THIS CIRCULAR AND THE ACCOMPANYING NOTICE AND FORM OF PROXY ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised under the Financial Services and Markets Act 2000 immediately if you are resident in the United Kingdom or, if not, another appropriately authorised independent professional adviser.

If you have sold or otherwise transferred all of your Shares, please send this Circular, together with the accompanying Form of Proxy, at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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centrica

Centrica plc

(incorporated in England and Wales under the Companies Act 1985 with registered number 3033654)

Circular to Shareholders relating to proposed transactions with EDF Group and Notice of General Meeting

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This Circular should be read as a whole. Your attention is drawn to the letter from the Chairman of Centrica plc which is set out in Part I ("*Letter from the Chairman of Centrica*") of this Circular and which recommends you to vote in favour of the Resolution to be proposed at the General Meeting referred to below.

For a discussion of certain risk factors which should be taken into account when considering what action you should take in connection with the General Meeting, please see Part II ("*Risk Factors*") of this Circular.

Notice of a General Meeting of the Company to be held at Old Billingsgate, 1 Old Billingsgate Walk, 16 Lower Thames Street, London EC3R 6DX at 2.00 pm on 8 June 2009 was sent to Shareholders on 19 May 2009 together with a Form of Proxy for use at the General Meeting and is set out at the end of this Circular. To be valid, the Form of Proxy should be completed, signed and returned so as to be received by the Company's registrars, Equiniti Limited, of Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA as soon as possible but, in any event, so as to arrive no later than 2.00 pm on 6 June 2009.

If you hold Shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Equiniti (CREST participant ID RA19) so that it is received by no later than 2.00 pm on 6 June 2009.

Completion and return of a Form of Proxy or CREST Proxy Instruction will not prevent Shareholders from attending and voting in person should they wish to do so.

The Transactions are conditional on the approval of Shareholders at the General Meeting.

Goldman Sachs International, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting for the Company and no-one else in connection with the Transactions and will not regard any other person (whether or not a recipient of this Circular) as a client in relation to the Transactions and will not be responsible to any other person other than the Company for providing the protections afforded to clients of Goldman Sachs International nor for providing advice in relation to the Transactions or any transaction or arrangement referred to in this Circular.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Latest time and date for receipt of Forms of Proxy	2.00 pm on 6 June 2009
General Meeting to approve the Transactions	2.00 pm on 8 June 2009
Expected date of Completion	prior to 30 September 2009

All times noted in this Circular are London times unless otherwise stated.

FORWARD-LOOKING STATEMENTS

This Circular contains forward-looking statements concerning the Centrica Group, the British Energy Group and Lake Acquisitions. Forward-looking statements are based on current expectations and projections regarding future events. These forward-looking statements are subject to risks, uncertainties and assumptions about the Centrica Group, the British Energy Group and Lake Acquisitions. Subject to the Company's continuing obligations under the Listing Rules, the Prospectus Rules and the Disclosure and Transparency Rules, the Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

LETTER FROM THE CHAIRMAN OF CENTRICA

(incorporated in England and Wales under the Companies Act 1985 with registered number 3033654)

Centrica plc
Millstream
Maidenhead Road
Windsor
Berkshire SL4 5GD

19 May 2009

Dear Shareholder

Proposed transactions with EDF Group

1 Introduction

On 11 May 2009, Centrica announced that it had entered into certain transactions with EDF Group. The main elements of the transactions are:

(i) Centrica will subscribe for a 20 per cent. shareholding in Lake Acquisitions, the EDF subsidiary that owns British Energy, for £2.3 billion, representing a 6 per cent. discount to the price per share EDF paid to acquire British Energy. Following the Acquisition, EDF Group and Centrica will jointly own, on an 80/20 basis, British Energy, the owner and operator of eight nuclear power stations in the UK;

(ii) EDF Group and Centrica will have the right to offtake power from the existing British Energy nuclear fleet in proportion to their respective shareholdings in Lake Acquisitions;

(iii) Centrica will have a right to participate up to 20 per cent. in EDF Group's New Nuclear Build activities in the UK. At Completion, Centrica will subscribe for shares in a special purpose vehicle that will be used to carry out NNB activities. Once the NNB Projects become operational, Centrica will be entitled to its pro-rata share of power offtake;

(iv) under a commercial power purchase agreement, EDF Group will make available to Centrica an additional 18TWh of power between 2011 and 2016 at market prices; and

(v) Centrica will sell its 51 per cent. shareholding in SPE to EDF Group for €1.3 billion (approximately £1.2 billion) in cash.

As a result of the effective asset swap involving 51 per cent. of SPE, the net cash consideration to be paid by Centrica to EDF Group for the transactions will be approximately £1.1 billion.

The elements described in points (i) to (iii) above, i.e. the interests acquired by Centrica in Lake Acquisitions and NNB Holding Company (and the offtake rights associated with such interests), are subject to EDF Group's ability to require Centrica to sell out in certain limited circumstances, including a change of control of Centrica (where the acquiror is not located in a Listed Territory), the insolvency of Centrica, if there is a material breach of the exclusivity provisions, or if EDF Group sells shares such that it ceases to own in excess of 50 per cent. of the share capital of Lake Acquisitions and/or NNB Holding Company as the case may be. The elements described in (i) to (iv) above and EDF Group's ability to force Centrica to sell out in certain circumstances are collectively referred to as the **"Transactions"** for the purposes of this Circular. Completion of the Transactions and the Segebel Disposal are all inter-conditional on one another.

In view of the size of the Transactions as a whole and the fact that certain events may result in Centrica being required to sell its interests, the Transactions are conditional, among other things, on the approval of Shareholders, which is to be sought at the General Meeting.

The purpose of this Circular is to (i) explain the background to and reasons for the Transactions and the Segebel Disposal, (ii) provide you with further details of the agreements in respect of the Transactions and the

Segebel Disposal, (iii) explain why your Board unanimously considers that the Transactions and the Segebel Disposal are in the best interests of Shareholders as a whole and (iv) recommend that you vote in favour of the Resolution to be proposed at the General Meeting of the Company to be held at 2.00 pm on 8 June 2009 at Old Billingsgate, 1 Old Billingsgate Walk, 16 Lower Thames Street, London EC3R 6DX.

A notice convening the General Meeting was sent to Shareholders on 19 May 2009 and is also set out at the end of this Circular.

2 Background to the Transactions and the Segebel Disposal

On 24 September 2008, Lake Acquisitions, a wholly-owned subsidiary of EDF, announced the Offers. On the same day, Centrica announced that it had signed a non-binding memorandum of understanding with EDF Group to acquire a shareholding in Lake Acquisitions, the right to offtake power from British Energy and the option to participate in NNB activities. On 5 January 2009, Lake Acquisitions declared the Offers wholly unconditional. British Energy's shares ceased to be listed on the Official List of the UK Listing Authority and to be traded on the London Stock Exchange on 3 February 2009. On 23 March 2009, Lake Acquisitions completed the compulsory acquisition process and acquired 100 per cent. of the issued share capital of British Energy.

In 2005, Centrica sold its Luminus business to SPE and, in partnership with GDF, acquired a majority interest in the enlarged company. In order to receive anti-trust clearance from the European Commission for its subsequent merger with SUEZ, GDF agreed to sell its interest in SPE and Centrica announced in July 2008 it would acquire this interest. On 16 April 2009, Centrica announced that the discussions with EDF Group regarding British Energy had extended to the possible sale of the Company's interest in SPE.

Centrica and EDF have now reached agreement on the Transactions and the Segebel Disposal.

3 Reasons for the Transactions and the Segebel Disposal

Investment in Lake Acquisitions and Entry into Power Purchase Agreements

One of Centrica's strategic priorities is to reduce the Centrica Group's existing exposure to short-term movements in wholesale energy costs through increased integration. Centrica had capacity to meet approximately 58 per cent. of peak demand in the UK from its own power generation assets in 2008 and the remainder of the power must be bought in the wholesale market, exposing Centrica to movements in volatile wholesale power prices, which are in turn heavily influenced by wholesale gas prices. Centrica's existing power generation portfolio is gas-fired which, along with Centrica's customer gas demand, also exposes Centrica to volatile wholesale gas prices.

Acquiring power generation assets enables Centrica to secure the cost of more of the electricity it supplies to its customers and therefore reduces the overall exposure of the Centrica Group to movements in wholesale power prices. Power generation assets not fuelled by natural gas reduce the Centrica Group's exposure to wholesale gas prices and give Centrica increased access to low carbon power.

British Energy is the leading supplier of nuclear energy in the UK and owns and operates eight nuclear reactors and one coal-fired power plant, which have capacities of 8.7 GW and 2.0 GW, respectively. In the financial year ended 31 March 2008, British Energy generated 50.3 TWh of electricity from its nuclear plants and 8.1 TWh of electricity from its coal-fired plant.

Centrica is entering into power purchase agreements which will entitle Centrica to its pro rata share of British Energy's output and, in addition, 18TWh of electricity from EDF Group (over five years from 2011) at market prices. The output of British Energy's existing fleet will vary from year to year but Centrica's offtake is expected to result in Centrica being able to supply approximately 85 per cent. of its customers' peak electricity requirements from its own resources (27 per cent. higher than in 2008) and will give Centrica access to significant volumes of power without exposure to gas prices. The full effect of this decreased exposure to volatile wholesale power prices is expected to be realised by Centrica from 2012 when British Energy's existing forward sales contracts, which fix the price at which British Energy sells power, substantially expire.

Participation in New Nuclear Build

In 2008, EDF Group announced its intention to build four European Pressurised Reactors (**"EPRs"**) in the UK with the aim of having the first reactor operational by the end of 2017. These new reactors are expected to form part of the UK's future, low carbon, energy mix and will in part replace British Energy's existing power stations. Centrica has the right to participate in these projects which, when operational, will provide greater security for Centrica's energy needs for several decades, reduce Centrica's exposure to short-term wholesale commodity price fluctuations and provide another growth platform. Although the initial plan for the NNB Joint Venture between Centrica and EDF Group consists of four new EPRs, further reactors may be built as part of the joint venture in the future.

Centrica will have the right to take up to a 20 per cent. interest in the NNB Joint Venture. Centrica will be responsible for its pro rata share of costs after it elects to participate in an NNB Project and, once the NNB Project is operational, will be entitled to its pro rata share of power offtake.

Sale of interest in SPE and continental European presence

In January 2009, Centrica acquired GDF's interest in SPE for €585 million (£542 million) (including €70 million paid after completion in relation to the Pax Electrica II contract) in order to increase its interest from 25.5 per cent. to 51 per cent.

Centrica has now agreed to sell this 51 per cent. interest in SPE for €1,325 million. In addition, deferred consideration of up to approximately €30 million will be payable by EDF Group, with the outstanding consideration subject to, amongst other things, European Commission approval. Such deferred consideration will only be payable if and to the extent that deferred consideration is also payable by Centrica under the terms of its purchase of GDF's interest in SPE. Centrica believes that the price agreed with EDF Group for the sale of SPE in Belgium is an attractive valuation in comparison to recent transactions in the European market-place. SPE comprises the majority of Centrica's continental European assets and the remaining businesses are under strategic review. Centrica will continue to retain a presence in continental Europe, particularly given that the infrastructure for delivery of gas remains important to Centrica's UK business and the benefits that come from maintaining knowledge of gas flows across Europe.

Details of the agreements related to the Transactions and the Segebel Disposal are set out in Part V (*"Further Information on the Transaction Agreements"*) of this Circular.

4 Information on the British Energy Group

The British Energy Group is the UK's largest electricity generator, employing over 6,000 people. The British Energy Group owns and operates eight nuclear power stations in the UK: seven AGR stations and the only civil PWR station in the UK. The British Energy Group also owns and operates the Eggborough coal-fired power station in Yorkshire, although British Energy is required to sell Eggborough as part of the Commitments. The British Energy Group's total current capacity is 10.6 GW (of which 8.7 GW is from nuclear generation) with delivered output of 58.4 TWh (of which 50.3 TWh comprised nuclear output) for the financial year ended 31 March 2008. In the six months ended 28 September 2008 (the most recent results published by British Energy), British Energy generated 19.2 TWh of electricity from its nuclear plants and 3.5 TWh of electricity from its coal-fired plant. The British Energy Group is the lowest carbon emitter of the UK's major electricity generators.

A summary of the capacities of British Energy's nuclear power stations is set out below:

Power Station	Capacity (MW)(1)	Scheduled Closure Dates(2)
AGR Power Stations		
Dungeness B	1,040	2018
Hartlepool	1,190	2014
Heysham 1	1,160	2014
Heysham 2	1,235	2023
Hinkley Point B	820	2016
Hunterston B	820	2016
Torness	1,230	2023
PWR Power Station		
Sizewell B	1,188	2035
Total	8,683	

Notes:

(1) Capacities are stated net of all power consumed for the Power Stations' own use, including power imported from the National Grid. Capacities are subject to review each year end. Values quoted above are for the year ended 31 March 2009. The capacities quoted reflect expectations for the reference energy generation from the units. In particular, Hinkley Point B and Hunterston B Power Stations have been adjusted to reflect planned operation at approximately 70 per cent. load, due to boiler temperature restrictions.

(2) The potential lifetime of each of the power stations is determined primarily by the technical and economic practicability of supporting an agreed Safety Case for that power station in accordance with its nuclear site licence. Any decision to extend the operating life of a power station beyond its current scheduled closure date would be based, in large part, on a combination of economic factors and the engineering judgments reached in respect of technical and safety issues.

The adequacy of the Safety Case for each power station is confirmed at each statutory outage for the following period by undertaking appropriate inspection, maintenance and testing of the plant and reviews of its operating performance. The results are reported to the Nuclear Installations Inspectorate (NII), which must give its formal consent under the nuclear site licence before the reactor concerned may be restarted. Under this regime, a reactor may only be operated following restart during the period determined by the Safety Case. This period is normally three years for all AGR power stations and two years for the PWR power station. In addition, every 10 years British Energy is required to undertake a periodic safety review (PSR) for each power station.

For the financial year ended 31 March 2008, the British Energy Group reported revenues of £2,811 million (2007: £2,999 million) and net profit attributable to shareholders of £335 million (2007: £465 million). For the six months ended 28 September 2008, the British Energy Group reported revenues of £1,281 million (six months ended 30 September 2007: £1,390 million) and net profit attributable to shareholders of £23 million (six months ended 30 September 2007: £243 million). During calendar year 2008, a number of power stations were taken offline for extended maintenance, in particular Hartlepool and Heysham 1, as a result of which revenues and profits were lower than 2007. These power stations returned to service in the first quarter of 2009.

Your attention is drawn to the financial information in respect of the British Energy Group contained in paragraph 11.2 below and in Part III (*"Financial Information"*) of this Circular.

5 Information on Lake Acquisitions

5.1 Overview

Lake Acquisitions is a private limited liability company, which was incorporated in England and Wales on 5 June 2008. It is a wholly-owned subsidiary of EDF and was established for the purpose of making the Offers. Lake Acquisitions has its registered office at 40 Grosvenor Place, Victoria, London SW1X 7EN. It has no commercial activities other than in connection with its ownership of 100 per cent. of the issued share capital of British Energy.

5.2 Contingent Value Rights

Under the Offers, Lake Acquisitions offered eligible British Energy ordinary shareholders an option to receive consideration for their British Energy shares in the form of (i) a specified amount of cash per share or (ii) a lesser amount of cash and security interests referred to as Nuclear Power Notes (**"NPNs"**). The NPNs are contingent value securities issued by Barclays and linked on a one-for-one basis with corresponding contingent value rights (**"CVRs"**) issued by Lake Acquisitions to Barclays. The holders of NPNs (the **"NPN Holders"**) are entitled to receive a yearly payment from Barclays (which may be zero), which is limited to and no greater than the corresponding underlying payment installment paid to Barclays from Lake Acquisitions, which in turn is calculated according to the formula set out in Part VIII ("*CVR Yearly Payment Formula, NPV Illustration and Terms of the CVRs and NPNs*") of this Circular, over the 10-year life of the instrument. NPN Holders therefore have economic exposure to the output of the Existing British Energy Nuclear Fleet and exposure to the UK wholesale price of electricity, subject to certain thresholds and caps, as summarised below.

The base output threshold is 50 TWh in the years 2009-2014, reducing to 31.5 TWh by 2018. The price threshold is £82/MWh fixed in 2009 and semi-fixed at £84.1/MWh and £86.2/MWh with caps of £94.6/MWh and £96.9/MWh in 2010 and 2011, respectively. From 2012, the base price threshold is approximately £51.1/MWh in 2008 prices (i.e. £56.4/MWh in 2012) inflated at 2.5 per cent. annually with caps of approximately £90/MWh in 2008 prices, inflated at 2.5 per cent. annually.

With effect from Completion, Centrica will provide an indemnity to EDF Group for its pro rata share of payments due to Barclays in respect of the CVRs but otherwise does not have any direct obligations under these securities. Other than the CVRs and any outstanding debt facility as described in paragraph 8.1 below, upon Completion, Lake Acquisitions will not have issued any debt or similar security.

For each NPN that a British Energy shareholder elected to receive, the cash consideration payable to that shareholder was reduced by 74 pence. In aggregate, 390,012,113 NPNs were issued, equivalent to an initial aggregate consideration foregone of approximately £289 million. Illustrations of the net present value of these NPNs using different output and price assumptions are provided in Part VIII (*"CVR Yearly Payment Formula, NPV Illustration and Terms of the CVRs and NPNs"*) of this Circular.

Shareholders should read the whole of this Circular, particularly Part VIII (*"CVR Yearly Payment Formula, NPV Illustration and Terms of the CVRs and NPNs"*) and Part III (*"Financial Information on Lake Acquisitions and British Energy"*) of this Circular, which provide further details on the CVRs and NPNs and their impact on Lake Acquisitions, respectively, and should not rely on the key or summarised financial information set out above.

6 Information on New Nuclear Build

In early 2008, HM Government announced that new nuclear power stations should have a role to play in the UK's energy mix alongside other low carbon sources and that there should be no restriction imposed by HM Government on the number of new nuclear power stations in the UK.

In 2008, EDF Group announced its intention to build two nuclear reactors on land adjacent to existing nuclear power stations at each of Sizewell and Hinkley Point and to have the first reactor at Hinkley Point operational by the end of 2017. EDF Group has already begun the process to certify the EPR design with the relevant UK authorities, following an application in the second half of 2007, which is scheduled to take approximately three and a half years.

