	154		214
Cash and cash equivalents at end of period	$	$ 3	$ 298	$	$ 301

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Spectra Energy Corp

Condensed Consolidating Statements of Cash Flows

Six Months Ended June 30, 2008

(In millions)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income	$ 662	$ 670	$ 1,060	$ (1,697)	$ 695
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization			300		300
Equity in earnings of unconsolidated affiliates			(452)		(452)
Equity in earnings of subsidiaries	(670)	(1,027)		1,697	
Distributions received from unconsolidated affiliates			439		439
Other	(179)	292	46		159
Net cash provided by (used in) operating activities	(187)	(65)	1,393		1,141
CASH FLOWS FROM INVESTING ACTIVITIES					
Capital expenditures			(608)		(608)
Investments in and loans to unconsolidated affiliates		(105)	(217)		(322)
Acquisition of Spectra Energy Income Fund			(274)		(274)
Purchases of available-for-sale securities			(880)		(880)
Proceeds from sales and maturities of available-for-sale securities			910		910
Distributions received from unconsolidated affiliates			149		149
Other			1		1
Net cash used in investing activities		(105)	(919)		(1,024)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issuance of long-term debt		500	900		1,400
Payments for the redemption of long-term debt			(903)		(903)
Net increase (decrease) in short-term borrowings and commercial paper		105	(153)		(48)
Distributions to noncontrolling interests			(25)		(25)
Contributions from noncontrolling interests			16		16
Repurchases of Spectra Energy common stock	(284)				(284)
Dividends paid on common stock	(292)	(7)		7	(292)
Distributions and advances to parent	763	(428)	(328)	(7)	
Other			13		13
Net cash provided by (used in) financing activities	187	170	(480)		(123)
Effect of exchange rate changes on cash			1		1
Net decrease in cash and cash equivalents			(5)		(5)
Cash and cash equivalents at beginning of period			94		94

Cash and cash equivalents at end of period	$		$		$	89	$		$	89

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21. New Accounting Pronouncements

The following new accounting pronouncements were adopted during the six months ended June 30, 2009:

SFAS No. 157, Fair Value Measurements. In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, Effective Date of FASB Statement No. 157, which delayed the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statement on a recurring basis (at least annually). The adoption of the provisions of SFAS No. 157 for the measurement of our asset retirement obligations and for our goodwill impairment test did not have any impact on our consolidated results of operations, financial position or cash flows.

SFAS No. 141R, Business Combinations. In December 2007, the FASB issued SFAS No. 141R, which replaces SFAS No. 141, Business Combinations. SFAS No. 141R requires the acquiring entity in a business combination to recognize all and only the assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted the provisions of SFAS No. 141R effective January 1, 2009.

SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. In December 2007, the FASB issued SFAS No. 160 which requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. SFAS No. 160 eliminates the diversity that existed in accounting for transactions between an entity and noncontrolling interests by requiring that they be treated as equity transactions. We adopted the provisions of SFAS No. 160 effective January 1, 2009 as required.

When adopting the presentation and disclosure items, retrospective application to conform previously reported financial statements to the new presentation requirements is required. Changes to reflect the new measurement guidance for increases or decreases in ownership and other changes must be done prospectively. The new requirements for noncontrolling interests, results of operations and comprehensive income of subsidiaries change the presentation of operating results, related per-share information and equity. SFAS No. 160 requires net income and comprehensive income to be displayed for both the controlling and the noncontrolling interests. Additional required disclosures and reconciliations include a separate schedule that shows the effects of any transactions with the noncontrolling interests on the equity attributable to the controlling interest.

As discussed in Note 1, as a result of the adoption of SFAS No. 160, a deferred gain associated with the formation of Spectra Energy Partners totaling $59 million was reclassified from Deferred Credits and Other Liabilities Regulatory and Other to Additional Paid-in Capital on the Consolidated Balance Sheet as of January 1, 2009.

In November 2008, the FASB ratified EITF 08-06, which addresses certain effects of SFAS No. 141R and SFAS No. 160 on an entity s accounting for equity-method investments. The consensus indicates, among other things, that transaction costs for an investment should be included in the cost of the equity-method investment (and not expensed) and shares subsequently issued by the equity-method investee that reduce the investor s ownership percentage should be accounted for as if the investor had sold a proportionate share of its investment, with gains or losses recorded through earnings. EITF 08-06 was effective for us for transactions occurring after December 31, 2008.

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As discussed in Note 10, a $135 million increase to Equity in Earnings of Unconsolidated Affiliates was recorded in the first quarter of 2009 related to DCP Midstream s reclassification of certain deferred gains on sales of common units in its master limited partnership to equity as a result of their adoption of SFAS No. 160.

SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. In March 2008, the FASB issued SFAS No. 161, which expands the disclosure requirements for SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities with the intent to provide users of financial statements an enhanced understanding of how and why derivative instruments are used, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. We adopted the provisions of SFAS No. 161 effective January 1, 2009 as required. See Note 16 for the disclosures required by SFAS No. 161.

FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets. In April 2008, the FASB issued FSP No. FAS 142-3, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The adoption of the provisions of FSP No. FAS 142-3 on January 1, 2009 had no impact on our consolidated results of operations, financial position or cash flows.

EITF 07-01, Accounting for Collaborative Arrangements. In December 2007, the FASB ratified a consensus reached by the EITF to define collaborative arrangements and to establish reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. A collaborative arrangement is a contractual arrangement that involves a joint operating activity. These arrangements involve two (or more) parties who are both (a) active participants in the activity and (b) exposed to significant risks and rewards dependent on the commercial success of the activity. An entity should report the effects of applying EITF 07-01 as a change in accounting principle through retrospective application to all prior periods presented for all arrangements existing as of the effective date. The adoption of the provisions of EITF 07-01 on January 1, 2009 had no impact on our consolidated results of operations, financial position or cash flows.

FSP No. *EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities.* In June 2008, the FASB issued FSP No. EITF 03-6-1, which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing EPS under the two-class method. The adoption of the provisions of FSP No. EITF 03-6-1 on January 1, 2009 had no material effect on our computation of EPS.

SFAS No. 165, Subsequent Events. In May 2009, the FASB issued SFAS No. 165, which, absent related provisions contained in existing authoritative guidance, establishes general standards for the accounting for and disclosure of events that occur subsequent to the balance sheet date but before the financial statements of an entity are issued or are available to be issued. The adoption of the provisions of SFAS No. 165 by us effective June 30, 2009 did not have any impact on our consolidated results of operations, financial position or cash flows.

The following new accounting pronouncement has been issued, but not yet adopted as of June 30, 2009:

FSP No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets. In December 2008, the FASB issued FSP No. FAS 132(R)-1, which requires additional disclosures about plan assets for sponsors of defined benefit pension and postretirement plans including expanded information regarding investment strategies, major categories of plan assets and concentrations of risk within plan assets. Additionally, this FSP requires disclosures similar to those required under SFAS No. 157 with respect to the fair value of plan assets such as the inputs and valuation techniques used to measure fair value and information with respect to classification of plan assets in terms of the hierarchy of the source of information used to determine their value. The disclosures under this FSP are required for annual periods ending after December 15, 2009. We are currently evaluating the requirements of these additional disclosures.

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22. Subsequent Events

We have evaluated significant events and transactions that occurred from July 1, 2009 through the date of this report and have determined that there were no events or transactions other than those disclosed in this report, if any, that would require recognition or disclosure in our Condensed Consolidated Financial Statements for the quarterly period ended June 30, 2009.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.
INTRODUCTION

Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying Condensed Consolidated Financial Statements. As previously discussed, the 2008 data contained in the Condensed Consolidated Financial Statements and the related information presented in this report have been recast to reflect the reporting requirements of SFAS No. 160, which was adopted January 1, 2009, and to reflect the operating results of certain Western Canada Transmission & Processing natural gas gathering and processing facilities as discontinued operations. See Notes 6 and 21 of Notes to Condensed Consolidated Financial Statements for further discussion.

Executive Overview

For the three months ended June 30, 2009 and 2008, we reported net income from controlling interests of $140 million and $295 million, respectively. For the six months ended June 30, 2009 and 2008, we reported net income from controlling interests of $438 million and $662 million, respectively. The decrease for the three and six-month periods primarily reflects lower earnings from Field Services and Western Canada Transmission & Processing as a result of lower NGL prices associated with lower crude oil prices during the first six months of 2009. Crude oil averaged $51 per barrel for the six months ended June 30, 2009 versus $111 per barrel during the same period in 2008. The decrease in earnings was partially offset by the recognition of a $135 million deferred gain ($85 million after-tax) in the first quarter of 2009 associated with partnership units previously issued by DCP Partners.

The highlights for the three months and six months ended June 30, 2009 include:

- U.S. Transmission s earnings decreased due primarily to lower margins from gas processing in 2009 and a customer bankruptcy settlement in the second quarter of 2008, partially offset by earnings from expansion projects placed into service late in 2008 and in 2009 and lower project development costs,

- Distribution results reflect a weaker Canadian dollar and an earnings sharing settlement in the second quarter of 2009 related to prior year earnings, partially offset by higher storage and transportation revenues,

- Western Canada Transmission & Processing earnings decreased primarily as a result of lower NGL prices related to the Empress processing plant and a weaker Canadian dollar, partially offset by higher gathering and processing revenues,

- Field Services earnings reflect lower NGL and natural gas prices in 2009, partially offset by the recognition of a deferred gain associated with partnership units previously issued by DCP Partners, and

- Other reported lower expenses in the 2009 periods.

In the first six months of 2009, we reported $426 million of capital and investment expenditures, excluding the $295 million acquisition of NOARK. Approximately $1.1 billion is projected for the full year and includes expansion capital of approximately $600 million.

On February 13, 2009, in order to further protect our capitalization structure against a potential extreme decline in the Canadian dollar, we issued 32.2 million shares of our common stock and received net proceeds of $448 million.

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As of June 30, 2009, we have approximately $2.6 billion in credit facilities and expect to continue to utilize commercial paper and revolving lines of credit, as needed, to fund our liquidity needs throughout 2009.

On May 4, 2009, Spectra Energy Partners acquired all of the ownership interests of NOARK from Atlas for approximately $295 million in cash. In the second quarter of 2009, Spectra Energy Partners issued 9.8 million limited partner units to the public and 0.2 million general partner units, resulting in net proceeds of $212 million and a reduction of our ownership interest in Spectra Energy Partners from 84% to 74%. The proceeds were used to partially repay the funds borrowed in connection with the acquisition. See Note 2 of Notes to Condensed Consolidated Financial Statements for further discussion.

RESULTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Operating revenues	$ 937	$ 1,133	$ 2,321	$ 2,733
Operating expenses	620	822	1,589	1,929
Gains on sales of other assets and other, net		32	10	32
Operating income	317	343	742	836
Other income and expenses	54	253	230	473
Interest expense	146	149	296	307
Earnings from continuing operations before income taxes	225	447	676	1,002
Income tax expense from continuing operations	67	136	206	308
Income from continuing operations	158	311	470	694
Income (loss) from discontinued operations, net of tax	(1)	(2)	2	1
Net income	157	309	472	695
Net income noncontrolling interests	17	14	34	33
Net income controlling interests	$ 140	$ 295	$ 438	$ 662

Three and Six Months Ended June 30, 2009 Compared to Same Periods in 2008

Operating Revenues. Operating revenues for the three and six months ended June 30, 2009 decreased by $196 million or 17% and $412 million or 15%, respectively, compared to the same periods in 2008. The decreases were driven primarily by:

- the effects of a weaker Canadian dollar on revenues at Western Canada Transmission & Processing and Distribution, and
- lower NGL prices associated with the Empress operations at Western Canada Transmission & Processing, partially offset by
- higher storage and transportation revenues at Distribution.