British Energy owns a significant number of the sites in the UK likely to be suitable for new nuclear projects, including land around the Hinkley Point B, Sizewell B, Heysham 1, Hartlepool and Dungeness B power stations. British Energy also has a strong presence in the communities where new plants are likely to be located. As part of the European Commission's approval of the Offers, EDF Group has given a commitment to sell unconditionally British Energy's land at either Heysham or Dungeness on terms approved by the European Commission. The successful purchaser will have the ability to elect to acquire the land at either Heysham or Dungeness.

EDF Group has recent international experience and expertise in the construction of new nuclear plants and, through British Energy, has extensive expertise in, and knowledge of, the UK regulatory and safety environment. This means that EDF Group is well placed to develop NNB successfully in the UK, from which Centrica will benefit through its participation in the NNB activities as described above.

7 Information on Segebel and SPE

Segebel is a wholly-owned indirect subsidiary of Centrica which in turn holds a 51 per cent. interest in SPE. In connection with the Transactions, Centrica Overseas Holdings Limited has entered into an agreement to sell Segebel to EDF International S.A., a wholly-owned indirect subsidiary of EDF.

Centrica acquired a 50 per cent. interest in Segebel in September 2005 and announced in July 2008 that it had exercised its option to acquire GDF's interest in Segebel for €515 million, plus deferred consideration of up to approximately €105 million, of which €70 million has been paid, with the outstanding consideration subject to, amongst other things, European Commission approval. Following completion of this subsequent acquisition in January 2009, Centrica now owns 100 per cent. of the issued share capital of Segebel and, therefore, indirectly, a 51 per cent. interest in SPE.

7.1 Segebel

Segebel S.A. is a *société anonyme*, which was incorporated in Belgium on 22 June 2005. Its registered address is Rue des Deux Églises 39, 1000 Bruxelles, Belgium. Segebel has no commercial activities other than in connection with its ownership of a 51 per cent. controlling interest in SPE.

7.2 SPE

SPE S.A. is a *société anonyme*, which was incorporated in Belgium on 28 April 2000. Its registered address is Boulevard du Régent 47, 1000 Bruxelles, Belgium.

As at 31 December 2008, SPE was the second largest electricity generator in Belgium, with 21 production sites in Flanders and Wallonia, employing approximately 1,000 people and with a total Belgian production capacity of between 1,650 MW and 1,700 MW, representing 11 per cent. of Belgium's overall electricity production capacity. SPE has more than 1.5 million customer accounts and a residential market share in Belgium of nearly 20 per cent., supplying individuals and companies with gas and electricity under the Luminus brand name. SPE also operates in the national and international electricity markets by buying and selling gas and electricity. For the year ended 31 December 2008, SPE reported net sales of €2,500 million from the sale of 10.5 TWh and 14 TWh of electricity and gas, respectively, and its profit before tax was €38 million. As at 31 December 2008, SPE had gross assets of €2,100 million.

The remaining 49 per cent. interest in SPE is held by Belgian banks and municipalities (including Publilec, Dexia Bank, Socofe, VEH, Ethias, Publilum and ALG).

8 Principal Terms of the Transactions and the Segebel Disposal

8.1 Investment in Lake Acquisitions and the Management of the Existing British Nuclear Energy Fleet

Pursuant to the terms of the Subscription and Investment Agreement:

- The total consideration for the interest in Lake Acquisitions is £2,289 million plus a £20 million payment reflecting Centrica's share of expenses incurred in relation to the Offers. This comprises £2,209 million (plus £20 million for expenses) for the subscription for Lake Shares and the purchase of up to £80 million of an outstanding debt facility.
- British Energy is expected to pay a special dividend to Lake Acquisitions of up to £400 million and Lake Acquisitions will use this dividend to repay a debt facility. Centrica will be entitled to its pro-rata share of this dividend. If this dividend is not paid prior to Completion (or if the dividend is less than £400 million) and therefore the debt facility remains outstanding, Centrica will acquire its share of the outstanding debt facility (i.e. up to £80 million) at Completion. If a dividend is paid prior to Completion, Centrica's total consideration will be reduced by its pro-rata share of this dividend. For example, if the maximum expected dividend (£400 million) is paid, Centrica's total consideration will be reduced by £80 million, reflecting Centrica's pro-rata share.
- At Completion, GB Gas Holdings (a wholly-owned indirect subsidiary of Centrica and a holding company for certain other companies in the Centrica Group) will subscribe for Lake Shares. The consideration for these Lake Shares will be £2,209 million plus £20 million for expenses. This consideration may be adjusted for the time value of money if Completion is delayed. Immediately following this subscription, EDF Energy will own 80 per cent. and GB Gas Holdings will own 20 per cent. of Lake Acquisitions (subject to any dilution, as described below, prior to Completion).
- The investment by Centrica in Lake Acquisitions is conditional on, *inter alia*:
  - (i) clearance of the Acquisition by the OFT and/or Competition Commission;
  - (ii) the FSA having given notice that it has no objection to Centrica becoming a controller of BETS;
  - (iii) approval of the Transactions by the Shareholders; and
  - (iv) confirmation from the HSE that the investment in Lake Acquisitions will not result in any breach by any member of the British Energy Group of any conditions of its nuclear site licences.

Centrica will be responsible for the satisfaction of the conditions listed in (i) to (iii) above.

- GB Gas Holdings will pay to EDF a break fee of £25 million if certain events occur, including, *inter alia*:
  - (i) the Shareholders not approving the Transactions;
  - (ii) OFT or Competition Commission clearance of the Transactions, where required, not being obtained in accordance with the terms of the Subscription and Investment Agreement;
  - (iii) the Directors withdrawing their unanimous recommendation of the Transactions; or
  - (iv) EDF terminating the Subscription and Investment Agreement following the announcement of a bid for, or scheme of arrangement of, Centrica that is recommended by the Directors.
- The Subscription and Investment Agreement will terminate on 10 August 2009 unless the conditions for which Centrica has responsibility have been satisfied or waived. If these conditions have been satisfied or waived by 10 August 2009, the Subscription and Investment Agreement will be automatically extended to the date one year from signing (the **"Extended Longstop Date"**). If the condition in (ii) above has not been satisfied or waived by the Initial Longstop Date, GB Gas Holdings can extend the term of the Subscription and Investment Agreement to the Extended Longstop Date if it loans an amount of £30 million (the **"Extension Loan Amount"**) to Lake Acquisitions. If such condition is subsequently satisfied or waived prior to the Extended Longstop Date, the Extension Loan Amount will be repaid; if the condition is not so satisfied or waived and Completion does not occur, the Extension Loan Amount will be forfeited by GB Gas Holdings.
- EDF Energy may not transfer any shares in Lake Acquisitions prior to Completion other than to wholly-owned members of EDF Group.

Pursuant to the terms of the Lake Shareholders' Agreement:

- The board of Lake Acquisitions will be responsible for overseeing the strategy of the Lake Group and will be controlled by EDF Group. GB Gas Holdings will have the right to appoint two directors to the board of Lake Acquisitions and EDF Energy will have the right to appoint up to four times as many directors to the board of Lake Acquisitions as GB Gas Holdings. Furthermore, GB Gas Holdings will also be entitled to appoint one director to the board of British Energy, the governing board responsible for the overall management of the British Energy Group.
- To protect Centrica's investment in Lake Acquisitions, certain reserved matters cannot be undertaken by Lake Acquisitions without the prior unanimous approval of GB Gas Holdings and EDF Energy.
- Lake Acquisitions and the British Energy Group will adopt a 100 per cent. dividend policy, subject to certain restrictions. There will be a mechanism to ensure that, over a rolling four-year period, dividends equal the aggregate net profit before the impact of fair value accounting, subject to there being sufficient aggregate net cash flow over the same period.
- In certain circumstances, Lake Acquisitions can request further funds from GB Gas Holdings and EDF Energy in proportion to their respective shareholdings in Lake Acquisitions. If either GB Gas Holdings or EDF Energy fails to provide its proportion of the funds, the other can provide the necessary funds, in which case the shareholder which fails to pay will have its shareholding in Lake Acquisitions diluted proportionately.
- If GB Gas Holdings is diluted such that its shareholding in Lake Acquisitions is less than 12.5 per cent., GB Gas Holdings loses the benefit of certain rights under the Lake Shareholders' Agreement, including the right of veto in relation to most of the reserved matters and the right to appoint directors to the boards of Lake Acquisitions and British Energy.
- GB Gas Holdings may not transfer its shares in Lake Acquisitions for a period of two years following Completion (other than intra-group transfers). In the two-year period following Completion, EDF Energy may not transfer shares in Lake Acquisitions if that transfer would result in EDF Energy ceasing to own in excess of 50 per cent. of the share capital of Lake Acquisitions.
- If EDF Energy transfers shares such that it ceases to own in excess of 50 per cent. of the share capital of Lake Acquisitions, EDF Energy may require GB Gas Holdings to sell all of its shares in Lake Acquisitions to the proposed transferee. If EDF Energy does not exercise that right, GB Gas Holdings has the right to sell all of its shares in Lake Acquisitions to the proposed transferee on the same terms as EDF Energy is proposing to transfer its shares. If neither EDF Energy nor GB Gas Holdings exercises its respective rights,

GB Gas Holdings will retain its rights under the Lake Shareholders' Agreement, to which the proposed transferee would accede.

- Centrica and EDF have also agreed that, in the event of a change of control of Centrica, GB Gas Holdings will lose the right to appoint directors to the board of Lake Acquisitions and British Energy and it will have reduced information rights. If a change of control of Centrica occurs where the ultimate parent of the entity acquiring control in Centrica is not located in a Listed Territory, GB Gas Holdings will lose additional rights and EDF Energy will also have an option to acquire GB Gas Holdings' shares in Lake Acquisitions. The price that EDF Energy must pay if it exercises this option will be determined by independent experts, subject to a discount of 16 per cent. The experts will calculate the price of 100 per cent. of the Lake Shares and pro-rata this for the percentage of Lake Shares that are being acquired before applying the discount.
- GB Gas Holdings may only transfer all, not some only, of its Lake Shares. If GB Gas Holdings does sell its Lake Shares, it may only sell to (a) a wholly-owned member of the Centrica Group which is of sufficient financial standing; (b) a shareholder of Lake Acquisitions provided that where such shareholder is not located in a Listed Territory it does not acquire rights or assume obligations under the Lake Shareholders' Agreement as a result of the transfer; (c) a third party which is of sufficient financial standing and located in a Listed Territory; or (d) to a purchaser approved by EDF Energy.
- EDF Energy has a right of pre-emption that allows it to acquire on the same terms the shares in Lake Acquisitions which GB Gas Holdings proposes to transfer to a third party (i.e. other than transfers of shares to other members of the Centrica Group).
- If EDF Energy sells some of its Lake Shares to a third party and grants that third party superior rights and obligations (taken as a whole) to those of GB Gas Holdings, GB Gas Holdings will have the right to require that its rights and obligations in relation to Lake Acquisitions are amended by EDF Energy to ensure that the new investor does not have superior rights and obligations when taken as a whole.

Pursuant to the terms of the Equity Power Purchase Agreements and the Commercial Power Purchase Agreement:

- At Completion:

(i) Centrica Trading and EDF Plc will enter into either the Phase 2 Equity Power Purchase Agreements with BETS or the Phase 3 Equity Power Purchase Agreements with BEG; and

(ii) Centrica Trading and EDF Plc will enter into the Commercial Power Purchase Agreement.

- Pursuant to the Equity Power Purchase Agreements, Centrica Trading and EDF Plc will be entitled to purchase power in proportion to GB Gas Holdings' and EDF Energy's respective percentage shareholdings in Lake Acquisitions following Completion.
- Pursuant to the Commercial Power Purchase Agreement, Centrica Trading will purchase in aggregate an additional 18 TWh from 2011 to 2016.

The pricing of the Equity Power Purchase Agreements and the Commercial Power Purchase Agreement is linked to a market index.

8.2 NNB Arrangements

Centrica and EDF Group intend that initially four NNB Projects will be developed, built, operated and decommissioned in the UK as part of the NNB Joint Venture, with the possibility of further NNB Projects being included in the future. EDF Group and Centrica have agreed that, for the duration of the NNB Joint Venture or until otherwise agreed (and subject to certain limited exclusions), they will participate in NNB activities in the UK on an exclusive basis. Centrica and EDF Group expect, subject to obtaining all necessary consents, the First NNB Project to be operational by the end of 2017, and the three subsequent new nuclear projects to be operational 18 to 24 months apart thereafter.

Pursuant to the NNB Shareholders' Agreement, which governs arrangements between EDF Group and Centrica in relation to NNB activities:

- EDF Energy will establish a limited liability company, NNB Holding Company, which will be the holding company of NNB Gen Company. NNB Gen Company will carry out the trade of developing, constructing, operating and decommissioning the NNB Projects.

- At Completion, GB Gas Holdings and EDF Energy will subscribe approximately €32 million and €128 million, respectively, for shares in NNB Holding Company such that GB Gas Holdings has a 20 per cent. interest in NNB Holding Company and EDF Energy has a 80 per cent. interest in NNB Holding Company.

- NNB Holding Company board will be responsible for the overall management and strategy of the NNB Joint Venture. GB Gas Holdings will have the right to appoint directors to NNB Holding Company Board and EDF Energy will have the right to appoint four directors for every one GB Gas Holdings director that is appointed. GB Gas Holdings will initially be entitled to appoint two directors. Centrica and EDF Group have also agreed that, substantially similar to the terms applicable to their investment in Lake Acquisitions, certain key decisions in relation to each project in which Centrica is participating will be reserved matters and will require the approval of both GB Gas Holdings and EDF Energy.

- In respect of the First NNB Project, GB Gas Holdings has agreed to contribute 20 per cent. of the pre-development costs of that NNB Project, subject to a right to opt out of that NNB Project. This option to opt out is exercisable at any time prior to FIDD for the First NNB Project. FIDD for the First NNB Project is as yet unconfirmed but is expected to take place prior to 2012. If GB Gas Holdings elects to opt out of the First NNB Project, EDF Energy will acquire all of GB Gas Holdings' interests in NNB Holding Company for a price which is equal to GB Gas Holdings' investment in NNB Holding Company less a sum equal to (i) GB Gas Holdings' contribution to the generic development costs of the First NNB Project and (ii) GB Gas Holdings' contribution to the pre-development costs of the First NNB Project, subject to a maximum deduction of £200 million under paragraph (ii), and Centrica will lose all rights to participate in any further NNB Projects under the NNB Joint Venture.

- In respect of subsequent NNB Projects, GB Gas Holdings will contribute to the pre-development costs of these NNB Projects in proportion to its percentage ownership of NNB Holding Company. GB Gas Holdings will, however, have the right at an early stage of the pre-development phase and at FIDD of each NNB Project to elect to fund a smaller proportion of that NNB Project. This would reduce GB Gas Holdings' funding obligations for that NNB Project and also its aggregate ownership of NNB Holding Company.

- If GB Gas Holdings' interest in NNB Holding Company is diluted to less than 12.5 per cent., Centrica will lose certain rights in relation to the NNB Joint Venture, including the right of veto in relation to most of the reserved matters and the right to appoint directors to the board of NNB Holding Company.

- GB Gas Holdings (subject to its right to elect a lower funding percentage) and EDF Energy will be obliged to fund the NNB Joint Venture in accordance with agreed budgets. If either party defaults on the payment of such amount, the non-defaulting party would have the right to acquire the defaulting party's interests in the NNB Joint Venture at a discount to fair value as determined by an independent expert.

- GB Gas Holdings may not transfer any of its shares in NNB Holding Company (i) unless such transfer is to a person who is located in a Listed Territory (or such person is approved by EDF); (ii) at any time prior to the date that the First NNB Project becomes operational; or (iii) if transferring any part of its Shares, unless following such transfer there are no more than three shareholders that hold shares in NNB Holding Company that were originally held by GB Gas Holdings.

- Similar to the Lake Shareholders' Agreement, EDF Energy has a right of pre-emption over any shares in NNB Holding Company that GB Gas Holdings transfers.

- EDF Energy also has the same rights under the NNB Shareholders' Agreement as under the Lake Shareholders' Agreement if there is a change of control of Centrica.

- EDF Energy may not transfer any shares in NNB Holding Company prior to Completion. Following Completion, EDF Energy may transfer some of its shares provided that following that transfer EDF Energy retains an interest in NNB Holding Company in excess of 50 per cent. If EDF Energy does transfer some of its shares, there are similar protections to those in the Lake Shareholders' Agreement to ensure that the transferee does not have superior rights and obligations when taken as a whole in relation to the NNB Joint Venture than the rights and obligations (taken as a whole) of GB Gas Holdings.

- If EDF Energy transfers all of its shares in the share capital of NNB Holding Company, EDF Energy and GB Gas Holdings have similar rights to those included in the Lake Shareholders' Agreement which may require the transferee to acquire GB Gas Holdings' shares in NNB Holding Company.

- Centrica's offtake rights from the NNB Joint Venture will be calculated by reference to GB Gas Holdings' aggregate ownership of NNB Holding Company. Opting out of an NNB Project, other than the First NNB Project, would therefore still allow Centrica to benefit from power offtake rights from that NNB Project, although at a percentage representative of Centrica's overall investment in the NNB Joint Venture.

8.3 Segebel SPA

Pursuant to the terms of the Segebel SPA, the 100 per cent. interest of the Centrica Group in Segebel (which owns 51 per cent. of SPE) will be transferred to EDF International for an initial cash payment of €1,325 million, which may be increased to reflect the time value of money if Completion is delayed. A break fee of €25 million is payable by EDF International to Centrica Overseas if EDF International does not obtain applicable competition approvals on or before the first anniversary of the Segebel SPA as a consequence of EDF International not accepting conditions or obligations that a competent competition authority may require or issue in order to give competition approval.

Further details of the Transaction Agreements can be found in Part V (*"Further Information on the Transaction Agreements"*) of this Circular.

9 Management of Lake Acquisitions and British Energy

9.1 Lake Acquisitions

EDF Energy has appointed six directors to the board of Lake Acquisitions as described in Part VI (*"Additional Information"*) of this Circular. EDF Energy has the right to appoint up to four times the number of directors appointed by Centrica. Centrica is entitled to appoint two directors and intends to appoint Nick Luff and Mark Hanafin following completion of the Acquisition.

9.2 The British Energy Group

In addition to participating in the board of Lake Acquisitions, Centrica also has the right to appoint one director to the board of British Energy. Day-to-day operational management will be conducted by the board of BEG on which Centrica will not be represented. However, Centrica will have the right to receive papers produced to, and minutes of meetings of, the board of BEG.