Operating Expenses. Operating expenses for the three and six months ended June 30, 2009 decreased by $202 million or 25% and $340 million or 18%, respectively, compared to the same periods in 2008. The decreases were driven primarily by:

the effects of a weaker Canadian dollar at Western Canada Transmission & Processing and Distribution,

lower prices of natural gas purchased for the Empress facility, and

lower project development costs at U.S. Transmission.

Gains on Sales of Other Assets and Other, net. Gains on sales of other assets and other, net for the three and six months ended June 30, 2009 decreased $32 million and $22 million, respectively, compared to the same periods in 2008. The decreases were primarily due to a 2008 second quarter customer bankruptcy settlement.

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Operating Income. Operating income for the three and six months ended June 30, 2009 decreased by $26 million, or 8%, and $94 million, or 11%, respectively, compared to the same periods in 2008 primarily due to lower NGL product prices associated with the Empress operations at Western Canada Transmission & Processing, a weaker Canadian dollar and a 2008 customer bankruptcy settlement at U.S. Transmission, partially offset by higher storage and transportation revenues at Distribution.

Other Income and Expenses. Other income and expenses for the three and six months ended June 30, 2009 decreased by $199 million, or 79%, and $243 million, or 51%, respectively, compared to the same periods in 2008. The decreases were attributable to lower equity in earnings from Field Services, reflecting primarily lower commodity prices, partially offset by a gain recognized in the first quarter of 2009 associated with partnership units previously issued by DCP Partners.

Income Tax Expense from Continuing Operations. Income tax expense from continuing operations for the three and six months ended June 30, 2009 decreased by $69 million and $102 million, respectively, compared to the same periods in 2008 as a result of decreased earnings from continuing operations. For the three months ended June 30, 2009, the effective tax rate was 29.8% compared to 30.4% for the same period in 2008. The effective tax rate for the six months ended June 30, 2009 was 30.5% compared to 30.7% in the same period in 2008.

For a more detailed discussion of earnings drivers, see the segment discussions that follow.

Segment Results

We evaluate segment performance based on EBIT from continuing operations, after deducting noncontrolling interests related to those profits. On a segment basis, EBIT excludes discontinued operations, represents all profits from continuing operations (both operating and non-operating) before deducting interest and taxes, and is net of noncontrolling interests related to those profits. Cash, cash equivalents and investments are managed centrally, so the gains and losses on foreign currency remeasurement, and interest and dividend income on those balances, are excluded from the segments EBIT. We consider segment EBIT to be a good indicator of each segment s operating performance from its continuing operations, as it represents the results of our ownership interests in operations without regard to financing methods or capital structures.

Our segment EBIT may not be comparable to similarly titled measures of another company because other entities may not calculate EBIT in the same manner. Segment EBIT is summarized in the following table, and detailed discussions follow.

EBIT by Business Segment

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
U.S. Transmission	$ 234	$ 244	$ 451	$ 470
Distribution	40	54	192	219
Western Canada Transmission & Processing	58	91	139	220
Field Services	24	216	174	408
Total reportable segment EBIT	356	605	956	1,317
Other	(12)	(28)	(36)	(48)
Total reportable segment and other EBIT	344	577	920	1,269
Interest expense	146	149	296	307
Interest income and other (a)	27	19	52	40
Earnings from continuing operations before income taxes.	$ 225	$ 447	$ 676	$ 1,002

(a) Includes foreign currency transaction gains and losses and the elimination of the noncontrolling interests related to EBIT.

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Noncontrolling interests as presented in the following segment-level discussions includes only noncontrolling interests related to EBIT of non-wholly owned entities. It does not include noncontrolling interests related to interest and taxes of those operations. The amounts discussed below include intercompany transactions that are eliminated in the Condensed Consolidated Financial Statements.

U.S. Transmission

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)
	(in millions, except where noted)					
Operating revenues	$ 414	$ 400	$ 14	$ 819	$ 803	$ 16
Operating expenses						
Operating, maintenance and other	121	151	(30)	264	277	(13)
Depreciation and amortization	62	58	4	121	116	5
Gains on sales of other assets and other, net		32	(32)	10	32	(22)
Operating income	231	223	8	444	442	2
Other income and expenses	21	34	(13)	41	55	(14)
Noncontrolling interests	18	13	5	34	27	7
EBIT	$ 234	$ 244	$ (10)	$ 451	$ 470	$ (19)
Proportional throughput, TBtu (a)	574	476	98	1,287	1,113	174

(a) Trillion British thermal units. Revenues are not significantly affected by pipeline throughput fluctuations, since revenues are primarily composed of demand charges.

Three Months Ended June 30, 2009 Compared to Same Period in 2008

Operating Revenues. The $14 million increase was driven primarily by:

- a $40 million increase from expansion projects placed in service late in 2008 and in 2009,
- a $9 million increase in transportation and other revenues primarily from the acquisition of Ozark Gas Transmission, L.L.C. (Ozark Gas Transmission) in May 2009, and
- a $4 million increase in transportation and storage revenues from recoveries of fuel and electric power costs passed through to customers, partially offset by
- a $29 million decrease in processing revenues associated with pipeline operations, caused by lower prices and volumes, and
- a $5 million decrease resulting from a weaker Canadian dollar at M&N LP.