A number of other executives of Lake Acquisitions and British Energy have been appointed as designates, as set out in paragraph 6 of Part VI (*"Additional Information"*) of this Circular.

10 Financial Effects of the Transactions

Centrica will subscribe for a 20 per cent. interest in Lake Acquisitions for £2,289 million, representing a 6 per cent. discount to the price per share EDF Group paid to acquire British Energy. Centrica will receive consideration of €1,325 million for the Segebel Disposal. Centrica will fund the net cash element of the consideration from existing cash resources, including the £2.2 billion rights issue proceeds raised in December 2008. Following Completion, Centrica will maintain a strong balance sheet with the residual rights issue proceeds available for further value enhancing investment opportunities.

The financial impact on Centrica will depend on a number of variables, including power prices and the output from British Energy's nuclear power stations. Based on current forward power prices, and Centrica's estimates of output, synergies and other variables, Centrica estimates that:

- the Transactions, financed by the Segebel Disposal and from existing cash resources, would be strongly accretive to earnings per share in 2010 and 2011, before taking into account the impact of fair value accounting adjustments which are described below[1]; and
- if the dilutive effect of the rights issue is included, up to the amount of the net cash consideration, then the transactions would, on the basis of the same assumptions above, be broadly neutral on earnings per share in 2010 and 2011, before taking into account the impact of fair value accounting adjustments.[1]

Fair Value Accounting[1]

Centrica expects to account for its interest in Lake Acquisitions as an associate using the equity method of accounting. On acquisition, for the purposes of consolidated accounts, Centrica will be required to adjust the

1 These statements neither constitute a profit forecast, nor should be interpreted to mean that the earnings per share in any financial period will necessarily match or be greater than those for the relevant preceding period.

value of Lake Acquisitions' assets and liabilities, which will include the acquired British Energy Group, to fair value. This is expected to result in an increase in the carrying values of the nuclear power stations which will be depreciated over the accounting life of each power station. These additional depreciation charges will reduce the consolidated profit after tax of Lake Acquisitions and, therefore, reduce reported earnings per share in Centrica's consolidated group accounts. Centrica estimates that the impact on net earnings, after tax of these additional depreciation charges will be in the range of £80—100 million per annum. Fair value accounting will also be required on forward sales contracts entered into by British Energy, based on forward power prices at the date the transactions are completed. If forward power prices remain at their current level, the fair value of these contracts will have an adverse impact on Centrica's 2009 earnings per share (the extent of which will depend on when the transaction completes) and a small positive impact on earnings per share in 2010 and 2011.

The net effect of these adjustments is expected to be dilutive to earnings per share and have an adverse impact on return on capital.

New Nuclear Build

NNB is a long-term investment which is expected to have relatively limited costs during the pre-development phase. FIDD for the First NNB Project is currently expected to take place before 2012, after which time Centrica will incur significant costs until the first EPR is commissioned, which is targeted for late 2017. Centrica has the right to participate up to 20 per cent. in each of EDF's planned four NNB Projects (subject to any election to take a lower interest in an NNB Project other than the First NNB Project) and the FIDDs for each project are expected to be 18 to 24 months apart.

Shareholders should read the whole of this Circular and should not rely on the key or summarised financial information set out above.

11 Current Trading and Prospects

11.1 Centrica

Centrica has performed well in the year to date, due mainly to the combination of cold weather which increased demand for gas and power in the UK and North America and falling wholesale commodity prices, caused by consistent supply and weak demand from large industrial users.

British Gas Residential has had a strong start to the year, ahead of the same period in 2008. The benefit of unusually high demand due to cold weather and falling wholesale commodity prices enabled British Gas to lead retail prices downwards in February 2009, with a 10 per cent. reduction in residential gas prices. This was followed by a 10 per cent. reduction in residential power prices in early May, making British Gas the lowest-priced supplier of electricity in every region in Great Britain. The improved customer service achieved through 2008 has been maintained and this combination of lower prices and better quality service has resulted in an increase of around 60,000 jointly-held products across British Gas and greater stability in energy customer numbers. At the end of April, British Gas Residential had 15.5 million customer accounts on supply.

British Gas Services came through the cold winter well, with improved customer service levels, high levels of retention and continued good financial performance. Although the economic backdrop remains challenging, British Gas Services continues to forecast good profit growth in 2009. British Gas Business has experienced a very strong start to the year, with the benefit of low wholesale prices and higher demand than forecast due to the cold weather. British Gas Business has also had the positive impact of higher customer numbers, continued high contract renewal rates and the ongoing reduction in operating costs. This combination has more than offset a small increase in the incidence of bad debts. The transition to "One British Gas", combining our Energy and Services businesses, has begun and the new management team is in place.

Upstream in Centrica Energy, to the end of April gas production volumes were down by 39 per cent. on the same period in 2008. This constrained production level was a result of the falling wholesale gas price in the UK. During 2009, Centrica Energy made solid progress on its North Sea gas field development projects. At the Grove field commercial gas was delivered from the second well and the third successfully drilled and tested. Centrica Energy is also completing the well at Seven Seas and work has commenced on modifications to the West Sole Alpha infrastructure to enable first gas to be achieved this winter. The lower wholesale gas prices experienced so far this year have also further reduced losses slightly in the legacy industrial and commercial gas supply contracts.

In the power generation business the reliability of the gas-fired fleet has been strong. However, lower power prices and narrower spark spreads are currently impacting the operating results of this business, although they are still forecast to be well ahead of 2008. On the new construction projects, the wind farms at Lynn and Inner Dowsing are now fully operational but, as Centrica advised in February, Langage is not expected to be fully operational until the end of 2009.

Good progress is being made on Centrica's strategic goal of adding new sources of gas and power to reduce the risk in the business model and the exposure to volatile commodity prices. In addition to the Transactions, in March, Centrica acquired a 23.6 per cent. stake in Venture Production plc for a cash consideration of approximately £250 million. Centrica is considering its options in relation to Venture, which could involve making a possible cash offer for Venture. There can be no certainty that an offer will ultimately be made by Centrica for Venture.

Centrica Storage experienced a good start to the year, with strong reliability during the withdrawal season and in the switch to injection. At the end of April, Centrica Storage announced that all Standard Bundled Units (**"SBUs"**) at the Rough field for the 2009/10 storage year had been sold at 46.81 pence per SBU. Centrica Storage continues to expect full year profitability to be lower than the prior year as the 2008 result included non-recurring revenue from the sale of reservoir cushion gas. In February, Centrica Storage acquired a 70 per cent. interest in the Baird gas field in the southern North Sea and early stage engineering studies have commenced.

Trading conditions remain challenging in North America, with low wholesale energy prices leading to reduced profitability in our upstream and wholesaling business, and lower margins in Centrica's Texas retail business in the first quarter owing to higher-priced forward-purchased commodity. There are also no signs yet of any improvement in the new home construction market which impacts the services business. However, these downsides have been offset by improved profitability in the Canadian and US North mass markets businesses and in the C&I business where the upside, post integration, from the acquisition of Strategic Energy in 2008 is now being seen.

In Belgium, short-term earnings at SPE have been reduced by the delay in implementation of the Pax Electrica II agreement and lower wholesale power prices. In The Netherlands, Oxxio is recovering from the challenges it faced in 2008.

To the end of April, falling wholesale gas and power prices have resulted in a non-cash negative mark to market movement on forward commodity procurement contracts of approximately £350 million (before tax), and a similar level of net outflow of margin cash. To date in 2009, Centrica has issued an additional £1.1 billion of long-term bond market debt.

The reduction in wholesale commodity prices in the UK provides an encouraging backdrop for Centrica's downstream energy supply businesses. Upstream profits are adversely impacted by lower commodity prices, reducing total Centrica Group operating profit. This is offset by the lower tax rate that results from the change in profit mix, with the tax rate for the existing business currently expected to be around 40 per cent. and after tax earnings therefore expected to be ahead of 2008. The Centrica Group net interest charge for the full year is forecast to be in excess of £150 million due to the impact of the fall in interest rates on the cash on deposit.

Overall, the outlook for Centrica Group earnings for the existing business for the full year continues to be in line with expectations.

For further information on the assumptions underlying the profit forecast included in this paragraph 11.1, please refer to Section 1 of Part III *("Financial Information")* of this Circular.

11.2 British Energy

Output and performance

Output from the Existing British Energy Nuclear Fleet for the year ended 31 March 2009 (the **"Period"**) was 42.9 TWh, down from 50.3 TWh in the year ended 31 March 2008. Output from the Existing British Energy Nuclear Fleet in April 2009 was 5.1 TWh.

Output in the Period has been impacted by the Boiler Closure Unit issue at Hartlepool and Heysham 1 power stations, the Fuel Plug Units at Dungeness B and the ongoing impact of operation at reduced load at Hinkley Point B and Hunterston B. Good progress has been made on each of these issues in the Period: all four units at Hartlepool and Heysham 1 returned to service over the course of January, February and March 2009, the second unit at Dungeness B returned to service and Hinkley Point B and Hunterston B have achieved operation at around 70 per cent. load, as expected. Further detail on each of these issues is set out below.

Plant status

Boiler Closure Units

Boiler Closure Units (**"BCUs"**) are unique to Hartlepool and Heysham 1 power stations. There are eight BCUs on each reactor which form part of the reactor pressure boundary. Each BCU is pre-stressed with nine layers of wire windings, wound around its outer periphery.

Following the discovery of a broken wire during planned inspections of the BCUs in October 2007, British Energy decided to take the units at Hartlepool and Heysham 1 out of service. A detailed inspection programme has been undertaken to confirm the condition of the BCUs, and engineering modifications developed to address the issue.

The NII has had full view of the project throughout. Having made engineering modifications and received the necessary consent from the NII, Hartlepool Reactor 1 was returned to service on 25 January 2009. Subsequently, Heysham 1 Reactor 1, Hartlepool Reactor 2 and Heysham 1 Reactor 2 were returned to service on 31 January 2009, 19 February 2009 and 16 March 2009, respectively.

Dungeness B fuel plug

The length of refuelling outages at Dungeness B has been temporarily extended since September 2006 to address an issue with certain welds within the fuel plug units. A crimping machine to lock the fuel plugs in place has been developed and constructed and is now in service.

Reactor 21 and Reactor 22 were returned to service on 16 October 2008 and 26 January 2009, respectively, following completion of crimping and inspection of the fuel assemblies and other repair work.

Normal refuelling patterns are expected to be achieved for both units by the end of calendar year 2009 as remaining fuel plug units are crimped in place and inspected.

Boilers

Since the completion of boiler inspections and required repairs at Hinkley Point B and Hunterston B and the return to service of all four units during May 2007 and June 2007, Hinkley Point B and Hunterston B have been operating at around 70 per cent. load to limit boiler tube temperatures.

During 2008, three of the four units have been subject to planned boiler inspections and, where necessary, repairs. These three units have been returned to service just above 70 per cent. load. A number of engineering solutions are being investigated to enable operating load to be increased further above the 70 per cent. level.

Hot Box Dome

Load was reduced on Heysham 1 Reactor 2 to approximately 80 per cent. of full load in October 2006 to reduce the temperature on an area within the reactor, known as the Hot Box Dome, below 380°C. Load was subsequently increased to approximately 87 per cent. of full load. An assessment is being undertaken to confirm if the current temperature limit can be raised, allowing higher output to be achieved. It is planned that a safety case will be submitted to the NII in due course, applicable to both units at Heysham 1 and both units at its sister station, Hartlepool.

Trading book position

As at 30 April 2009, the British Energy Group had fixed price contracts in place for approximately 36 TWh for the balance of the year ending 31 December 2009 at an average contract price of £42/MWh (excluding the impact of capped contracts). The capped contracts are for delivery of approximately 4 TWh per annum up to March 2011 at prices currently capped at around £34/MWh, reflecting current estimates of inflation and market related costs.

As at 30 April 2009, the British Energy Group had fixed price contracts in place for approximately 46 TWh for the year ending 31 December 2010 at an average contract price of £43/MWh (excluding the impact of approximately 4 TWh of capped contracts at around £35/MWh, reflecting current estimates of inflation and market related costs).

Eggborough

Eggborough is owned and operated by EPL. Unlike the nuclear stations, which operate as base load plant, Eggborough operates as flexible generation.

The station was acquired in 2000 and the balance of the loan which provided its financing was £111 million at 31 March 2008 (2007: £123 million). The loan was fully repaid on 10 February 2009.

Options of the Eggborough Banks

As part of the Restructuring of British Energy in 2005, the providers of the project finance loan (the **"Eggborough Banks"**) were granted the following options:

- options exercisable at any time prior to 31 August 2009 under which they may acquire the shares in, or assets of, EPL on 31 March 2010 in consideration for, amongst other things, £104 million (subject to certain adjustments depending on the condition of Eggborough on 31 March 2010) plus the amount prepaid under the project finance loan which would have been due on or after 31 March 2010 (£97 million), together with any premium thereon; and
- options under which they may acquire the shares in, or assets of, EPL at any time prior to 31 August 2009, on or after the occurrence of an event of default under the project finance loan, in consideration for a fee (which varies depending on the type of event of default) and the cancellation of the balance of the amounts due under the project finance loan.

The Eggborough Banks are entitled to assign and/or transfer all (but not part only) of their right under the options to a third party. The Eggborough Banks' options, if unexercised, will expire on 31 March 2010.

The decision by the European Commission on 22 December 2008 to approve the acquisition of British Energy was subject to a number of commitments, including a commitment by EDF to divest Eggborough power station, if the Eggborough Banks do not exercise their options. The sale will be made under terms and to a buyer of EDF's choice, approved in advance by the European Commission. Should the divestment not be completed in due time, EDF will be required to appoint a trustee to carry out this divestment. EDF has also committed to the European Commission that it would ring fence the management and operation of Eggborough and hold it separate from the rest of the Group's fleet by no later than 5 April 2009. This has now been effected and Eggborough is being managed independently by a "hold separate manager" under the supervision of a monitoring trustee.

12 Risk Factors

Shareholders should consider fully the risk factors associated with the Centrica Group and the Transactions. Your attention is drawn to the risk factors set out in Part II (*"Risk Factors"*) of this Circular.

13 General Meeting

Completion is conditional upon Shareholders' approval being obtained at the General Meeting. Accordingly, a notice, convening a General Meeting to be held at Old Billingsgate, 1 Old Billingsgate Walk, 16 Lower Thames Street, London EC3R 6DX at 2.00 pm on 8 June 2009 at which the Resolution will be proposed to approve the Transactions, was sent to Shareholders on 19 May 2009 and is also set out at the end of this Circular.

14 Action to be Taken

A Form of Proxy for use at the General Meeting was sent to Shareholders on 19 May 2009. Whether or not you intend to be present at the General Meeting, you are requested to complete the Form of Proxy in accordance with the instructions printed on it and return it as soon as possible and in any case so as to be received by Centrica's registrars, Equiniti Limited, of Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA no later than 2.00 pm on 6 June 2009. Unless the Form of Proxy is received by this date and time, it will be invalid. If you hold Shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Equiniti (Crest Participant ID RA19) so that it is received no later than 2.00 pm on 6 June 2009. Unless the CREST Proxy Instruction is received by this date and time, it will be invalid. The return of a Form of Proxy or CREST Proxy Instruction will not prevent you from attending the meeting and voting in person if you wish.

15 Further Information

Your attention is drawn to the further information contained in Parts II (*"Risk Factors"*) to VIII (*"CVR Yearly Payment Formula, NPV Illustration and Terms of the CVRs and NPNs"*) of this Circular. You are advised to read the whole Circular and not just rely on the summary information presented above.

16 Financial Advice

The Directors have received financial advice from Goldman Sachs International in relation to the Transactions. In providing their advice to the Directors, Goldman Sachs International has taken into account the Directors' commercial assessment of the Transactions.

17 Recommendation

The Board considers the Transactions to be in the best interests of the Shareholders as a whole and unanimously recommends Shareholders to vote in favour of the Resolution, as the Directors intend to do in respect of their own beneficial holdings.

Yours sincerely,

Roger Carr
Chairman

PART II

RISK FACTORS

Prior to making any decision to vote in favour of the proposed Resolution at the General Meeting, Shareholders should carefully consider, together with all other information contained in this Circular, the specific factors and risks described below.

The Directors consider the following to be the most significant risk factors for Shareholders to consider. The risks described below do not necessarily comprise all those associated with the Enlarged Group, the Centrica Group, the British Energy Group, the NNB Joint Venture, Centrica's investment in Lake Acquisitions and the Transactions not proceeding and are not set out in any particular order of priority. Some risks are not yet known and some that are not currently deemed material could later turn out to be material. All of these risks could have an adverse effect on the business, financial condition, results or future prospects of the Enlarged Group, the Centrica Group, the British Energy Group, Lake Acquisitions and/or the return on Centrica's investment in Lake Acquisitions and the NNB Joint Venture after Completion.

RISKS RELATED TO THE ENLARGED GROUP

Centrica and British Energy may be affected by global economic conditions

Both Centrica's and British Energy's operating and financial performance are influenced by the economic conditions of the countries in which they operate, particularly in the UK and, in respect of Centrica, North America. Centrica's and British Energy's operating and financial performance may be impacted by increased exposure to the default of wholesale counterparties such as financial institutions and customers with bad debts as the economic conditions continue to worsen. The current strained global economic conditions and the volatility of international markets could result in a general reduction in business activity and a consequent loss of income for Centrica and/or British Energy, which may have a material adverse effect on Centrica's and/or British Energy's businesses, results of operations and overall financial condition. The current global credit market conditions mean financial institutions are applying more stringent lending criteria and the availability of debt is low by historical comparison, which may mean that it will be more costly for Centrica to raise funds to take advantage of opportunities. If British Energy's business, results of operations and overall financial condition are adversely affected, Centrica's investment in Lake Acquisitions would be adversely affected.

Centrica and British Energy are exposed to movements in commodity prices

A significant proportion of Centrica's profitability is dependent upon its ability to manage its exposure to wholesale commodity prices for gas, oil, coal, carbon and power, all of which have been volatile in recent years. The price of gas in the UK market is particularly important for Centrica given that it produces substantially less gas from the resources it owns than it requires to meet the demand from the large retail gas market it serves and from its fleet of gas-fired power stations. Centrica must assess the risk of procuring commodities at fixed prices to meet uncertain levels of demand that are subject to seasonal fluctuations. In a volatile price environment, there is a risk that surplus commodity positions cannot be sold to the wholesale markets profitably and that any commodity short position cannot be covered at a cost that can be passed on to customers. The unpredictable nature of commodity prices also hampers the calculation of reliable forecasts by Centrica to support investment decisions, potentially leading to lower than expected returns.

Significant longer-term price increases or decreases may require Centrica to change the price at which Centrica sells to its customers on variable tariffs. Centrica may not be able to pass through all increases in commodity prices to its customers, which could have a material adverse effect on Centrica's business, results of operations and overall financial condition. Where Centrica does pass increased commodity prices through to its customers or fails to pass on decreased commodity prices, those customers may seek to switch to competitors of Centrica, which could have a material adverse effect on Centrica's reputation, business, results of operations and overall financial condition.

Conversely, British Energy benefits from a rising power price environment. However, British Energy's significant fixed costs (such as staff costs, repair costs, maintenance costs and regulatory costs) result in British Energy's financial performance being particularly dependent on the price at which it sells electricity. There is no guarantee that the power price will be sufficiently high for British Energy to cover its fixed cost base. Low prices can significantly adversely affect British Energy's business, results of operations and overall financial condition, which would in turn adversely affect Centrica's investment in Lake Acquisitions and may require Centrica to provide funding to Lake Acquisitions.

Lack of investment in or development of upstream assets, including the Existing British Energy Nuclear Fleet, may adversely affect Centrica and/or British Energy

Investment is required to maintain and improve the condition of, and to address operational issues that arise in relation to, Centrica's existing upstream assets and, in particular, the Existing British Energy Nuclear Fleet which is currently scheduled to be decommissioned between 2014 and 2035. Investment is also required to support lifetime extensions of the Power Stations beyond their current scheduled closure. Such continual investment therefore affects the operational life and the output achievable from Centrica's existing upstream assets and the Existing British Energy Nuclear Fleet.

The level of investment is dependent on sufficient cash resources being available for this purpose and those resources being directed to the most appropriate use. In particular, there was until recently, a historic lack of investment in the Existing British Energy Nuclear Fleet. A lack of investment, or failure to direct investment as required, may make it uneconomic to continue to operate one or more of the Power Stations. In addition, as EDF Group will have majority management control of Lake Acquisitions, EDF Group will have the power, subject to any legal or regulatory requirements imposed, to determine the level of investment in the British Energy Existing Nuclear Fleet. If British Energy ceased to operate one or more of the Power Stations, this would result in decreased output of electricity which may adversely affect British Energy's business, results of operations and overall financial condition and which may result in less power being made available to Centrica under the Power Purchase Agreements.

Centrica and British Energy are engaged in upstream operations which are inherently susceptible to upstream hazards

Centrica's and British Energy's operations use and generate hazardous substances, in the form of gas and oil in the case of Centrica and radioactive and certain other substances in the case of British Energy, that have the potential to seriously impact human health and the environment. There are particular risks associated with the operation of gas fields, the transportation, storage and supply of gas and the operation of the Power Stations. These include accidents, the breakdown or failure of equipment or processes or human performance, including safety controls, and other catastrophic events such as earthquakes, fire and flood that could result in the dispersal of hazardous substances over large areas, thereby causing injury or loss of life and extensive property or environmental damage. Certain of these events, including those arising as a result of third-party acts, such as acts of terrorism or war, are not within Centrica's and/or British Energy's control.

Interruptions in operations of a gas station caused by these events or associated with any of the hazardous materials involved, could result in Centrica incurring liabilities or being the subject of litigation which could significantly reduce Centrica's revenues and increase its expenses.

Insurance proceeds may not be adequate to cover all liabilities incurred, lost revenue or increased expenses resulting from the hazardous upstream operations, which may have a material adverse effect on Centrica's and/or British Energy's business, results of operations and overall financial condition.

Centrica and British Energy are subject to extensive environmental, health and safety risks and regulations

Centrica and British Energy manage significant environmental, health and safety hazards associated with the operation of onshore and offshore gas production, exploration, gas storage and power generation assets, in the case of Centrica, and the Existing British Energy Nuclear Fleet, in the case of British Energy.

The operation of Centrica's power generation assets and the Existing British Energy Nuclear Fleet is subject to various environmental and health and safety, economic and competition laws and regulations governing, among other things: (a) the generation, storage, handling, release, use, disposal and transportation of hazardous and, in the case of the Existing British Energy Nuclear Fleet, radioactive materials; (b) the emission and discharge of hazardous materials into the ground, air or water; (c) decommissioning and decontamination of its facilities; (d) the health and safety of the public and its employees; (e) the generation of electricity; and (f) trading activities. Complying with these regulations or changes to these regulations could significantly impact the cost of operating Centrica's power generation assets and/or the Existing British

Energy Nuclear Fleet and may make it uneconomic to continue operating certain of Centrica's power generation assets and/or one or more of the Power Stations.

Environmental and safety permits are required to be obtained from various governmental authorities in order to operate Centrica's power generation assets and the Existing British Energy Nuclear Fleet. Certain permits require periodic renewal or review of their conditions and it cannot be predicted whether it will be possible to renew such permits or whether material changes in permit conditions will be imposed. While the nature of developments in environmental regulation and control cannot be predicted, it is anticipated that the direction of future changes will be towards stricter controls.

In addition, Centrica's service engineers in the UK and North America complete more than 10 million home visits each year to carry out essential work on gas and electrical installations, appliance maintenance and plumbing and drain services. Home visits present potential health and safety risks which are difficult for Centrica to control and manage.

Significant environmental, health and safety events or breach of applicable environmental, health and safety regulations could affect the safety of individuals, gas and/or power production (including the premature closure of power generation assets), or result in Centrica or British Energy, as applicable, incurring liabilities which, in turn, could have a material adverse effect on Centrica's or British Energy's reputation, business, results of operations and overall financial condition.

Centrica's and British Energy's business activities and sales may be affected by environmental factors

Gas sales volumes, and to a lesser extent electricity sales volumes, are affected by temperature and other environmental factors, which may have an adverse impact on Centrica's and British Energy's business, results of operations and overall financial condition and therefore Centrica's investment in Lake Acquisitions.

With the increasing recognition of the economic and environmental impact of global climate change, Centrica's future operations will be shaped by its commitment to support, and regulatory requirements necessitating a move towards, a low-carbon economy, which may present significant additional risks. For example, the need to comply with new and changing regulation, including recent European Union directives on emissions trading, renewable energy, energy efficiency and carbon capture and storage, may lead to higher operational costs, increased capital investment and operational constraints for certain of Centrica's activities and assets. In addition, the ineffective or incomplete implementation of this new legislation may have adverse consequences for the viability of investment in new technologies and the development of new assets. There is also a substantial risk that HM Government measures do not adequately facilitate, incentivise and/or provide a commercial rate of return for investments made in a low carbon economy.

Changing customer behaviour, including a growing demand for low-carbon products and services, could result in reduced gas and power sales volumes. In the medium term, new technologies, such as micro combined heat and power units, and smart metering, could also affect gas and electricity demand and therefore the Centrica Group's earnings. Centrica cannot be certain that its future operations and strategy will successfully mitigate against the risks presented or enable Centrica to take advantage of opportunities that may present themselves.

Reduced demand for electricity may result in a reduced power price which may not be sufficiently high for British Energy to cover its fixed cost base. Low prices can significantly adversely affect British Energy's business, results of operations and overall financial condition, which would in turn adversely affect Centrica's investment in Lake Acquisitions. In addition, to the extent that Centrica offtakes power from the British Energy Existing Nuclear Fleet, if there is insufficient demand for that power, Centrica may not be able to sell that power profitably.

Centrica is also currently subject to certain government-enforced obligations to promote greater energy efficiency use by its customers. Failure by Centrica to take a leading position or adapt to further regulation and changing customer demands and behaviour as a result of global climate change and increased awareness of the environmental impact of energy use may have a material adverse effect on Centrica's reputation, business, results of operations and overall financial condition.

Centrica and British Energy may fail to attract and retain senior management and skilled personnel

The attraction and retention of senior management and skilled personnel is a critical factor in the successful execution of Centrica's strategy from the provision of enhanced customer service through new systems and processes to the development and management of upstream assets. Failure to do so could compromise achievement of Centrica's strategy and could have a material adverse effect on Centrica's business, results of operations and overall financial condition.

Specialist senior managers and a number of specialist contractors and agency staff are also relied on to manage and support the Existing British Energy Nuclear Fleet. There is a limited pool of such suitably qualified and experienced managers, employees, contractors and agency staff, and competition among employers is intense. There is a growing demand for such expertise and services from UK and European bodies engaged in major infrastructure projects. Demand for such expertise is likely to increase if investment in new nuclear power stations in the UK proceeds. The British Energy Group may be unable to attract and retain senior management who have the relevant operational experience in nuclear power stations and to employ an adequate number of contractors and/or suitably experienced agency staff as required, which could have a significant impact on the successful operation of the Power Stations.

Centrica has limited nuclear expertise and therefore, as a result of Centrica's investment in Lake Acquisitions and NNB Projects, will also need to compete with other employers to recruit its own nuclear expertise. An inability to attract or retain suitable employees and nuclear expertise could have a significant impact on Centrica's ability to manage and realise returns on its investment in Lake Acquisitions and any NNB Projects in which it participates.

Centrica's and British Energy's businesses may be affected by the default of counterparties in respect of moneys owed to Centrica or British Energy

As a consequence of their normal operations, Centrica and British Energy often have significant amounts owed to them by their energy counterparties and, respectively, their retail and wholesale customers. In addition, Centrica and British Energy often hold large cash balances on deposit with financial institutions. In the current business environment, there is an increased risk of a counterparty default which may, among other things, reduce Centrica's and British Energy's cash flows. There can be no assurance that credit insurance can be renewed or obtained nor can there be any assurance that Centrica's and British Energy's policies to limit counterparty exposures by setting credit limits for each counterparty, where possible by reference to published credit ratings, will effectively eliminate such exposure, and any such counterparty default may have a material adverse effect on Centrica's and British Energy's business, results of operations and overall financial condition.

Liquidity risk, and in particular risk relating to collateralisation obligations as a result of existing contracts, is inherent in Centrica's and British Energy's operations

Liquidity risk is the risk that Centrica and British Energy are unable to meet their obligations as they fall due. Managing liquidity risk is particularly important in the current economic environment where the availability of capital is limited.

The liquidity risk within Centrica is increased by the margin cash arrangements that it has with certain wholesale commodity contracts. As Centrica is a net purchaser of commodities, this means that it is generally required to deposit cash as collateral with margin counterparties when wholesale prices fall. Cash forecasts identifying the liquidity requirements for the Centrica Group are produced at least monthly and these are assessed for different scenarios, including the liability impact of significant changes in commodity prices or a credit rating downgrade. However, Centrica's ability to access liquidity during periods of liquidity stress may be constrained as a result of current and future market conditions.

The liquidity risk within British Energy is increased by its dependency upon the reliability of the Existing British Energy Nuclear Fleet in producing electricity (where the majority of unplanned outages are not covered by business interruption insurance), the realised selling price for electricity, operational risk and capital investment expenditure and maintenance requirements for the Existing British Energy Nuclear Fleet. British Energy has entered into certain large wholesale electricity sales contracts which require that cash is deposited as collateral to cover counterparties' risk that British Energy may be unable to fulfil its delivery obligations. In a volatile electricity market, the requirements to post collateral under these existing contracts can vary significantly and could result in a significant liquidity risk to British Energy if wholesale electricity prices rise.

A reduction of Centrica's or British Energy's liquidity could have a material adverse effect on Centrica's and British Energy's businesses, results of operations and overall financial condition.

Centrica and British Energy have funding risks relating to their defined benefit pension schemes

Centrica and British Energy each separately maintain a variety of pension schemes, including defined benefit schemes. The pension fund liabilities are partially matched with a portfolio of assets, which leaves potential risk around the mortality rate, inflation and returns on assets. The schemes contain a high proportion of equity assets that are expected to provide a better return in the long term than alternative investments such as bonds. However, in the short term, the difference between the value of liabilities and assets may vary significantly, potentially resulting in a large deficit having to be recognised on Centrica's or British Energy's balance sheet. In the current business environment, with volatile bond and unstable equity markets, there is an increased risk that large deficits may arise on Centrica's or British Energy's pension schemes. Any requirement to put cash into Centrica's or British Energy's pension schemes to cover any such deficits could have a material adverse effect on Centrica's or British Energy's business, results of operations and overall financial condition.

In addition, actions by the pension regulators or the trustees of Centrica's or British Energy's pension schemes and/or any material revisions to existing pension legislation could require increased contributions by the Centrica Group or British Energy Group to their pension funds, respectively, and could therefore have a material adverse effect on Centrica's or British Energy's business, results of operations and overall financial condition.

In connection with the Offers, EDF Group agreed certain funding arrangements with the trustees of British Energy's defined benefit pension schemes, including certain restrictions which, if breached, could result in increased funding requirements in relation to British Energy's pension schemes. Any increase in funding requirements in relation to British Energy's pension schemes could have a material adverse effect on British Energy's business, results of operations and overall financial condition.

RISKS RELATED TO THE CENTRICA GROUP

Centrica operates in competitive retail markets

Centrica operates in retail energy supply markets in the UK, North America and mainland Europe that are highly competitive, especially in the UK and in North America, where customers switch suppliers based on price and service levels, as well as competitor activity. Customer trends and competitor activity within the energy supply markets may cause customer retention rates to fall.

Centrica also operates in the competitive home services markets in both the UK and North America. In the UK, competitive pressures are increasing as existing energy and other service providers, such as insurance companies, seek to strengthen their market positions. The economic environment in North America is also making trading more difficult in the North American home services market.

Failure to sustain competitive cost levels will challenge Centrica's ability to deliver sustainable operating margins. There can be no certainty that Centrica will retain or develop a competitive position within the markets in which it operates, which could have a material adverse effect on Centrica's business, results of operations and overall financial condition.

Centrica's business is subject to regulation and political oversight

Energy markets in the UK, North America and mainland Europe are closely regulated. Amendments to the regulatory regime could have an impact on Centrica's ability to achieve its financial goals. Changes to the retail supply and wholesale industry procedures could have an impact on Centrica's operating costs. Material increases in the regulated charges which Centrica pays for use of transmission, distribution and other infrastructure will also impact Centrica's margins, to the extent that any such increases cannot be passed on to its customers.

The Energy Act, which received royal assent on 26 November 2008, introduced measures that could affect Centrica's costs to varying degrees. The Energy Act provides broad powers for the Secretary of State to amend electricity and gas distribution and supply licences to facilitate the rollout of smart meters (with the potential for additional costs if existing meters have to be replaced prior to the end of their planned lives). HM Government has announced its intention to require the deployment of smart metering across Great Britain, but is still determining key details such as the rate of deployment and the industry model for metering. This creates risk and uncertainty for Centrica's contractual and operational arrangements for the provision of metering services. An accelerated deployment would result in the premature replacement of conventional meters, triggering early termination payments by British Gas, not all of which are likely to be recovered through customer charges.

There is also a power under the Energy Act to increase supplier social tariffs to support various measures such as low carbon energy in addition to imposing an increase in suppliers' renewable obligations. The Energy Act also grants the Secretary of State powers to modify generation, transmission, distribution or supply licences and codes in order to impose revised transmission access arrangements, with the potential for increased costs as a result of constraints placed on Centrica's access to the UK's transmission system.

Political and consumer concern over rising energy prices and fuel poverty led to an Ofgem probe into the UK energy market. This concluded that the fundamental structures of a competitive market are in place and that the transition to effective competitive markets is well advanced in the UK energy market. However, Ofgem identified a number of areas where this transition should be accelerated and proposed a package of measures to achieve such transition. This will likely result in further consumer protection measures through the supply licence or other regulatory action. In this regard, on 15 April 2009, Ofgem launched a consultation on a package of new rules to protect customers and address problems with the retail energy market, including the introduction of new licence conditions. If the industry does not agree on the licence changes, Ofgem could make a reference to the Competition Commission to impose those customer protection measures. HM Government could also intervene and introduce measures such as a windfall tax on free carbon allowances, or price controls for certain customer segments. If Ofgem or HM Government were to take such measures, there could be a material adverse effect on Centrica's business, results of operations and overall financial condition.

On 30 March 2009, Ofgem published a consultation paper on "Market Power Concerns in the Electricity Wholesale Sector". This paper considers different approaches to address market power issues: changes to existing market arrangements; changes to existing assets and/or ownership of assets (including divestments and/or sale of output under contract); and the possibility of introducing a market power licence condition. Whilst Ofgem has set a deadline of 8 May 2009 for responses to the paper and has not ruled out any of the options set out in the consultation, it has indicated that its current preferred mechanism to address market power issues would be a new licence condition on generators (potentially combined with other changes to market arrangements).

While progress in many aspects of European market liberalisation has been limited, recently announced divestment initiatives by certain companies following competition investigations will provide important structural change. However, the prospects for effective competitive energy markets are impacted by consolidation activity in mainland Europe, which could affect not only Centrica's participation in those markets, but also its ability to source and transport gas across mainland Europe to the UK.

Uncertainty over political or regulatory intervention in energy markets in North America could have an impact on the projected growth of Centrica's operations. In the United States, President Obama has indicated his intention not only to enforce existing legislation, but also to increase the reliability of energy supply and the focus on the protection of the environment. The potential impact of any additional energy or environmental regulation on Centrica's business is currently uncertain; however, additional or more stringent regulation of the energy market in the United States may have a material adverse effect on Centrica's business, results of operations or overall financial condition. The 2009 session of the Texas legislature began in mid-January with the issue of regulation of competitive electricity markets and Centrica has a team in place to monitor the session which ends in June 2009. The regime in Ontario is unlikely to change, resulting in continued low and stable regulated electricity pricing, although additional consumer protection measures may be introduced. Specific reviews regarding electricity deregulation are ongoing in a limited number of jurisdictions, but energy policy, particularly relating to electricity, remains a highly politicised topic throughout North America.

Political and regulatory developments affecting the energy markets within which Centrica operates may have a material adverse effect on Centrica's business, results of operations and overall financial condition.

Centrica is engaged in upstream operations which are inherently susceptible to uncertain decommissioning costs

In addition to the risks associated with Centrica's upstream operations during the life of gas and storage fields, Centrica incurs liabilities and costs associated with the decommissioning of such fields at the end of their lives. The amount and timing of payments for future decommissioning costs and waste management costs are uncertain and dependent on the lives of the facilities, which are also uncertain.