Operating, Maintenance and Other. The $30 million decrease was driven primarily by:

a $34 million decrease in project development costs, reflecting a net benefit of $24 million in 2009 primarily due to a reimbursement of project development costs by customers on northeast expansions compared to expensed project development costs of $10 million in 2008, and

a $7 million decrease in pipeline integrity costs, primarily due to the timing of pipeline integrity work, partially offset by

a $5 million increase in operating costs primarily from higher fuel and electric power costs passed through to customers,

a $4 million increase from expansion projects placed in service late in 2008 and in 2009, and

a $4 million increase from Ozark Gas Transmission acquired in May 2009.

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Depreciation and Amortization. The $4 million increase was primarily driven by expansion projects placed into service late in 2008 and in 2009.

Gains on Sales of Other Assets and Other, net. The $32 million decrease primarily reflects a customer bankruptcy settlement in June 2008.

Other Income and Expenses. The $13 million decrease was primarily a result of lower capitalization of interest on construction projects and from the discontinuance of SFAS No. 71, Accounting for the Effects of Certain Types of Regulation, accounting treatment by Southeast Supply Header, LLC (SESH), an equity investee. These decreases were partially offset by earnings from expansion projects on Gulfstream and SESH placed into service in late 2008.

Noncontrolling Interests. The $5 million increase was driven by an increase in the noncontrolling interests ownership percentage resulting from the Spectra Energy Partners public sale of additional partner units in the second quarter of 2009 and higher earnings from Spectra Energy Partners and M&N LLC.

EBIT. The $10 million decrease was primarily due to a customer bankruptcy settlement in the prior period, and lower processing revenues. These decreases were partially offset by higher earnings from expansion projects and lower project development costs.

Six Months Ended June 30, 2009 Compared to Same Period in 2008

Operating Revenues. The $16 million increase was driven primarily by:

- a $65 million increase from expansion projects placed in service late in 2008 and in 2009,
- a $12 million increase in transportation and storage revenues from recoveries of fuel and electric power costs passed through to customers, and
- a $9 million increase in transportation and other revenues primarily from Ozark Gas Transmission acquired in May 2009, partially offset by
- a $58 million decrease in processing revenues associated with pipeline operations, caused by lower prices and volumes, and
- a $12 million decrease resulting from a weaker Canadian dollar at M&N LP.

Operating, Maintenance and Other. The $13 million decrease was driven primarily by:

- a $34 million decrease in project development costs, reflecting a net benefit of $18 million in 2009 primarily due to a reimbursement of project development costs by customers on northeast expansions compared to expensed project development costs of $16 million in 2008, partially offset by
- a $12 million increase in operating costs primarily from higher fuel and electric power costs passed through to customers,
- an $8 million increase from expansion projects placed in service late in 2008 and in 2009, and

a $4 million increase from Ozark Gas Transmission acquired in May 2009.

Depreciation and Amortization. The $5 million increase was primarily driven by expansion projects placed into service late in 2008 and in 2009.

Gains on Sales of Other Assets and Other, net. The $22 million decrease was primarily driven by a customer bankruptcy settlement of $31 million in June 2008, partially offset by a customer settlement of $10 million in 2009 resulting from the cancellation of a capital project.

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Other Income and Expenses. The $14 million decrease was primarily a result of lower capitalization of interest on construction projects and from the discontinuance of SFAS No. 71 accounting treatment by SESH. These decreases were partially offset by earnings from expansion projects on Gulfstream and SESH placed into service in late 2008.

Noncontrolling Interests. The $7 million increase was driven by an increase in the noncontrolling interests ownership percentage resulting from the Spectra Energy Partners public sale of additional partner units in the second quarter of 2009 and higher earnings from Spectra Energy Partners and M&N LLC.

EBIT. The $19 million decrease was primarily due to lower processing revenues and a customer bankruptcy settlement in the prior period. These decreases were partially offset by higher earnings from expansion projects and lower project development costs.

Distribution

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)
	(in millions, except where noted)					
Operating revenues	$ 284	$ 353	$ (69)	$ 992	$ 1,153	$ (161)
Operating expenses						
Natural gas purchased	120	158	(38)	555	650	(95)
Operating, maintenance and other	82	94	(12)	163	191	(28)
Depreciation and amortization	42	46	(4)	82	93	(11)
Operating income	40	55	(15)	192	219	(27)
Other income and expenses		(1)	1			
EBIT	$ 40	$ 54	$ (14)	$ 192	$ 219	$ (27)
Number of customers, thousands				1,314	1,296	18
Heating degree days, Fahrenheit	918	899	19	4,616	4,550	66
Pipeline throughput, TBtu	129	151	(22)	456	479	(23)

Three Months Ended June 30, 2009 Compared to Same Period in 2008

Operating Revenues. The $69 million decrease was driven primarily by:

- a $47 million decrease resulting from a weaker Canadian dollar,
- a $32 million decrease from lower natural gas prices passed through to customers without a mark-up, and
- an $11 million decrease due to a settlement on 2008 earnings to be shared with customers, partially offset by
- a $15 million increase resulting from a charge in 2008 due to an unfavorable decision from the OEB related to unregulated storage revenues,

a $9 million increase in storage and transportation revenues attributable to growth of the storage system and an increase in short-term transportation services provided to customers, and

a $7 million increase due to growth in the number of customers.

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Natural Gas Purchased. The $38 million decrease was driven primarily by:

- a $32 million decrease from lower natural gas prices passed through to customers without a mark-up, and
- a $21 million decrease resulting from a weaker Canadian dollar, partially offset by
- a $6 million increase due to growth in the number of customers, and
- a $6 million increase related to fuel used in operations.

Operating, Maintenance and Other. The $12 million decrease was driven primarily by a weaker Canadian dollar.

Depreciation and Amortization. The $4 million decrease was driven primarily by a weaker Canadian dollar.