The decommissioning of such fields is also regulated by law. In the UK, HM Government may require the owners of offshore installations and pipelines to provide security or enter into a decommissioning security agreement. Changes in law imposed by the Energy Act may result in increased decommissioning liabilities since the Secretary of State is now entitled to make *all* relevant parties liable for the decommissioning of an installation or pipeline and may require financial information and decommissioning security at *any* time during the life of an oil or gas field. This could result in increased costs for owners of offshore installations and pipelines. Decommissioning costs could exceed Centrica's estimated costs and Centrica may be required to provide greater security for decommissioning costs than expected, which could have a material adverse effect on Centrica's business, results of operations and overall financial condition.

Centrica's business relies on the security of supply of gas and any break in supply to customers will impact earnings

As UK gas reserves have declined, the UK energy market has become increasingly reliant on supplies from Norway and other parts of mainland Europe, together with liquefied natural gas supplies from other parts of the world. Accordingly, key elements of security of supply are access to these reserves and the reliability of the storage, pipeline and gas processing infrastructure operated by Centrica and third parties both in the UK and abroad. Any break in this supply chain could jeopardise the supply to customers and impact Centrica's earnings. Centrica owns a variety of gas and power assets in the UK and overseas and its profitability would be adversely impacted if there were to be long-term outages associated with those assets.

Centrica depends on third-party supply and cannot guarantee the security of the supply chains. There is a risk of terrorist activity, including acts and threats to the energy sector which may include sabotage of power stations or pipelines, which could in turn affect security of supply or cause a break in supply of gas to customers. Any failure to supply gas to customers could have a material adverse impact on Centrica's business, results of operations and overall financial condition.

Failure to protect customers' confidential information and interruptions to information systems could impact Centrica's reputation and day-to-day operations

Centrica must comply with restrictions on the use of customer data and provide for secure transmission of confidential information which ensure the security of financial and personal data provided over public networks. Despite controls to ensure the confidentiality, availability and integrity of customer and company data, Centrica may breach restrictions or may be subject to attack from computer programmes that attempt to penetrate the network security and misappropriate confidential information. Due to advances in these programmes, computing capabilities and other developments, there is no guarantee that Centrica's security measures will be sufficient to prevent breaches.

Effective and secure information systems are essential for the efficient management and accurate billing of Centrica's customers, effective power generation and successful energy trading and hedging activities. The confidentiality, integrity and availability of Centrica's information systems could be affected by a number of factors, including human error, ineffective design or operators of key controls, malfunction, damage, or deliberate attack. There can be no certainty that recovery plans and contingency plans will be effective in the event that they need to be activated. Outages and interruptions could affect and have affected Centrica's ability to conduct day-to-day operations.

Significant disruption to systems and any compromise of the confidentiality of information could have a material adverse effect on Centrica's reputation, business, result of operations and overall financial condition.

Centrica may fail to provide good quality customer service levels

The delivery of good quality customer service is central to Centrica's business strategy and there is a risk that customers will leave Centrica if they experience unacceptable customer service levels or perceive that Centrica is failing to maintain service quality. For example, the implementation of a new billing system for UK residential energy customers led in 2007 to levels of customer service that were lower than those to which

Centrica aspires. Any failure to maintain good quality customer service levels could have a material adverse effect on Centrica's reputation, business, results of operations and overall financial condition.

Centrica depends on the performance of third parties for certain contracts which have been outsourced

Centrica has entered into a number of outsourcing contracts, some of which are offshore, in respect of certain support functions for its businesses in the UK and North America, including business-critical information technology services and back office and processing functions. As with any contractual relationship, there are inherent risks to be considered and mitigated. There can be no guarantee that the chosen suppliers will be able to provide the support functions for which they have contracted, and therefore that the anticipated benefits will be delivered. Any failure of the counterparties to deliver the contracted goods or services could have a material adverse effect on Centrica's business, results of operations and overall financial condition.

Damage to corporate or brand reputation or loss of rights to use trade marks and logos could affect Centrica's competitive position

Failure to follow Centrica's global business principles of operating professionally, fairly and with integrity could harm Centrica's reputation, damage its consumer brands and affect Centrica's reputation, business, results of operations and overall financial condition.

As part of the demerger in 1997, BG Group plc (which is a separately listed company and not a part of the Centrica Group) assigned ownership of the British Gas trade marks and related logos to Centrica for use in Great Britain. BG Group plc has the right to call for a reassignment of this intellectual property if control of Centrica is acquired by a third party. If, as a result of a change of control, Centrica is unable to continue to use the British Gas trade marks and logos, this could adversely affect its competitive position. Such damage to corporate reputation or brand perception could have a material adverse effect on Centrica's reputation, business, results of operations and overall financial condition.

Centrica is exposed to currency fluctuations

Through wholly-owned subsidiaries in the United States and Canada and wholly-owned and partly-owned European entities, Centrica has operational exposure in US and Canadian dollars and euros. Operational and capital expenditure cash flows may also be in currencies other than those used by Centrica's subsidiaries. Centrica's profitability may be adversely affected if the results and cash flows associated with these subsidiaries fall or cash outflows rise because of currency fluctuations against Sterling, the reporting currency of the Centrica Group.

It is Centrica's policy to use hedging instruments to manage the impact of currency fluctuations. To the extent that any of Centrica's potential exposure remains unhedged, the value of its investments may be affected by fluctuations in currency. Adverse movements in currency rates may have a material adverse effect on Centrica's business, results of operations and overall financial condition.

Centrica is exposed to interest rate fluctuations

Centrica is exposed to movements in interest rates which affect the amount of interest paid on borrowings and the return on its cash investments. Centrica uses derivative financial instruments, such as interest rate swaps, to manage interest rate risk on long-term borrowings. To the extent that any of Centrica's interest rate exposure remains unhedged, adverse movements in interest rates could have a material adverse effect on Centrica's business, results of operations and overall financial condition.

A downgrade in Centrica's credit ratings may increase its costs of funding and limit its ability to trade in commodity markets

As a result of the current strong credit rating of the Centrica Group (long-term debt: A3 stable outlook (Moody's), A credit watch negative outlook (S&P); short-term debt: P-2 stable outlook (Moody's), A-1 credit watch negative outlook (S&P)), Centrica benefits from high levels of credit from its existing counterparties. Any material deterioration in Centrica's credit ratings may increase its costs of funding. Centrica would also need to increase its levels of security for existing energy procurement and hedging contracts which may limit its ability to trade in commodity markets and to implement its hedging strategy. Any of these factors could have a material adverse effect on Centrica's business, results of operations and overall financial condition.

RISKS RELATED TO THE BRITISH ENERGY GROUP

The risks described below may have an adverse impact on the business, financial condition, results of operations or future prospects of the British Energy Group. If British Energy's business, results of operations and overall financial condition are adversely affected, Centrica's investment in Lake Acquisitions would be adversely affected and Centrica may be required to provide funding to Lake Acquisitions or risk dilution to its investment.

The Existing British Energy Nuclear Fleet has a limited operational life

Current scheduled closure dates in respect of each Power Station reflect current estimates of expected operational life, which may be influenced by a number of factors. It may not be possible to obtain sufficient data at any given time to accurately predict station life and there is a risk that unforeseen events may significantly shorten the operational life of a Power Station.

The risk factors described below could result in unplanned output losses, prolonged outages, prolonged periods of reduced power operation or closure of one or more reactors of the Power Stations prior to their current expected lifetimes, which would reduce output and could result in repair costs, remedial costs, increased costs of operating or the need for British Energy to purchase some or all of its forward-sold electricity on the open market, thereby increasing its exposure to wholesale power prices. In addition: (a) repair and remedial costs; (b) increased operating costs; (c) insufficiently high realised power prices; (d) prolonged periods of reduced operation; and/or (e) other costs may result in one or more Power Stations becoming uneconomic to operate. This may result in one or more Power Stations being shut down prior to its scheduled closure date, which may adversely affect British Energy's business, results of operations and overall financial condition.

The operation of the Existing British Energy Nuclear Fleet is subject to extensive nuclear regulation

The nuclear industry in the UK is subject to a number of planned legislative changes which may change the structure of the regime, including changes to the nuclear regulatory body, changes to planning law, the nuclear justification process, amendments to the nuclear liability regime and new regulations on funding of long-term waste and decommissioning liabilities. These legislative and regulatory developments may affect the nuclear industry in which the British Energy Group operates and this may impact its operations and the overall financial returns to its business.

The operation of the Existing British Energy Nuclear Fleet is subject to extensive regulations relating, among other things, to nuclear safety and security promulgated by the UK, the EU and other relevant authorities. This regulatory oversight includes actions by regulators to instigate procedures to change the terms of licences, make determinations, instigate investigations or otherwise make or instigate changes to the regulatory arrangements, some of which may impact on the output and/or expected station lifetimes of the Existing British Energy Nuclear Fleet. Unexpected or adverse changes in, or in the interpretation or enforcement of, these regulatory requirements, could adversely affect the costs of operating the Existing British Energy Nuclear Fleet.

Proposed changes to the regulations governing nuclear safety in the UK may, if those changes are implemented, result in the modification, suspension or revocation of the licences to operate the Existing British Energy Nuclear Fleet or result in substantial additional costs for capital expenditure and/or services and labour being incurred in its operation. Complying with regulatory requirements could also significantly impact operating costs and may make it uneconomic to continue operating one or more of the Power Stations. All of the above could have a material adverse effect on British Energy's reputation, business, results of operations and overall financial condition.

Certain conditions must be complied with in respect of state aid in favour of British Energy

The Existing British Energy Nuclear Fleet will, following closure of the Power Stations, give rise to decommissioning costs. The British Energy Group is a recipient of state aid from HM Government to cover specified payments related to the management of spent fuel loaded in British Energy's nuclear reactors prior to 15 January 2005, future decommissioning following the closure of the Power Stations and other liabilities. Such aid was approved by the European Commission in 2004 in the State Aid Decision subject to a series of conditions. If the conditions imposed in the State Aid Decision are breached, the European Commission may impose new conditions in order to remedy the situation or demand that state aid is stopped or recovered. This may result in increased operational costs and/or a loss of state aid received by British Energy, which may adversely affect British Energy's business, results of operations and overall financial condition.

British Energy's nuclear liabilities with NLF

Certain of British Energy's nuclear liabilities will be paid for from the Nuclear Liabilities Fund which is underwritten by HM Government. There is a risk that a breach of minimum performance standards may result in the creation of disqualified liabilities which would not be funded by the Nuclear Liabilities Fund and would fall to British Energy to discharge.

British Energy Group sites and those of its suppliers are at risk of interference and/or damage

Certain individuals and special interest groups are hostile to nuclear power generation. Such individuals and special interest groups may seek to interfere with the operations of the Existing British Energy Nuclear Fleet, for instance by attempting to damage the Power Stations and/or carrying out protests or other activities intended to prevent British Energy's staff from entering its sites. Such individuals and special interest groups could also seek to interfere with the operations of the suppliers of fuel and other essential supplies to the Existing British Energy Nuclear Fleet or the operations of those providing spent fuel management services necessary for the operation of the Power Stations.

The Existing British Energy Nuclear Fleet is dependent on suppliers of unique or highly specialist goods and services

Operation of the Existing British Energy Nuclear Fleet depends upon a number of specialist suppliers, including suppliers of transportation services, for essential products and services which are unique or highly specialised to its industry such as supplies for fuel fabrication. Suppliers may be unable or unwilling to deliver products and services on a timely basis and at reasonable prices which may result in reduced generation capacity at one or more Power Stations. Suppliers' products may also be found to be faulty or outside the required performance specification. The suppliers may also increase the costs of these products materially, thereby increasing the costs of operating the Existing British Energy Nuclear Fleet. In addition, under European Union directives and regulations, the European Commission could influence the make up of British Energy's uranium products supply portfolio leading to an increase in the cost of fuel to the British Energy Group. See also *"The British Energy Group is dependent on certain facilities and services provided solely by the National Nuclear Laboratory"* below.

Radiation dose exposure limits restrict the amount of work that specialist staff and contractors can perform in a year

Specialist staff and contractors are relied on to perform work such as specialist non-destructive testing and welding repairs within reactors and other high radiation areas during outages at the Existing British Energy Nuclear Fleet. Statutory regulations, which the British Energy Group and specialist contractors must comply with, limit the radiation dose an individual is allowed to receive in any one calendar year. Work programmes and the duration of outages could be adversely affected if these specialists are unable to perform further work because they have already been exposed to the maximum radiation permitted for the relevant calendar year.

The Existing British Energy Nuclear Fleet must be operated in accordance with the Safety Cases approved by the Nuclear Installations Inspectorate ("NII")

The Nuclear Site Licence Conditions require that a detailed set of technical principles, operational criteria and other requirements (updated to reflect operational experience) which together demonstrate the case for the safe operation of a Power Station and/or its component parts are approved by the NII and complied with in respect of each Power Station (each a **"Safety Case"**). The Safety Cases are subject to comprehensive review every 10 years and are assessed on an ongoing basis as part of the PSR process. Changes to be made to a Safety Case, which British Energy may instigate as a result of its own investigations, require NII approval which may be given subject to conditions. These conditions may result in a requirement for capital investment in new equipment, increased operational expenditure, unplanned outages or temporary or permanent changes to, or limitations on, the operation of the Power Stations, all of which may have an adverse impact on their cost of operation and/or availability.

The NII may also require the shutdown of a reactor. Its consent to restart a reactor after a statutory outage must be obtained, and its agreement may be required to restart a reactor after a planned or unplanned outage caused by the need to address an issue affecting a reactor's Safety Case.

The NII may refuse or delay its consent to any of the above, which may lead to delays to the restart of a reactor or its shutdown along with other reactors of a similar design, which could have a material adverse effect on British Energy's business, results of operations and overall financial condition.

Quality assurance of processes and submissions to the NII are important to retain the NII's confidence in the appropriateness of the strategy and solutions proposed by the British Energy Group. As new issues arise, or existing issues are better understood, there may be challenges raised by the NII based on the implications of such issues or the proposed means of addressing them, which may result in delays to the British Energy Group's desired decision-making timetable. Differences of opinion may arise between the British Energy Group and the NII. The timely resolution of such matters, and the achievement of the NII's agreement or consent, depends in part on the availability of appropriate British Energy Group and regulatory resources as well as on developing a common view of engineering and technical issues in order to satisfy the NII that the British Energy Group has understood, and has adequately addressed, the safety issues associated with its operations. Limitations on the British Energy Group's specialist resources sometimes arise due to emergent work requirements which could be exacerbated by future activity in support of operating the Existing British Energy Nuclear Fleet, increased UK decommissioning activity, consideration of potential New Nuclear Build and an ageing workforce. As a result, these issues may not be resolved in a timely manner or at all.

Change in control and lack of specialist resources at nuclear regulatory authorities may lead to significant delays in obtaining consent or agreement

HM Government and the NII have identified a lack of sufficient key personnel at the NII to carry out all of the NII's proposed functions in the next few years. As existing resources are diverted towards NNB programmes, the supervision of increased UK decommissioning activity and the vetting of management and operating contracts, this problem could be exacerbated. In addition, a potential outcome of the review by HM Government and NII is to make changes to the management team at NII and at Sellafield.

These could lead to significant delays in the response time of the NII to BEG's requests for approval of amendments or alterations to British Energy Group arrangements to satisfy certain site licence conditions, Safety Case revisions, or for the NII's agreement to restart a reactor after a planned or unplanned outage, caused by the need to address an issue affecting a reactor's Safety Case. Such delays could adversely impact the British Energy Group's business, results of operations and overall financial condition.

The British Energy Group is dependent on certain facilities and services provided solely by the National Nuclear Laboratory ("NNL")

The British Energy Group is, in certain cases, reliant upon services provided by the NNL to receive and analyse and generally manage failed AGR fuel (which must be pre-processed and repackaged by the NNL before it can go on for normal storage or reprocessing) and irradiated components. The NNL is the sole provider of such services in the UK, utilising Sellafield Ltd facilities. If regulatory action were to affect the availability of these facilities (e.g. if the NII issued an improvement notice resulting in their closure for a period) or if the NNL was unable or unwilling to provide such services, the British Energy Group may be unable to maintain a Safety Case to justify the continued operation of one or more Power Stations which could result in the reduced output or, in the extreme, the shutdown of one or more reactors.

There have been discussions between Sellafield Ltd, NNL, the British Energy Group and other users about managing, licensing and Safety Case issues to enable future usage of the facilities at Sellafield. Sellafield Ltd and the NNL must demonstrate to the NII that they have plans in place to address any plant or Safety Case defects identified. Implementation of any plant improvement measures may adversely impact on the throughput of the facilities. There is a risk that NNL activities may be disrupted during this management transition process, resulting in a delay in the NNL's progress in implementing such plant improvement measures and resolution of discussions with the NII or Sellafield Ltd.

The exercise of Station Options and/or implementation of Operational Changes may result in reduced output or increased costs in respect of one or more of the Power Stations

Pursuant to the NLFA (see paragraph 9.2.1(ii)(b)(II) of Part VI (*"Additional Information"*) of this Circular), the Secretary of State may, in specific circumstances if the change would significantly reduce the decommissioning or other uncontracted liabilities, require that Operational Changes be made in respect of a Power Station. Pursuant to the Option Agreement (see paragraph 9.2.1(ii)(b)(IV) of Part VI (*"Additional Information"*) of this Circular, the Secretary of State may: (a) exercise an Option to Operate a Power Station to provide for the operation of a station beyond its scheduled closure date; (b) exercise an Option to

Decommission a Power Station; and/or (c) (except where a Station Option has been exercised) exercise a Partial Closure Option requiring that the operation of a reactor which was to be closed early is continued (at the expense of the Secretary of State). If a Station Option is exercised, the relevant Power Station (excluding specified assets), Station Site and, in certain circumstances, additional land if this is required for decommissioning purposes, will at completion of the relevant Station Option be transferred to a Station Purchaser who will be responsible for operating or decommissioning (as the case may be) the relevant Power Station. If a Station Option is not exercised in respect of any Power Station, the British Energy Group will be responsible for effecting decommissioning arrangements itself in relation to such Power Stations (with the benefit of the state aid as described above). In addition to any decommissioning requirements, if certain Operational Changes are required and/or a Partial Closure Option is exercised, this could result in the diversion of scarce specialist resources and reduced output from the Existing British Energy Nuclear Fleet, and have an adverse impact on the British Energy Group's business operations.