EBIT. The $14 million decrease was primarily a result of the 2008 earnings sharing settlement reached in June 2009 and a weaker Canadian dollar. These decreases were partially offset by higher storage and transportation revenues.

Six Months Ended June 30, 2009 Compared to Same Period in 2008

Operating Revenues. The $161 million decrease was driven primarily by:

- a $214 million decrease resulting from a weaker Canadian dollar,
- a $28 million decrease in customer usage of natural gas due to conservation efforts and the impacts of the economic recession, and
- an $11 million decrease due to a settlement on 2008 earnings to be shared with customers, partially offset by
- a $31 million increase due to growth in the number of customers,
- a $28 million increase in storage and transportation revenues attributable to growth of the storage system and an increase in short-term transportation services provided to customers,
- a $27 million increase from higher natural gas prices passed through to customers without a mark-up, and
- a $15 million increase resulting from a charge in 2008 due to an unfavorable decision from the OEB related to unregulated storage revenues.

Natural Gas Purchased. The $95 million decrease was driven primarily by:

a $123 million decrease resulting from a weaker Canadian dollar, and

a $26 million decrease in customer usage of natural gas due to conservation efforts and the impacts of the economic recession, partially offset by

a $27 million increase due to growth in the number of customers, and

a $27 million increase from higher natural gas prices passed through to customers without a mark-up.

Operating, Maintenance and Other. The $28 million decrease was driven primarily by a weaker Canadian dollar.

Depreciation and Amortization. The $11 million decrease was driven primarily by a weaker Canadian dollar.

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EBIT. The $27 million decrease was primarily a result of a weaker Canadian dollar, the 2008 earnings sharing settlement reached in June 2009 and lower customer usage of natural gas. These decreases were partially offset by higher storage and transportation revenues.

Western Canada Transmission & Processing

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	**2008**	**Increase (Decrease)**	**2009**	**2008**	**Increase (Decrease)**
	(in millions, except where noted)					
Operating revenues	$ 239	$ 380	$ (141)	$ 510	$ 777	$ (267)
Operating expenses						
Natural gas and petroleum products purchased	34	118	(84)	105	248	(143)
Operating, maintenance and other	108	128	(20)	196	232	(36)
Depreciation and amortization	35	41	(6)	67	77	(10)
Operating income	62	93	(31)	142	220	(78)
Other income and expenses	(4)	(2)	(2)	(3)	1	(4)
Noncontrolling interests					1	(1)
EBIT	$ 58	$ 91	$ (33)	$ 139	$ 220	$ (81)
Pipeline throughput, TBtu	136	142	(6)	298	304	(6)
Volumes processed, TBtu	164	170	(6)	331	343	(12)
Empress inlet volumes, TBtu	198	208	(10)	409	425	(16)

Three Months Ended June 30, 2009 Compared to Same Period in 2008

Operating Revenues. The $141 million decrease was driven primarily by:

- a $112 million decrease due to lower NGL product prices associated with the Empress operations, and
- a $37 million decrease as a result of a weaker Canadian dollar, partially offset by
- a $15 million increase resulting primarily from higher gathering and processing revenues due to higher firm volumes.

Natural Gas and Petroleum Products Purchased. The $84 million decrease was driven primarily by:

- a $79 million decrease arising from lower prices of natural gas purchased for the Empress facility, and
- a $5 million decrease caused by a weaker Canadian dollar.

Operating, Maintenance and Other. The $20 million decrease was driven primarily by:

- a $15 million decrease caused by a weaker Canadian dollar, and

a $12 million decrease in plant fuel and electricity costs at the Empress facility.

Depreciation and Amortization. The $6 million decrease was driven primarily by a weaker Canadian dollar.

EBIT. The $33 million decrease was driven primarily by lower NGL product prices that negatively impacted the Empress operations, as well as a weaker Canadian dollar, partially offset by higher gathering and processing revenues.

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Six Months Ended June 30, 2009 Compared to Same Period in 2008

Operating Revenues. The $267 million decrease was driven primarily by:

- a $195 million decrease due mainly to lower NGL product prices associated with the Empress operations, and
- a $101 million decrease as a result of a weaker Canadian dollar, partially offset by
- a $27 million increase resulting primarily from higher gathering and processing revenues due to higher firm volumes.

Natural Gas and Petroleum Products Purchased. The $143 million decrease was driven primarily by:

- a $122 million decrease arising from lower prices of natural gas purchased for the Empress facility, and
- a $21 million decrease caused by a weaker Canadian dollar.

Operating, Maintenance and Other. The $36 million decrease was driven primarily by:

- a $41 million decrease caused by a weaker Canadian dollar, and
- a $17 million decrease in plant fuel and electricity costs at the Empress facility, partially offset by
- a $13 million increase in maintenance and other project costs.

Depreciation and Amortization. The $10 million decrease was driven primarily by a weaker Canadian dollar.

EBIT. The $81 million decrease was driven primarily by lower NGL product prices that negatively impacted the Empress operations, as well as a weaker Canadian dollar, partially offset by higher gathering and processing revenues.

Field Services

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	**2008**	**Increase (Decrease)**	**2009**	**2008**	**Increase (Decrease)**
	(in millions, except where noted)					
Operating expenses	$	$ 1	$ (1)	$	$	$
Operating loss		(1)	1			
Equity in earnings of unconsolidated affiliates	24	217	(193)	174	408	(234)
EBIT	$ 24	$ 216	$ (192)	$ 174	$ 408	$ (234)

Natural gas gathered and processed/transported, TBtu/d (a,b)	6.9	7.5	(0.6)	6.9	7.3	(0.4)
NGL production, MBbl/d (a,c)	359	375	(16)	345	378	(33)
Average natural gas price per MMBtu (d)	$ 3.50	$ 10.92	$ (7.42)	$ 4.19	$ 9.48	$ (5.29)
Average NGL price per gallon (e)	$ 0.62	$ 1.49	$ (0.87)	$ 0.59	$ 1.42	$ (0.83)

(a) Reflects 100% of volumes.
(b) Trillion British thermal units per day.
(c) Thousand barrels per day.
(d) Million British thermal units. Average price based on NYMEX Henry Hub.
(e) Does not reflect results of commodity hedges.

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Three Months Ended June 30, 2009 Compared to Same Period in 2008

EBIT. Lower equity earnings of $193 million were primarily the result of the following variances, each representing our 50% ownership portion of the earnings drivers at DCP Midstream:

a $210 million decrease from commodity-sensitive processing arrangements, due to decreased commodity prices,

a $22 million decrease in gathering and processing margins primarily attributable to lower volumes due primarily to reduced drilling and lower recoveries and efficiencies, and

a $13 million decrease due to higher net interest expense resulting from the increased debt associated with growth, acquisitions and a special distribution paid in 2008, partially offset by

a $29 million increase in marketing margins related to timing,

a $16 million increase in earnings from DCP Partners primarily as a result of lower mark-to-market losses on hedges used to protect distributable cash flows, and

a $7 million increase primarily as a result of lower operating and maintenance expenses due to hurricane insurance recoveries and cost reduction initiatives, partially offset by higher depreciation expense as a result of capital spending and acquisitions in 2008.

Six Months Ended June 30, 2009 Compared to Same Period in 2008

EBIT. Lower equity earnings of $234 million were primarily the result of the following variances, each representing our 50% ownership portion of the earnings drivers at DCP Midstream:

a $383 million decrease from commodity-sensitive processing arrangements, due to decreased commodity prices,

a $44 million decrease in gathering and processing margins primarily attributable to lower volumes due primarily to reduced drilling and lower recoveries and efficiencies, and

a $21 million decrease due to higher net interest expense resulting from the increased debt associated with growth, acquisitions and a special distribution paid in 2008, partially offset by

a $135 million gain associated with partnership units previously issued by DCP Partners,

a $47 million increase in marketing margins related to higher NGL trading results and derivatives timing,

a $22 million increase in earnings from DCP Partners primarily as a result of lower mark-to-market losses on hedges used to protect distributable cash flows, and

a $10 million increase primarily as a result of lower operating and maintenance expenses due to hurricane insurance recoveries and cost reduction initiatives, partially offset by higher depreciation expense as a result of capital spending and acquisitions in 2008.

Matters Affecting Future Field Services Results

In the near term, softening of natural gas prices, potential reduction in available capital and the recent downturn in the economy are having an effect on levels of drilling activity. The impact of these factors will vary across Field Services broad geographic locations. Generally, we have seen a decrease in drilling levels in the first half of 2009. Although we have not seen a significant impact on Field Services throughput volumes in the first half of 2009 due to reduced drilling levels, throughput volumes could further decline in the latter part of 2009 and beyond should natural gas prices and reduced drilling levels remain at current levels or decline further. Most of the reduced drilling is occurring in our lower margin regions which will somewhat mitigate the impact to our earnings.

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Other

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)
	(in millions, except where noted)					
Operating revenues	$ 12	$ 12	$	$ 24	$ 21	$ 3
Operating expenses	28	38	(10)	60	66	(6)
Operating loss	(16)	(26)	10	(36)	(45)	9
Other income and expenses	4	(2)	6		(3)	3
EBIT	$ (12)	$ (28)	$ 16	$ (36)	$ (48)	$ 12

Three and Six Months Ended June 30, 2009 Compared to Same Periods in 2008

EBIT. The $16 million and $12 million increases in EBIT, for the three and six-months periods respectively, reflect lower expenses primarily as a result of expenses that are expected to be incurred later in 2009 compared to 2008.

CRITICAL ACCOUNTING POLICIES

Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2008 contained discussions of our critical accounting policies and estimates that require the use of significant estimates and judgment. See also Note 11 of Notes to Condensed Consolidated Financial Statements contained in this Report on Form 10-Q for the quarterly period ended June 30, 2009 for further discussion regarding significant estimates and judgment used in our annual goodwill impairment test as of April 1, 2009.

LIQUIDITY AND CAPITAL RESOURCES

Net working capital was negative $1,094 million as of June 30, 2009, which included current maturities of long-term debt of $979 million. We will rely primarily upon cash flows from operations and additional financing transactions to fund our liquidity and capital requirements for the next 12 months, including issuances of short-term and long-term debt. See Financing Cash Flows and Liquidity for discussions of effective shelf registrations and available credit facilities.

Operating Cash Flows

Net cash provided by operating activities decreased $122 million to $1,019 million for the six months ended June 30, 2009 compared to the same period in 2008, driven mainly by a $400 million decrease in distributions received from unconsolidated affiliates in 2009, primarily from DCP Midstream, partially offset by higher approved gas cost collections from customers in 2009 compared to 2008 and proceeds of $62 million from the termination of fair value hedges in 2009. The gas cost collections have been deferred and will be refunded to customers in future periods.

Investing Cash Flows

Cash flows used in investing activities decreased $480 million to $544 million in the first six months of 2009 compared to the same period in 2008. This change was driven primarily by a $504 million decrease in capital and investment expenditures in 2009 as a result of the planned reduction in capital expansion levels for 2009 compared to 2008.

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	Six Months Ended June 30,	
	2009	2008
	(in millions)	
Capital and Investment Expenditures (a)		
U.S. Transmission	$ 215	$ 680
Distribution	97	159
Western Canada Transmission & Processing	100	75
Other	14	16
Total	$ 426	$ 930

(a) Excludes the acquisition of NOARK.