Unplanned outages of the Existing British Energy Nuclear Fleet would adversely affect output

Unplanned outages, or a reduction in output required for safety, regulatory or other reasons, of the Existing British Energy Nuclear Fleet may result in lost generation and thus a decrease in the output of electricity. The level of such unplanned losses has risen in recent years and the majority of such unplanned outages are not covered by the British Energy Group's insurance.

The AGR Power Stations (all of British Energy's Power Stations other than Sizewell B), which contain four substantially different AGR designs, are the only such stations in the world. Therefore, there is limited opportunity for the British Energy Group to benefit from operating experience within the fleet of AGR Power Stations and from the experience of other nuclear operators, which might otherwise help reduce the level of unplanned outages at the Existing British Energy Nuclear Fleet. Furthermore, the majority of the AGR Power Stations were built in the 1960s and 1970s to varying specifications by a variety of engineering consortia. Accordingly, the impact of age-related degradation and original design issues may vary across the same or apparently similar items of plant in the AGR Power Stations. It is difficult to predict the impact this ageing and/or design-related degradation may have on the AGR Power Stations.

Historically, the level of unplanned output losses was indicative of a deterioration in the material condition of the Existing British Energy Nuclear Fleet over time caused by: (a) inadequate levels of past investment when compared with international benchmarks for nuclear power stations; (b) a failure to perform required maintenance on a timely basis; and (c) the effects of ageing and defects (in design or construction), both known and unknown. Human errors in the operation and maintenance of the Existing British Energy Nuclear Fleet, caused in part by conducting operations and maintenance functions on a station-by-station basis rather than on a fleet-wide basis, as a result of the varying specifications of the Power Stations, also led to unplanned losses and may continue to do so in the future. Given the age, complexity and unreliability of the Existing British Energy Nuclear Fleet and, in particular, the AGR Power Stations, the timing or impact of unplanned outages cannot be predicted with any certainty and the occurrence of unplanned outages cannot be eliminated.

The condition of some plant, equipment and components is subject to gradual deterioration

Output losses caused by degradation of plant, equipment and components at the Existing British Energy Nuclear Fleet tend to increase as such plant, equipment and components grow older. Recent examples of such losses include boiler tube cracking, cast iron pipe work degradation and AGR Fuel Routes as further described below.

Furthermore, large electrical components such as generator rotors and high voltage transformers may suffer from deterioration which may not be apparent prior to the failure of the relevant component part. There is no guarantee that such issues will be identified through inspection and ongoing plant maintenance. A consequent need to deal with such issues as they emerge may result in higher costs, extended or additional outages, prolonged periods of reduced operation or the closure of one or more Power Stations. Over time, it may also become more difficult, or take longer, to procure replacement plant or component parts for older equipment. Further, new inspection techniques could more readily lead to the identification of unanticipated issues, which could result in unplanned costs arising.

In addition, the British Energy Group's insurance portfolio contains standard exclusions and restrictions and the British Energy Group's material damage cover does not, therefore, provide any coverage for damage caused by, for example, erosion, corrosion, stress corrosion or cracking. Consequently, the British Energy

Group may not be able to claim under its material damage cover in such circumstances, thereby increasing the cost of operating one or more Power Stations.

Some equipment, component parts and computer systems may become obsolete

The first of the Power Stations became operational in 1976. As a result, it is becoming increasingly difficult to source replacement parts for, and to find engineers qualified to service, some older equipment, in particular ageing station computer and other related information technology systems. The British Energy Group may not be able to maintain this equipment on a cost-effective basis or at all. New equipment requires regulatory approval which may be delayed or not granted at all. These issues could also result in increased unplanned output losses, longer planned outages and/or the closure of one or more Power Stations.

Significant engineering faults, or design flaws or the condition of plant and equipment could result in prolonged outages, decreased lifetime or closure of one or more Power Stations

A major engineering fault or design flaw at a Power Station could result in its temporary closure to allow any such fault to be rectified. In addition, the identification of a fault at one Power Station may lead to the closure of other Power Stations which have a similar nuclear plant design. If it is uneconomic to rectify a fault, then one or more Power Stations may have to be permanently shut down and the expected station lifetimes of one or more of the other Power Stations may be adversely impacted.

Recent examples of issues relating to the design or condition of the Power Stations which have affected past output levels and/or could affect future output levels or could require permanent closure of one or more Power Stations are set out below. Other significant issues, relating to a Safety Case, its supporting analysis or critical elements, or otherwise, which are not yet known may be identified by the British Energy Group in its review of Safety Cases and ongoing inspections, investigations and research activities. The resolution of the issue may entail closure of the relevant Power Station, reduced operation and/or extensive plant modifications and may also have an adverse impact on current expected station lifetimes of one or more Power Stations.

These and/or similar issues which are yet to be identified, and their resolution, may result in additional reductions in capacity and might adversely affect station lifetimes and the overall results of operation of the British Energy Group.

BCU issues led to outages at several Power Stations and may require further inspection

BCU inspections at Hartlepool Reactor 1 in 2007 revealed a broken wire, the integrity and sufficient pre-stressing of which underpin the operational Safety Case. Inspections (only recently technically possible) were effected at similar reactors, ultimately resulting in a lengthy outage of all four reactors at Hartlepool and Heysham 1 for further assessment and engineering modifications. Although all four reactors have since returned to service, resulting Safety Case conditions may require further inspections, extended statutory outages, unplanned outages and, in a worst case scenario, result in the early closure of one or more reactors.

Boiler design issues may result in load restrictions and/or shortened station life

Higher than expected levels of boiler tube cracking which, if allowed to continue over time, would result in steam leakage into the reactor led to the shutdown of all reactors at Hinkley Point B and Hunterston B in 2006 for inspection and repairs. The affected reactors were returned to service in May 2007 at a permanently reduced capacity. Other boiler design issues at Hartlepool and Heysham 1 have arisen, such as the requirement to produce a safety case for the boiler spines which support the boiler and are difficult to access and inspect. Failure of the spine were it to occur, would result in boiler collapse and reactor damage, and the build-up of carbon deposits in boiler tubes resulting in operating difficulties.

Graphite core brick cracking may have an adverse impact on certain AGR Power Stations

Unanticipated levels of cracking in irreplaceable graphite bricks comprising certain AGR cores in the AGR Power Stations could lead to distortion of the core structure. Acceptable levels of tolerance to such cracking remain uncertain. In the case of all AGRs, the development of a Safety Case for their continued operation may not be possible. Additional inspections are required, potentially resulting in longer statutory and refuelling outages, an inability to insert control fuel rods in a fault scenario and the closure of affected reactors.

High temperatures on certain reactor components may require operational restrictions

High temperatures on the reactor vessel hot gas separator at Heysham 1 Reactor 2 (the cause and potential for progression of which are unknown) led to a load reduction in October 2006 to satisfy Safety Case requirements. In respect of Heysham 1, a revised Safety Case, which may enable a load increase, is in production and is planned to be submitted to the NII. This would also apply to similar reactors at Hartlepool and Heysham 1 which may otherwise incur operating restrictions in the future, further adversely affecting the output of the Existing British Energy Nuclear Fleet.

Corrosion of cast iron pipe work may result in unplanned losses

Cast iron pipes, used in essential seawater-based cooling systems, have suffered from insufficient maintenance, lack of investment and seawater corrosion, leading to unplanned losses at Heysham 1 in 2004. Replacement work at Heysham 1, Dungeness B, Hunterston B, Hartlepool and Hinkley Point B (which use similar systems) was commenced, to be largely completed by 2012, although access difficulties at Hartlepool and Heysham 1 may result in delay. There can be no assurance that this will fully address the issue, and failure of a cast iron pipe, whether due to corrosion, original construction or other factors, could result in unplanned losses.

Issues with fuel plug units could result in extended refuelling outages at Dungeness B

Issues with certain welds within plug units in Dungeness B reactors led to extended refuelling outages at Dungeness B from September 2006. Progressive replacement of these will require a number of years to complete and further extended outages may result in a loss of output at Dungeness B.

AGR fuel and fuel routes may fail, adversely impacting the operation of AGR Power Stations

Cracking of an AGR fuel pin may result in the leakage of radioactive fission products into coolant gas, thereby potentially contaminating large parts of the reactor and leading to major operational difficulties. On average, one such fuel failure per year was experienced from 1975 to 2000, increasing to around six per year since 2001 (mostly at Dungeness B). Output losses have also been experienced due to the unreliability of AGR Fuel Routes. A 2006 fleet-wide review concluded that in addition to plant and equipment reliability concerns, improvements to, *inter alia,* workforce training, human performance, process planning and organisation were necessary. Actions to address these issues are being implemented. However, in order to determine the cause of a fuel failure, and due to AGR Fuel Route issues, operation of one or more reactors may have to be restricted.

AGR fuel supply and spent fuel management could result in operational disruption

The operation of AGRs is unique to the British Energy Group, which sources AGR fuel under supply contracts with Springfields Fuels Limited (an NDA site licence company currently owned by Toshiba Corporation), the only supplier of AGR fuel in the world from a single manufacturing facility. As well as maintaining a security of supply policy, fuel elements stocks are kept at each AGR Power Station and in a central store, sufficient (when aggregated with fuel in the AGRs) to operate normally for three to six months. The British Energy Group is often also reliant on a single key supplier to provide component parts of AGR fuel critical to the operation of the AGR Power Stations. An extended disruption in fuel supply or fuel component parts, combined with the British Energy Group's inability to source these from other suppliers, could result in reductions in the output from the AGR Power Stations.

Each AGR Power Station's storage facilities usually hold around six months' spent fuel, leaving approximately three months' additional capacity in the event of any short-term interruptions to spent fuel offtake to the NDA's Sellafield site, which provides spent fuel management services. However, spent fuel stocks are currently unevenly distributed and, at one AGR Power Station, only about six weeks' additional capacity remains. Fuel must be stored and cooled for a period to satisfy the transport Safety Case. It may not be possible to transfer spent fuel to Sellafield for an extended period because of regulatory restrictions, equipment failures or other reasons, in which case it would not be possible to load additional fuel into the relevant AGR until at least the equivalent quantity of spent fuel was removed. If an AGR Power Station's spent fuel storage facilities became full, the station could theoretically continue to generate electricity but volumes produced would reduce as fuel in the AGR was consumed and statutory limits on irradiation of stored fuel were reached, limiting continued operation of the relevant station. Full operation of the power station could not then resume until the consumed fuel has been replaced which could take considerable time. A significant interruption to the operation of a Power Station could have an adverse effect on the overall results of the British Energy Group.

There is insufficient storage capacity at Sizewell B and Safety Case issues exist relating to the onsite fuel storage pond

The intermediate level waste (**"ILW"**) storage tanks at Sizewell B have a limited capacity which, based on current estimates, will be exhausted by the first half of 2009. However, additional ILW tanks are currently being installed and are expected to be commissioned and available before the existing storage is exhausted. Additional storage capacity will be provided by an additional tank which is planned to be available before the existing capacity is exhausted and which will provide storage capability through to the end of 2012. There is a risk that this additional tank may not be in place or operational as required.

After issues experienced with previously proposed ILW solutions led to rejection of these proposed solutions, work is underway to secure regulatory approval for a revised long-term storage strategy. There is a risk that substantial delays in obtaining such approvals may be experienced, in particular if a lengthy environmental impact assessment is required, and that approval may not be granted at all. Failure to deliver a long-term solution for ILW at Sizewell B before the end of 2012 would require it to be shut down.

In addition, due to Safety Case constraints, utilisation of pond used to store irradiated fuel is currently limited to 50 per cent. of their capacity, due to be reached by March 2011. Regulatory approval has been received in principle and work is in progress to implement changes to alleviate the constraints and increase the pond utilisation to 75 per cent. of capacity. On current estimates, this level is expected to be reached in 2015. Further work is in progress to provide fuel storage once the 75 per cent. utilisation is reached. A project (due to be completed by June 2010) is currently underway to revise the Safety Case and effect engineering modifications to allow increased utilisation of the pond until at least 2015. However, if the revised Safety Case is not approved, Sizewell B will be unable to receive new fuel scheduled for delivery in January 2011 and will therefore be unable to generate beyond March 2011. A separate project is underway to devise and provide an alternative irradiated fuel management solution (independent of the pond) beyond 2015. If an alternative solution cannot be found, Sizewell B may need to be shut down, adversely affecting the output of the Existing British Energy Nuclear Fleet.

There could be a breakdown of the relationship between the British Energy Group and one or more trade unions

Over 85 per cent. of the British Energy Group's employees are members of trade unions. Any breakdown in the relationship with these trade unions could result in industrial action that could adversely affect output.

RISKS RELATED TO THE NEW NUCLEAR BUILD OPTION

Centrica may lose substantial development costs relating to NNB Projects

Participation in the NNB Projects would require substantial financial commitments from Centrica without any guarantee that they will be completed and become operational. HM Government has been clear that it will be for energy companies to fund, develop and build new nuclear power stations in the UK, including meeting the full costs of decommissioning and their full share of waste management costs. A number of key planning and consenting issues such as general planning applications (including those required for any transmission system reinforcement works necessary to accommodate the NNB Projects), local consultations, site selections, justification process and environmental impact assessments could either significantly delay or even prevent the construction of NNB Projects. Changes in law, licences or governmental strategy relating to the use of nuclear power may result in NNB Projects being delayed or abandoned. If this were to occur, Centrica would not be able to recoup the potentially large investment it had made in such projects.

Centrica's return on its investment in NNB Projects may be limited

The NNB Projects will take several years to complete and Centrica will only begin to realise returns on these projects when the reactors become operational. The reactors will only become operational several years after the first investment in the NNB Joint Venture and during the development and construction of these projects there may be delays and cost increases over the initial budget. Such delays or cost increases will reduce the returns that Centrica will realise on its investment in NNB Projects.

In addition, the returns realised on Centrica's investment in NNB Projects will be dependent on the future price of electricity and commodities. If commodity and energy prices are lower than Centrica and EDF Group have estimated, the returns realised by Centrica may be lower than expected. If Centrica elects not to fund budget overruns, it will be diluted and its interest in NNB Holding Company will be reduced. This will result in reduced offtake rights and, if the relevant threshold is passed, certain other substantive rights in relation to the NNB Joint Venture being lost.

NNB Projects will be subject to political oversight

One of the key drivers of the development of New Nuclear Build in the UK has been the political support in its favour. Changes to political policy in respect of nuclear energy or a loss of political support for NNB could delay NNB Projects and have a material adverse effect on EDF Group's ability to complete and operate NNB Projects.

NNB Projects could face increased regulation on safety issues during construction and operation. Such increased regulation and resulting cost increases will reduce the returns that Centrica will realise on its investment in the NNB Projects.

In addition, nuclear energy may face public opposition which may adversely affect or delay the development or operation of NNB Projects.

Centrica will be reliant on EDF Group's expertise and resources

Centrica does not currently have its own nuclear expertise or operational skills and the structures envisage EDF Group retaining control of the businesses. Centrica will be reliant on EDF Group's expertise for the development and operation of the NNB Projects. This reliance may affect Centrica's ability to predict and manage development, operational and decommissioning costs relating to NNB Projects.

NNB Projects will require significant resources and access to suppliers of unique or highly specialised goods or services, which may not be available

The successful development, construction and operation of NNB Projects depends in part on the availability of appropriate EDF Group resources as well as the availability of suppliers of unique or highly specialised goods and services. The continued operation of the Existing British Energy Nuclear Fleet as well as its involvement in NNB Projects may result in conflicting demands for constrained resources. EDF Group's lack of experience of operating within the UK regulatory environment in the nuclear sector combined with its own plans to develop and construct projects elsewhere in the world may add to these resourcing pressures. In addition to resourcing constraints, there is also an increased global demand for new nuclear reactors which may result in long lead times for key components which are essential for the planned NNB Projects which form part of the NNB Joint Venture.

As the NNB Projects are developed, constructed and become operational, the NNB Joint Venture and EDF Group will need to recruit and retain further specialist contractors and agency staff to develop, operate and maintain those projects. Failure to do so may delay construction of the NNB Projects or have a significant adverse effect on the operation of the NNB Projects.

NNB Projects are subject to regulatory requirements and consents

The construction, development and operation of NNB Projects and their connection to the transmission system will be subject to extensive existing regulations and consents relating, among other things, to nuclear safety and security, promulgated by the UK, the EU and other relevant authorities. These consents may not be obtained within the expected timeframe or at all, and may contain conditions that do not permit the development of the NNB Projects on terms that are economically viable or which require greater capital or operational expenditure than anticipated. The decisions of public authorities to grant consents may also be the subject of applications for judicial review.

Currently proposed or future unanticipated changes to such regulations may result in substantial additional costs for capital expenditure and/or services and labour being incurred in NNB Projects as well as in the operation of the Existing British Energy Nuclear Fleet. This could have a material adverse effect on the NNB Joint Venture's business, British Energy Group's business, results of operations and overall financial condition and therefore Centrica's investment in NNB Projects. Complying with unexpected or adverse changes in, or the interpretation or enforcement of, such regulations could also significantly impact the cost of developing, constructing and operating NNB Projects and may make it uneconomic to continue one or more of the NNB Projects.

In addition, regulatory licensing of nuclear technologies and oversight of the construction of nuclear plants around the world has resulted in delays to construction. Similar increased regulatory oversight in the UK could lead to delays to and suspensions of NNB Projects.

NNB Projects will be subject to certain decommissioning costs

NNB Projects developed will be subject to the provisions of the Energy Act. These require developers of new nuclear power stations to ensure they have adequate funding to meet the full costs of decommissioning and their full share of waste management costs. Such costs are not always predictable and may substantially increase, and Centrica may be required to provide greater security for decommissioning costs, proportionate to its investment in NNB Projects, than currently expected. Such cost increases will reduce the returns that Centrica will realise on its investment in NNB Projects. Under the Energy Act, HM Government may impose obligations on a shareholder in NNB Holding Company which arise out of the funded decommissioning programmes and Centrica has agreed with EDF Group that they will share such liability in proportion to their respective shareholdings in NNB Holding Company. Failure by EDF Group to reimburse Centrica accordingly for any disproportionate share of such costs incurred by Centrica would result in significantly reduced returns on Centrica's investment in NNB Projects.