Capital and investment expenditures for the six months ended June 30, 2009 consisted of $233 million for expansion projects and $193 million for maintenance and other projects.

As previously discussed, on May 4, 2009, Spectra Energy Partners acquired all of the ownership interests of NOARK from Atlas for approximately $295 million in cash. See Note 2 of Notes to Condensed Consolidated Financial Statements for further discussion.

We continue to project 2009 capital and investment expenditures of approximately $1.1 billion, excluding the acquisition of NOARK, consisting of approximately $500 million for U.S. Transmission, $200 million for Distribution and $400 million for Western Canada Transmission & Processing. Total projected 2009 capital and investment expenditures include approximately $600 million of expansion capital expenditures and $500 million for maintenance and upgrades of existing plants, pipelines and infrastructure to serve growth. We will continue to assess short and long-term market requirements and will adjust our capital plans as required. We anticipate placing approximately $650 million of capital expansion projects into service in 2009.

On May 27, 2009, we received a $148 million special distribution from Gulfstream, a 50% owned equity affiliate, from the proceeds of a debt issuance by Gulfstream, of which $144 million was classified as Cash Flows from Investing Activities Distributions Received From Unconsolidated Affiliates on the Condensed Consolidated Statement of Cash Flows.

Financing Cash Flows and Liquidity

Our consolidated capital structure includes long-term debt, short-term borrowings, commercial paper and preferred stock of subsidiaries. As of June 30, 2009, our capital structure was 57% debt, 38% common equity of controlling interests and 5% noncontrolling interests and preferred stock of subsidiaries.

Net cash used in financing activities totaled $402 million in the first six months of 2009 compared to $123 million in the first six months of 2008. This change was driven primarily by:

a $936 million decrease in short-term borrowings in 2009 compared to a $48 million decrease in the 2008 period,

a $111 million increase in distributions to noncontrolling interests in 2009 compared to the same period in 2008, primarily from proceeds of the new debt issuance at M&N, LLC, and

$317 million of net proceeds from the issuance of long-term debt in 2009 compared to $497 million in 2008, partially offset by

proceeds of $448 million in 2009 from the issuance of Spectra Energy common stock,

proceeds of $208 million in 2009 from the issuance of Spectra Energy Partners common units, and

repurchases of Spectra Energy common stock in 2008 of $284 million.

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As previously discussed, on May 4, 2009, Spectra Energy Partners acquired all of the ownership interests of NOARK from Atlas for approximately $295 million in cash. The transaction was initially funded by Spectra Energy Partners with $218 million drawn on its bank credit facility, $70 million borrowed under a credit facility with Spectra Energy and $7 million of cash on hand. This transaction was partially refinanced by Spectra Energy Partners in the second quarter of 2009 through the issuance of 9.8 million limited partner units to the public and 0.2 million general partner units, resulting in net proceeds of $212 million and a reduction of our ownership interest in Spectra Energy Partners from 84% to 74%. Funds from the sale of the partner units were used by Spectra Energy Partners to repay the $70 million owed to Spectra Energy and $142 million of the amount initially drawn on the Spectra Energy Partners bank credit facility.

On May 14, 2009, M&N LLC issued $500 million aggregate principal amount of its 7.5% Senior Notes due 2014. Net proceeds from the offering were used to fund cash distributions to its members. Spectra Energy s share of those cash distributions were used for general corporate purposes.

As previously discussed, on February 13, 2009, in order to further protect our capitalization structure against a potential extreme decline in the Canadian dollar, we issued 32.2 million shares of our common stock and received net proceeds of $448 million. We used the net proceeds to repay commercial paper as it matured. Borrowings from the commercial paper were used primarily for capital expenditures and for other general corporate purposes.

Available Credit Facilities and Restrictive Debt Covenants. See Note 12 of Notes to Condensed Consolidated Financial Statements for a discussion of available credit facilities and related financial and other covenants.

The terms of our Spectra Capital credit agreement requires our consolidated debt-to-total-capitalization ratio to be 65% or lower. As of June 30, 2009, this ratio was 57%. Our equity and, as a result, this ratio, are sensitive to significant movements of the Canadian dollar relative to the U.S. dollar due to the significance of our Canadian operations.

Credit Ratings

	Standard and Poor s	**Moody s Investor Service**	**Dominion Bond Rating Service**
As of July 31, 2009			
Spectra Capital (a)	BBB	Baa2	Not applicable
Texas Eastern Transmission, LP (a)	BBB+	Baa1	Not applicable
Westcoast (a)	BBB+	Not applicable	A (low)
Union Gas (a)	BBB+	Not applicable	A
Maritimes & Northeast Pipeline, L.L.C. (a)	BBB	Baa3	Not applicable
Maritimes & Northeast Pipeline Limited Partnership (b)	A	A2	A

(a) Represents senior unsecured credit rating.
(b) Represents senior secured credit rating.

The above credit ratings are dependent upon, among other factors, the ability to generate sufficient cash to fund capital and investment expenditures, while maintaining the strength of the current balance sheet. These credit ratings could be negatively affected if, as a result of market conditions or other factors, they are unable to maintain the current balance sheet strength or if earnings or cash flow outlooks deteriorate materially.

On April 28, 2009, Standard & Poor s affirmed Spectra Energy Corp s long-term credit rating at BBB+ (investment grade) and lowered its outlook from stable to negative, citing concerns over the impact of low commodity prices. Spectra Capital s and Texas Eastern Transmission, LP s (Texas Eastern s) outlooks were also lowered to negative at that time.

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On July 15, 2009, Moody s Investor Service downgraded Spectra Capital s senior unsecured debt rating from Baa1 to Baa2 and Texas Eastern s senior unsecured debt from A3 to Baa1, citing concerns primarily over the impact of low commodity prices and borrowings for capital expansion. Moody s also affirmed Spectra Capital s outlook as stable. This downgrade, which results in ratings that are still investment grade, does not trigger any debt acceleration clauses in our debt and credit agreements.

Dividends. We currently anticipate an average dividend payout ratio over time of approximately 60% of estimated annual net income from controlling interests per share of common stock and expect to continue our policy of paying regular cash dividends. The actual payout ratio, however, may vary from year to year depending on earnings levels. The declaration and payment of dividends are subject to the sole discretion of our Board of Directors and will depend upon many factors, including the financial condition, earnings and capital requirements of our operating subsidiaries, covenants associated with certain debt obligations, legal requirements, regulatory constraints and other factors deemed relevant by our Board of Directors. A dividend of $0.25 per common share was declared on July 2, 2009 and will be paid on September 14, 2009.

Other Financing Matters. We have an automatic shelf registration statement on file with the SEC to register the issuance of unspecified amounts of various equity and debt securities. In addition, as of the date of this filing, certain of our subsidiaries had 800 million Canadian dollars (approximately $688 million) available under shelf registrations for issuances in the Canadian market, of which 400 million expires in August 2010 and 400 million expires in September 2010.

OTHER ISSUES

New Accounting Pronouncements

See Note 21 of Notes to Condensed Consolidated Financial Statements for discussion.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Our exposure to market risk is described in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2008. We believe the exposure to market risk has not changed materially at June 30, 2009.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized, and reported, within the time periods specified by the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2009, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective.

Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended June 30, 2009 and found no change that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

For information regarding material legal proceedings, see Note 14 of Notes to Condensed Consolidated Financial Statements.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect our financial condition or future results. There were no changes to those risk factors at June 30, 2009.

Item 4. Submission of Matters to a Vote of Security Holders.

At our annual meeting of shareholders on May 7, 2009, our shareholders elected Gregory L. Ebel, Peter B. Hamilton and Michael E.J. Phelps to serve as Class III directors until the 2010 annual meeting of shareholders and until such Director s successor is duly elected and qualified. Below is a tabulation of votes with respect to each nominee for director at the meeting:

Nominee	For	Against/ Withheld
Gregory L. Ebel	525,110,021	8,803,455
Peter B. Hamilton	524,988,733	8,924,743
Michael E.J. Phelps	521,567,089	12,346,387

In addition, our shareholders approved an amendment to Spectra Energy s Restated Certificate of Incorporation, which provides for the phased elimination of the structure of our classified Board of Directors and other confirming changes, and ratified the selection of Deloitte & Touche LLP to act as our independent registered public accounting firm for 2009. Below is a tabulation of votes with respect to each proposal:

Proposal	For	Against	Abstain
Approval of amendment to the Restated Certificate of Incorporation	518,592,438	13,217,939	2,103,097
Ratification of Deloitte & Touche LLP as independent registered public accounting firm for 2009	527,574,118	5,017,864	1,321,492

Item 6. Exhibits.

The agreements included as exhibits to this Form 10-Q contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

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Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. We acknowledge that, notwithstanding the inclusion of the foregoing cautionary statements, we are responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this Form 10-Q not misleading.

(a) Exhibits

Exhibit Number	
3.1	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Spectra Energy Corp (filed as Exhibit No. 3.1 to Form 8-K of Spectra Energy Corp on May 13, 2009).
3.2	Amended and Restated By-Laws of Spectra Energy Corp (Amended and Restated as of May 8, 2009) (filed as Exhibit No. 3.2 to Form 8-K of Spectra Energy Corp on May 13, 2009).
*4.1	Indenture, dated May 14, 2009, between Maritimes & Northeast Pipeline, LLC and Deutsche Bank Trust Company Americas.
*4.2	First Supplemental Indenture, dated May 14, 2009, between Maritimes & Northeast Pipeline, LLC and Deutsche Bank Trust Company Americas.
*10.1	Tax Matters Agreement by and among Duke Energy Corporation, Spectra Energy Corp, and The Other Spectra Energy Parties, dated as of December 13, 2006.
*10.2	Transition Services Agreement by and between Duke Energy Corporation and Spectra Energy Corp, dated as of December 13, 2006.
*10.3	Employee Matters Agreement by and between Duke Energy Corporation and Spectra Energy Corp, dated as of December 13, 2006.
*10.3.1	First Amendment to Employee Matters Agreement, dated as of September 28, 2007, by and between Duke Energy Corporation and Spectra Energy Corp.
*10.4	Purchase and Sale Agreement, dated as of February 24, 2005, by and between Enterprise GP Holdings LP and DCP Midstream, LLC.
*10.5	Second Amended and Restated Limited Liability Company Agreement of DCP Midstream, LLC by and between ConocoPhillips Gas Company and Duke Energy Enterprises Corporation, dated as of July 5, 2005.
*10.6	Loan Agreement, dated as of February 25, 2005, between DCP Midstream, LLC and Duke Capital LLC.
*18.1	Accountants Preferability Letter Regarding Change in Accounting Principles.
*31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	XBRL Instance Document.
*101.SCH	XBRL Taxonomy Extension Schema Document.
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document.

*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.
Previously filed as an exhibit to prior reports. This document is being refiled to include previously omitted schedules.

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The total amount of securities of the registrant or its subsidiaries authorized under any instrument with respect to long-term debt not filed as an exhibit does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. The registrant agrees, upon request of the Securities and Exchange Commission, to furnish copies of any or all of such instruments to it.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SPECTRA ENERGY CORP

Date: August 7, 2009

/s/ Gregory L. Ebel
Gregory L. Ebel
President and Chief Executive Officer

Date: August 7, 2009

/s/ J. Patrick Reddy
J. Patrick Reddy
Chief Financial Officer

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