The sites on which the NNB Projects will be located may be contaminated

The presence and extent of any contamination at the proposed sites to be used for the NNB Projects is unknown. The presence of any such contamination at the NNB Project sites may trigger remediation requirements, which: (i) may materially increase the cost of development; (ii) may otherwise constrain the development due to health and safety concerns; or (iii) cause material delay to the construction timetable for the relevant NNB Project. The presence or migration of historic contamination may also prevent construction at that site and/or give rise to third-party claims and/or regulatory liability under environmental or nuclear regulation or licensing regimes. A delay to, or increased costs of, the development of the NNB Projects will reduce the returns that Centrica will realise on its investment in NNB Projects.

RISKS RELATED TO THE NATURE OF CENTRICA'S INVESTMENT IN LAKE ACQUISITIONS AND NNB HOLDING COMPANY

Centrica may lose substantial development costs if it opts out of the First NNB Project

Pursuant to the terms of the NNB Shareholders' Agreement, Centrica can elect to opt out of the First NNB Project either on or prior to the relevant FIDD. If Centrica were to opt out of the First NNB Project, EDF Group would purchase all of Centrica's interests in NNB Holding Company at a price equal to the investment by Centrica in NNB Holding Company prior to opting out, less a sum equal to (i) Centrica's contribution to the generic development costs and (ii) Centrica's contribution to the pre-development costs of the First NNB Project, subject to a maximum deduction of £200 million under paragraph (ii). Therefore, if Centrica opted out of the First NNB Project, Centrica would be unable to recoup a very substantial proportion of the investment it had made in NNB Holding Company. Furthermore, Centrica would not be entitled to participate in any further NNB Projects and would have no offtake rights in respect of the NNB Projects.

Centrica's investment in NNB Holding Company can be diluted

Centrica also has the option to be diluted in subsequent NNB Projects. At FIDD for each of the subsequent NNB Projects, Centrica can notify EDF Group of a percentage between zero and its proportionate investment in NNB Holding Company at the time at which it will participate in that NNB Project.

If Centrica elects for a percentage which is lower than its proportionate investment in NNB Holding Company at FIDD, Centrica will only be required to contribute the lower percentage of the construction costs for the relevant NNB Project but Centrica's overall proportionate investment in NNB Holding Company will be reduced. Consequently, when the NNB Project becomes operational, Centrica will be entitled to a reduced offtake from the NNB Projects.

See paragraphs 3.7 to 3.10 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular which summarise the relevant parts of the NNB Shareholders' Agreement.

EDF Group will control Lake Acquisitions and NNB Holding Company

Centrica will have a minority stake in Lake Acquisitions and NNB Holding Company. EDF will retain control of Lake Acquisitions and the NNB Holding Company. Although Centrica will enjoy veto rights over certain decisions to be taken by Lake Acquisitions and NNB Holding Company, EDF Group will have majority management control of Lake Acquisitions and NNB Holding Company. In particular, EDF Group will have the power to determine the annual budgets and proposed capital expenditure programme for the Existing British Energy Nuclear Fleet and the NNB Projects. EDF Group could also prioritise its resources in other projects outside of the Lake Group, to the detriment of the Lake Group. EDF Group will also have control of the ongoing compliance by the Lake Group and the NNB Joint Venture with applicable regulatory requirements and conditions. If Centrica disagrees with EDF Group's management, it will have limited rights to dispute and seek compensation in relation to such decisions. While Centrica will not have control of such commercial decisions and regulatory compliance, it will be responsible for operational, construction, development, decommissioning and regulatory costs or penalties proportionate to its minority stake in Lake Acquisitions and NNB Holding Company.

Success of the Lake Acquisitions and NNB Holding Company will, in part, be dependent upon the maintenance of a good working relationship between EDF Group and Centrica. This is particularly true given that certain actions of Lake Acquisitions and NNB Holding Company require the unanimous consent of EDF Group and Centrica. Deadlock may result if EDF Group and Centrica are unable to resolve issues, which may have an adverse effect on Lake Acquisition's and/or NNB Holding Company's business, results of operations and overall financial condition, including potentially delaying NNB Projects and any return on Centrica's investment.

Centrica's investment in Lake Acquisitions and NNB Holding Company can be diluted and Centrica may lose certain of its rights in relation to its investments

Centrica may be required to provide funds periodically to Lake Acquisitions and/or NNB Holding Company. These funds may be required in respect of unexpected events or may be included in development, construction or operational budgets (which EDF Group has the power to determine).

If Centrica fails to pay its proportionate share of these funds and EDF Group instead provides these funds, Centrica's interest in Lake Acquisitions and/or NNB Holding Company (as the case may be) will be diluted. This will result in reduced offtake rights from the British Energy Group and/or the NNB Projects (as the case may be) and reduced voting rights in relation to the joint venture. A failure by Centrica to pay its proportionate share of funds to NNB Holding Company may give rise to an event of default, which will give EDF Group the right to acquire Centrica's interest in NNB Holding Company at a discount to market value.

In addition, if Centrica's investment in Lake Acquisitions and/or NNB Holding Company is reduced below 12.5 per cent., Centrica will lose certain rights including the right to appoint individuals to the management bodies of Lake Acquisitions and the NNB Joint Venture and certain veto and review rights. If this were to occur, Centrica's ability to protect its investment against decisions made by the management of either Lake Acquisitions or the NNB Joint Venture, or decisions taken by EDF Group in relation to either Lake Acquisitions or the NNB Joint Venture, would be reduced, which may have a material adverse effect on the value of Centrica's investments.

Lake Acquisitions is dependent on funds from British Energy

As a holding company, Lake Acquisitions is (notwithstanding any current or future arrangements between Lake Acquisitions and another member of the Lake Group) dependent upon dividends, loans or advances, or other inter-company transfers of funds from British Energy. The only significant assets of Lake Acquisitions are its investments in British Energy. The ability of British Energy to pay dividends and make other payments to Lake Acquisitions may be restricted by, among other things, the financial condition of the British Energy Group, applicable laws (including, without limitation, the availability of distributable reserves) and agreements to which the British Energy Group may be a party.

Lake Acquisitions and/or EDF Group may not achieve the expected costs savings and other benefits anticipated from, or may incur unanticipated costs associated with, its acquisition of British Energy

EDF Group has identified certain costs savings and other benefits that will result from its acquisition of British Energy. By investing in Lake Acquisitions, Centrica should share in these benefits and may also receive parallel benefits in its own business. However, Centrica will have limited information and influence over the realisation of cost savings in the Lake Group which are expected from completing the Offers. Centrica will also have limited ability to ensure that the synergies are realised in the Lake Group and not the EDF Group. If the synergies are realised in the EDF Group and not the Lake Group, Centrica will not share in these synergies which may result in less than expected returns on Centrica's investment in Lake Acquisitions.

There is also no assurance that EDF Group will achieve the business growth opportunities, revenue benefits, cost savings and other benefits it anticipates in the Lake Group: such benefits and savings may not be achieved at all or may be delayed. The EDF Group may encounter numerous integration challenges as a consequence of its acquisition of British Energy, including challenges which are not currently foreseeable. To the extent that EDF Group achieves fewer cost savings in the Lake Group than expected, this could have a negative impact on the revenue, profit and financial condition of Lake Acquisitions and Centrica's investment in Lake Acquisition will be adversely affected.

RISKS RELATED TO THE TRANSACTIONS NOT PROCEEDING

The Transaction Agreements are conditional and the conditions may not be satisfied

The Transaction Agreements are subject to the satisfaction (or waiver, where applicable) of a number of conditions and regulatory approvals as outlined in Part V (*"Further Information on the Transaction Agreements"*) of this Circular. There can be no assurance that these conditions (including the approval of the Shareholders and certain regulatory approvals) will be satisfied and that Completion will be achieved. There is a risk that these approvals may not be received or may be delayed and that the Transactions may not complete or that certain regulatory approvals are given subject to conditions, which may include divestments, sale of power or other commitments relating to Centrica and/or British Energy.

In the event that certain regulatory approvals of the Transactions are delayed or not received, Centrica must pay extension and/or break fees to Lake Acquisitions pursuant to the Transaction Agreements, as outlined in paragraphs 1.6 to 1.7 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular.

In addition, the Transaction Agreements are all interconditional. Therefore, if one of the conditions to any part of the Transactions is not satisfied or waived or if any approval is not obtained, the Transactions will not take place.

If the Transactions do not complete and Centrica cannot identify, execute or finance acquisitions of alternative and available upstream assets, Centrica's ability to advance its strategic objective to limit exposure to short-term movements in UK wholesale gas prices and to increase its electricity generation capacity (thereby reducing Centrica's exposure to wholesale electricity prices) may be adversely affected. There can be no assurance that Centrica will be successful in identifying, executing and financing suitable acquisitions in the future, that economic stakes taken in businesses will prove to be good investments or that any acquired business will be successfully integrated into the Centrica Group. Any of these factors could have a material adverse effect on Centrica's business, results of operations and overall financial condition.

The Company has raised the Rights Issue proceeds and will need to consider other acquisitions if the Transactions do not proceed

In the event of the Transactions not proceeding, the acquisition of alternative upstream assets, in line with Centrica's current strategy to reduce exposure to wholesale gas prices through increased vertical integration, may be considered. Until further acquisitions are identified and completed, the residual Rights Issue proceeds will have a dilutive impact on the Company's earnings per share. However, there can be no assurances that such acquisitions will be available or that, once Centrica has identified potential acquisitions, Centrica will be able to complete such acquisitions. If Centrica does not acquire an interest in Lake Acquisitions, Centrica would evaluate the use of funds for other acquisition opportunities that meet its vertical integration objective, for general corporate purposes or for returns to Shareholders, with a view to maintaining an appropriate capital structure and maximising long-term Shareholder value.

PART III

FINANCIAL INFORMATION

Section I

Financial Information on Centrica

1. Profit forecast

Centrica's interim management statement was published on 11 May 2009 and stated that Centrica expects after tax earnings in 2009 to be ahead of 2008 which is a profit forecast. The profit forecast is repeated in the Current Trading and Prospects in paragraph 11.1 of Part I of this Circular.

2. Basis of preparation

The profit forecast described above (the **"Profit Forecast"**) has been prepared on a basis consistent with Centrica's accounting policies.

The Profit Forecast does not take into account certain re-measurements and exceptional items[1] or the Transactions and the Segebel Disposal (the financial effects of which are described in paragraph 10 of Part I of this Circular).

The Profit Forecast is based on the unaudited management accounts for the four months ended 30 April 2009 and a management forecast for the eight months ending 31 December 2009. The primary driver of the Profit Forecast is the prevailing low wholesale commodity price environment which is an encouraging backdrop for Centrica's downstream energy supply businesses and adversely impacts upstream profits. The lower upstream profits are offset by the lower tax rate resulting from the change in profit mix, with the tax rate for the existing business currently expected to be around 40 per cent. in 2009 as compared to 53 per cent. in 2008.

3. Assumptions

The Profit Forecast has been prepared on the basis of the following assumptions:

Assumptions Within the Control or Influence of the Directors

(i) Centrica Energy continues to purchase gas in the wholesale market and extract gas from Centrica's upstream assets only when it is in the overall economic interests of the Group;

(ii) the operational difficulties at Oxxio in 2008 will not be repeated in 2009; and

(iii) there will be no material change to the Company's capital structure.

Assumptions Outside the Control or Influence of the Directors

(i) Commodity prices remain at their current forward market values;

(ii) temperature levels in the UK for the remainder of 2009 are at or close to historical averages, following the cold weather in early part of 2009 which increased the volume of energy sold to customers and which also raised profitability in the year to date due to the low wholesale commodity price environment;

(iii) there will be no material changes in the kinds, rates or bases of taxation, both direct and indirect, affecting the Company from those currently prevailing;

(iv) there will be no material change in interest rates or foreign exchange rates from those currently prevailing;

(v) there will be no significant change to the competitive environment for energy supply in the UK or North America;

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1 Certain re-measurements comprise re-measurement arising on energy procurement activities and re-measurement of proprietary trades in relation to cross-border transportation or capacity contracts.

(vi) there will be no material change in the current management team, ownership of and control of Centrica;

(vii) there will be no material change in legislation or regulatory requirements impacting the Company's operations or its accounting policies;

(viii) there will be no business interruptions that materially affect the Company, its major suppliers or its major customers;

(ix) there will be no material change to the Company's customers' ability or willingness to meet their obligations to the Company from that currently anticipated by the Directors; and

(x) there will be no material changes to general trading and economic conditions and no downturn in economic activity in the United Kingdom, North America and Europe, in each case, from that which is currently prevailing and/or anticipated by the Directors.

Section II

Financial Information on Lake Acquisitions

1 Overview of Lake Acquisitions

Lake Acquisitions is a holding company, incorporated on 5 June 2008 as a wholly-owned indirect subsidiary of EDF. Lake Acquisitions' financial year-end is 31 December. The only business activity conducted in Lake Acquisitions has been the acquisition of British Energy.

The Offers comprised three consideration alternatives:

(a) a cash offer of 774 pence per British Energy share;

(b) an offer of 700 pence and one NPN per British Energy share (the **"Basic CVR Alternative"**); and

(c) an offer of 552 pence and three NPNs per British Energy share (the **"Additional CVR Election Facility"**, and together with the Basic CVR Alternative, the **"Partial CVR Alternative"**) subject to availability.

The Partial CVR Alternative was intended to afford eligible British Energy ordinary shareholders economic exposure to UK wholesale power prices and the output of the Existing British Energy Nuclear Fleet.

Given that Lake Acquisitions' business is as a holding company used by the EDF Group to acquire and become the new intermediate holding company for the British Energy Group, the financial statements of Lake Acquisitions will only reflect British Energy's financial results and transaction and capital structure adjustments. The transaction adjustments include the revaluation of British Energy assets at fair market value and entries relating to the issue of contingent value right instruments (**"CVRs"**) by Lake Acquisitions to Barclays in connection with the offer of NPNs by Lake Acquisitions as partial consideration under the Offers.

2 Financial Information on Lake Acquisitions

2.1 Investment in Lake Acquisitions

2.1.1 Lake Acquisitions owns 100 per cent. of the issued share capital of British Energy. Although Lake Acquisitions is currently not required to prepare consolidated accounts, in the event that these are prepared, British Energy would be consolidated by Lake Acquisitions.

2.1.2 The historical financial performance of the British Energy Group is detailed in Part III (*"Financial Information on Lake Acquisitions and British Energy"*) of this Circular although historical performance cannot be taken as a guide to the future performance of the business.

2.1.3 The financial performance of British Energy, and therefore Lake Acquisitions, depends, among other things, on the actual net metered output of the Existing British Energy Nuclear Fleet and UK wholesale power prices.

2.1.4 Such output and/or power prices may vary significantly from time to time. Unplanned output losses, prolonged periods of maintenance or reduced power operation, or earlier than currently anticipated closure of one or more power stations or a sustained period of low UK wholesale power prices could have a detrimental effect on the revenues generated by British Energy, and by virtue of a significantly fixed operating and maintenance cost base, the economic benefits that will accrue to Lake Acquisitions.

2.1.5 Conversely, plant life extensions, periods of power operation above expectations and a sustained period of high UK wholesale power prices could have a beneficial effect on the revenue generated by British Energy, and the economic benefits that will accrue to Lake Acquisitions.

2.1.6 Other factors which will affect future financial performance will include, but are not limited to, the level of synergies that EDF Group is able to realise through management of the British Energy business alongside other nuclear and/or UK operations.

2.2 Purchase Price Allocation

2.2.1 EDF Group will account for the Lake Group in its consolidated financial statements and has commenced the extensive process required in order to evaluate the fair value of each of British Energy's assets, liabilities and contingent liabilities as of 5 January 2009, the date of their acquisition.

These assets, liabilities and contingent liabilities include British Energy's physical assets and the forward sale contracts which have historically been entered into by British Energy.

2.2.2 The revaluation of British Energy's physical assets to fair value will result in increased depreciation and the fair value of the forward sales contracts will result in the sale of power under these contracts being recorded as if sold at the prevailing market prices at the time of the acquisition of British Energy, not the contracted price. If the prevailing market price at the time of the acquisition of British Energy is higher than the contracted price, then the fair value liability for these sales contracts will be unwound as income to the income statement as the power is delivered. If the prevailing market price is lower than the contracted price at the time of the acquisition of British Energy, then the fair value asset for these sales contracts will be unwound as a cost to the income statement as the power is delivered.

2.2.3 In the event that consolidated IFRS accounts for the Lake Group are prepared, these accounts will also include fair value adjustments in order to reflect the current value of British Energy's assets, liabilities and contingent liabilities at the date of the acquisition by Lake Acquisitions.

2.3 Capital Structure

2.3.1 Lake Acquisitions funded the cash element of the acquisition of British Energy through a mixture of equity share capital and equity shareholder loans.

2.3.2 The financial performance of Lake Acquisitions will be impacted by the interest payments on these equity shareholder loans. As described in paragraph 8.1 of Part I (*"Letter from the Chairman of Centrica"*) of this Circular, it is expected that these loans will be repaid by Completion.

2.4 Contingent Value Rights

2.4.1 Lake Acquisitions offered cash and the Partial CVR Alternative as consideration for British Energy shares as described above.

2.4.2 The NPNs are a form of contingent value right and the holders of the NPNs are entitled to receive a yearly payment in each of the 10 years from 2010 to 2019 inclusive. The amount of such yearly payment (if any) is limited to and no greater than the corresponding underlying payment instalment paid on the CVRs, which in turn is calculated by reference to a formula. That formula is described in Part VIII (*"CVR Yearly Payment Formula, NPV Illustration and Terms of the CVRs and NPNs"*) of this Circular.

2.4.3 Payment can, therefore, be considered to be made from excess cash generation and in such cases a proportion of the additional cash generation that will accrue to the shareholders in Lake Acquisitions.

2.4.4 The value of the CVRs is, therefore, dependent upon the expectation of future UK wholesale power prices and British Energy's nuclear output.

2.4.5 The CVRs are, therefore, considered to represent deferred contingent consideration of Lake Acquisitions for the acquisition of British Energy. Lake Acquisitions will record a liability for the CVRs on its balance sheet representing the fair value of the estimated liability. In aggregate, 390,012,113 CVRs have been issued. The fair value of this liability will be determined with reference to the relevant GAAP. If the value of the liability changes, a corresponding change would be made to the cost of investment on Lake Acquisitions' balance sheet at 31 December 2009 and subsequent periods.

2.4.6 Any CVR payments made in the future will not directly impact Lake Acquisitions' income statement but will impact cash flow, net cash and the funds available to shareholders and reduce the CVR liabilities on Lake Acquisitions' balance sheet.

2.4.7 Given that the estimated liability for the CVRs is carried at fair value, the impact of the unwinding of the relevant period's discount will be recorded as an interest charge in Lake Acquisitions' income statement. This is not expected to be a material cost.

3 Impact of Lake Acquisitions on Centrica

3.1 Centrica will account for its interest in the Lake Group as an associate and adopt equity accounting for its investment recognising the investment at cost plus its 20 per cent. share of post-Acquisition post-tax profits and losses of the consolidated Lake Group, which includes British Energy as adjusted by the impact of Centrica's fair value exercise. Any distributions received from Lake Acquisitions will reduce the carrying value of Centrica's investment in Lake Acquisitions.

3.2 Centrica's interest in the net assets of British Energy via its 20 per cent. investment in Lake Acquisitions will be reported in aggregate in interests in joint ventures and associates.

3.3 On acquisition of the 20 per cent. investment in the Lake Group, Centrica will be required to adjust the value of British Energy's assets and liabilities to fair value, with the excess purchase price over and above the fair value of the assets, liabilities and contingent liabilities acquired being recognised as goodwill.

3.4 This fair value exercise will be completed by Centrica as of the completion date for the Acquisition. The fair value adjustments which impact the Lake Group accounts within EDF Group will not necessarily be the same adjustments which impact Centrica's accounts.

3.5 The unaudited pro forma statement of net assets (see Part IV (*"Pro Forma Statement Showing the Effect of the Transactions and the Segebel Disposal"*) of this Circular) has been prepared on the basis that the Acquisition will be accounted for as an associate using the equity method of accounting.

Section III

Financial Information on British Energy

The historical financial information contained in this Section II of this Part III has been extracted without material adjustment from the audited financial statements of British Energy for each of the financial years ended 31 March 2006, 2007 and 2008, on which the auditors issued unqualified audit opinions.

In this Section II of this Part III, references to the "Company" are to British Energy. References to the "Group" are to the Company and its subsidiaries. In addition, in this Section II, references to the "Directors" or the "Board of Directors" are to be taken as references to the board of directors of British Energy as at the relevant time.

INDEX TO THE FINANCIAL STATEMENTS

Consolidated Income Statement

	Notes	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
			£m	
Revenue	4	2,811	2,999	2,593
Operating and energy costs	5	(1,929)	(1,778)	(1,747)
		882	1,221	846
Other operating income	26	10	93	95
Cash Sweep Payment credit	8	134	—	—
Cash Sweep Payment accrual	9	(102)	(305)	(105)
Depreciation	16	(238)	(207)	(191)
Amortisation of conversion asset	15	(167)	—	—
Other amortisation	18	(9)	(6)	(28)
Unrealised net losses on derivative financial instruments and commodity contracts	12	(3)	(2)	18
Operating profit		507	794	635
Financing (charges)/credits				
Interest payable	10	(77)	(61)	(50)
Interest receivable	10	89	53	26
Net other finance income/(expenses)	10	19	10	(12)
Profit before taxation		538	796	599
Taxation	11	(203)	(331)	(169)
Net profit for the year attributable to shareholders		335	465	430
Earnings per share (pence):				
Basic	14	35.4	81.5	75.9
Diluted	14	35.2	79.9	73.8

Consolidated Statement of Recognised Income and Expense

	Notes	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
			£m	
Net (losses)/gains on hedged items for the year	31	(102)	46	(12)
Net actuarial (losses)/gains on retirement benefit obligations for the year	27	(199)	68	88
Tax on items taken directly to equity for the year	11	90	(35)	(23)
Net (expense)/income recognised directly in equity		(211)	79	53
Net profit for the year attributable to shareholders		335	465	430
Total recognised income and expense		124	544	483
Adjustment for the implementation of IAS 39 after taxation at 1 April 2005		—	—	(15)
		124	544	468

Consolidated Balance Sheet

	Notes	2008	2007	2006
			£m	
Assets				
Non-current assets				
Conversion asset	15	1,993	—	—
Property, plant and equipment	16	1,665	1,710	1,693
NLF and nuclear liabilities receivables	17	5,310	5,274	5,051
Deferred income tax asset		—	—	244
Goodwill and intangible assets	18	413	390	406
Trade and other receivables	19	317	168	—
		9,698	7,542	7,394
Current assets				
Conversion asset	15	180	—	—
Inventories	20	448	399	342
Nuclear liabilities receivable	17	202	195	186
Trade and other receivables	19	451	478	455
Restricted cash and other financial assets	21	286	146	206
Cash and cash equivalents	21	1,028	1,101	638
Derivative financial instruments and commodity contracts	22	53	105	29
		2,648	2,424	1,856
Total assets		12,346	9,966	9,250
Liabilities				
Current liabilities				
Borrowings	23	(61)	(57)	(53)
Trade and other payables	24	(659)	(776)	(623)
Current tax liability	11	(23)	(10)	—
Nuclear liabilities	25	(202)	(195)	(186)
Provisions for other liabilities and charges	26	(19)	(25)	(127)
Derivative financial instruments and commodity contracts	22	(142)	(74)	(57)
		(1,106)	(1,137)	(1,046)
Non-current liabilities				
Borrowings	23	(455)	(516)	(573)
Retirement benefit obligations	27	(216)	(65)	(215)
Nuclear liabilities	25	(5,310)	(5,274)	(5,051)
Deferred income tax liability	11	(45)	(63)	—
Provisions for other liabilities and charges	26	(42)	(50)	(59)
NLF liabilities	28	(185)	(194)	(200)
Deferred income	29	(5)	(5)	(5)
Derivative financial instruments and commodity contracts	22	—	(15)	—
		(6,258)	(6,182)	(6,103)
Total liabilities		(7,364)	(7,319)	(7,149)
Net assets		4,982	2,647	2,101
Equity				
Called up share capital	30, 31	103	58	57
Share premium	31	59	40	24
Capital reserve	31	767	767	767
Hedge reserve	31	(71)	1	(31)
Warrant reserve	31	12	24	35
Retained earnings	31	4,112	1,757	1,249
Total shareholders' equity (including non-equity shareholders' interests)	31	4,982	2,647	2,101

Consolidated Statement of Cash Flows

	Notes	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
			£m	
Operating activities				
Operating profit		507	794	635
Depreciation	16	238	207	191
Amortisation of conversion asset	15	167	—	—
Other amortisation	18	9	6	28
Share-based payments	6	6	2	3
Unrealised net losses/(gains) on derivative financial instruments and commodity contracts	12	3	2	(18)
Movement in provisions for other liabilities and charges		(17)	(114)	(103)
Decrease in Cash Sweep Payment accrual		(134)	—	—
Cash Sweep Payment		(171)	(105)	—
Interest paid		(77)	(61)	(50)
Interest received		87	51	24
NLF liabilities payment	28	(23)	(22)	(21)
Difference between pension contributions paid and amounts recognised in consolidated income statement		(11)	(48)	(68)
Taxation paid		(118)	(49)	—
Increase in inventories		(49)	(57)	(11)
Increase in trade and other receivables		(120)	(193)	(169)
(Increase)/decrease in restricted cash and other financial assets		(140)	60	15
Increase in trade payables and other payables		187	257	261
(Increase)/decrease in intangible assets		(22)	21	(53)
Net cash inflow generated from operations		322	751	664
Cash flows from investing activities				
Purchases of property, plant and equipment	16	(197)	(224)	(215)
Purchases of software	18	(10)	(11)	(5)
Proceeds from disposal of property, plant and equipment		4	—	—
Net cash used in investing activities		(203)	(235)	(220)
Cash flows from financing activities				
Purchase of own shares for share incentive schemes	31	(2)	(6)	—
Exercise of warrants	31	7	6	9
Repayment of borrowings		(57)	(53)	(50)
Equity dividends paid	13	(140)	—	—
Net cash used in financing activities		(192)	(53)	(41)
Net (decrease)/increase in cash and cash equivalents		(73)	463	403
Cash and cash equivalents at the beginning of the year		1,101	638	235
Cash and cash equivalents at the end of the year	21	1,028	1,101	638

Notes to the Financial Statements
for the years ended 31 March 2008, 2007 and 2006

The financial information presented for the three years ended 31 March 2008 has been entered without material adjustment from the audited accounts of British Energy for each of those three years.

1 Presentation of the Financial Statements

(i) Description of Business

British Energy is engaged in the generation and sale of electricity. References to the Company are to British Energy, the ultimate holding company of the Group. References to the Group are to the Company and its subsidiaries. The Group operates eight nuclear power stations and one coal-fired power station in the United Kingdom. British Energy is a public limited company, incorporated and domiciled in Great Britain.

(ii) Compliance with Applicable Law and IFRS

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (**"IFRS"**) as adopted by the EU, International Financial Reporting Interpretations Committee (**"IFRIC"**) interpretations and the provisions of the Companies Act 1985 applicable to companies reporting under IFRS.

(iii) Financial Period

The consolidated financial statements cover the financial year from 1 April 2007 to 31 March 2008, with comparative figures for the financial year from 1 April 2006 to 31 March 2007 and 1 April 2005 to 31 March 2006.

(iv) Basis of Consolidation

The consolidated financial statements consolidate the financial statements of British Energy and the entities it controls (its subsidiaries) drawn up to 31 March of each year. The financial statements of such subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intragroup transactions, have been eliminated in full.

A list of subsidiary undertakings which, in the opinion of the Directors, principally affected the amount of profit or the net assets of the Group is given in note 32 to the consolidated financial statements.

(v) Composition of the Consolidated Financial Statements

The consolidated financial statements consolidate the financial statements of British Energy and all of its subsidiary undertakings, and comprise the following:

- consolidated income statement;
- consolidated statement of recognised income and expense;
- consolidated balance sheet;
- consolidated statement of cash flows; and
- notes to the consolidated financial statements.

(vi) Accounting Convention

The consolidated financial statements have been prepared using the historical cost convention, modified for certain items carried at fair value, as stated in the accounting policies.

(vii) New Accounting Policy

During the year, the NLF converted part of its entitlement to receive Cash Sweep Payments (see note 30). In order to reflect this, the accounting policy described in note 2(xiii) was adopted, which resulted in the recognition of a conversion asset of £2,340m, additional equity share capital of £45m and additional share premium of £2,295m representing the excess of the conversion share price of £5.20 over the nominal value of shares issued.

The application of this new accounting policy resulted in shareholders' funds at 31 March 2008 being increased by £2,173m and the profit for the year ended 31 March 2008 being reduced by £167m (see note 15).

(viii) Change in Accounting Estimate

On 11 December 2007, British Energy extended the useful accounting lives of two of the Group's nuclear power stations by five years. The change in accounting estimate has been accounted for prospectively and the effect from 11 December 2007 to 31 March 2008 was to decrease nuclear liability revalorisation by £125m, reduce NLF receivable revalorisation by £125m, reduce the conversion asset amortisation by £13m and reduce property, plant and equipment depreciation by £6m.

As a result of these accounting life extensions for the year ending 31 March 2009, the Group expects that:

- nuclear liability revalorisation will decrease by £7m and NLF receivable revalorisation will decrease by £7m, therefore having no income statement impact;
- conversion asset amortisation will reduce by £41m; and
- property, plant and equipment depreciation will reduce by £27m.

(ix) Parent Company Financial Statements

British Energy, the Company, has not adopted IFRS and has therefore drawn up separate financial statements in accordance with United Kingdom generally accepted accounting principles (**"UK GAAP"**).

2 Accounting Policies

(i) Significant Estimates and Judgements Used in Applying Accounting Policies

The preparation of financial statements in conformity with IFRS requires management to make certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The principal accounting policies adopted by the Group in the consolidated financial statements are as set out below. The application of a number of these policies required the Group to use a variety of estimation techniques and apply judgement to best reflect the substance of underlying transactions.

Significant factors considered when using estimates to assess the carrying value of assets include future electricity prices, expected annual output, expected station operating costs, remaining station lives and discount rates. The Group has determined that a number of its accounting policies can be considered significant, in terms of the management judgement that has been required to determine the various assumptions underpinning their application in the consolidated financial statements presented which, under different conditions, could lead to material differences in these statements. The policies where significant judgements have been made are the:

- application of business combination accounting rules;
- accounting for conversion asset;
- accounting for property, plant and equipment;
- accounting for goodwill;
- accounting for coal inventory;
- estimation of liabilities for spent nuclear fuel and decommissioning costs;
- estimation of retirement benefit obligations;
- estimation of fair value of derivative financial instruments and commodity contracts; and
- accounting for deferred tax.

Actual results can differ from estimates.

(ii) Revenue

Revenue is recognised by the Group when a sales arrangement exists, delivery of goods or services has occurred, the amount of revenue and costs incurred or to be incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits will flow to the Group.

Revenue represents the fair value of the consideration receivable for sales of electricity supplied during the period and sales of other related goods and services. It is shown net of value added tax, electricity purchases relating to short-term balancing and hedging activities, and climate change levy. Revenue is also shown after elimination of sales within the Group.

Wholesale generation and direct supply sales are recognised on an accruals basis with reference to meter readings of electricity supplied. Where required, a management estimate is included of the value of units supplied to customers between the date of their last meter reading and the accounting period end. Where an estimate of electricity supplied is required, the estimate is calculated using historical consumption patterns and is included in trade receivables.

Revenue includes miscellaneous income that comprises mainly services to Magnox in respect of shared sites and the income generated from the Group's role in trading the electrical output of the NDA's Magnox nuclear power stations.

(iii) Fuel Costs — Nuclear Front End

AGR

Front end fuel costs consist of the costs of procurement of uranium, conversion and enrichment services and fuel element fabrication. Fabrication costs comprise fixed and variable elements. All costs are capitalised into inventory and charged to the consolidated income statement in proportion to the amount of fuel burnt.

PWR

All front end fuel costs are variable and are capitalised into inventory and subsequently charged to the consolidated income statement in proportion to the amount of fuel burnt.

(iv) Fuel Costs — Nuclear Back End

AGR

Spent fuel extracted from the reactors is sent for reprocessing and/or long-term storage and eventual disposal of resulting waste products. Back end fuel costs comprise:

(a) a cost per tonne of uranium in AGR fuel, in respect of amounts payable on loading of fuel into any one of the AGR reactors; and

(b) a rebate/surcharge against the cost mentioned in (a) above that is dependent on the out-turn market electricity price in the year and the amount of electricity generated in the year.

The loading related cost and the rebate/surcharge is capitalised into inventory and charged to the consolidated income statement in proportion to the amount of fuel burnt.

PWR

Back end fuel costs are based on wet storage in station ponds followed by dry storage and subsequent direct disposal of fuel. Back end fuel costs comprise the estimated cost of this process at current prices discounted back to current value. Back end fuel costs are capitalised into inventory on loading and charged to the consolidated income statement in proportion to the amount of fuel burnt.

(v) Unburnt Fuel at Shutdown

Due to the nature of the nuclear fuel process there will be some unburnt fuel in the reactors at station closure. The costs of this unburnt fuel (final core) are fully provided at the balance sheet date and any changes in the carrying value of nuclear fuel attributed to the final core are charged to the consolidated income statement in the accounting period.

(vi) Fuel Costs — Eggborough

Fuel costs for Eggborough are determined on a weighted average cost basis. Fuel costs for Eggborough also include costs of carbon allowances (see note 2(xv)).

(vii) Research Expenditure

Expenditure on scientific and engineering research, preliminary studies and the initiation of new technologies is categorised as research and charged to the consolidated income statement as incurred.

(viii) Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged to the consolidated income statement on a straight line basis over the lease term.

(ix) Foreign Currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rate of exchange ruling at the date of the balance sheet. All differences are taken to the consolidated income statement.

(x) Share-based Payment

The Group has five share compensation schemes: the Share Incentive Plan, the Deferred Incentive Plan, the Long-Term Deferred Bonus Plan, the Executive Share Option Plan 2004 and the Interim Bonus Plan. The Group accounts for its share compensation schemes in accordance with IFRS 2 — Share-based Payment (**"IFRS 2"**).

The fair value of the share compensation schemes is charged to the consolidated income statement over the period from the date the awards were granted to the date at which the compensation is expected to vest in the employees. The corresponding credit is included in total shareholders' equity. The Group issues equity-settled share-based payments to certain employees under the terms of the Group's various employee share compensation schemes. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on an estimate of the shares that will ultimately vest.

(xi) Exceptional Items

Exceptional items, by their nature, are not indicative of the underlying operating performance of the Group. Exceptional items are material to the results for the year and are of a non-recurring nature and are therefore presented separately.

(xii) Taxation

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in full, using the balance sheet liability method, on temporary differences identified at the balance sheet date using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Temporary differences are differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and the corresponding tax bases used in the computation of taxable profits. Deferred tax assets are only recognised to the extent that it is considered probable that taxable profit will be available against which deductible temporary differences can be utilised.

Deferred tax is charged to the consolidated income statement except where it relates to items charged or credited to equity, in which case the deferred tax is dealt with in equity.

(xiii) Conversion Asset

The conversion asset represents the asset which arose following partial exercise of the NLF's conversion right (see note 2(xviii)).

The partial NLF conversion has been accounted for under IFRS 2. The issue of new shares by British Energy gave rise to the recording of ordinary share capital, together with a share premium representing the excess of the conversion share price over the nominal value of shares issued. The partial conversion also gave rise to a conversion asset which represents the fair value of the obligation which is removed as a result of the partial exercise of the conversion right. The conversion asset is allocated between current and non-current assets as appropriate on the consolidated balance sheet.

The fair value of the conversion asset recorded as a result of the partial exercise of the conversion right has been deemed to be the fair value of the new equity issued at the conversion date. Following initial recognition, the conversion asset is measured at cost less amortisation and any accumulated impairment losses.

The charge for amortisation is calculated so as to write the conversion asset off on a straight line basis over the estimated useful accounting lives of the nuclear power stations.

(xiv) Property, Plant and Equipment and Depreciation

Property, plant and equipment comprises assets acquired or constructed by the Group. Property, plant and equipment (other than assets in the course of construction) are stated in the consolidated balance sheet at cost less accumulated depreciation. The fair value of property, plant and equipment acquired as a result of the Restructuring was deemed to be the cost amount recognised at that date. Cost includes expenditure that is directly attributable to the acquisition of the items. Accumulated depreciation includes additional charges made where necessary to reflect impairment in value.

Assets in the course of construction are stated at cost and not depreciated until commissioned.

The charge for depreciation of property, plant and equipment is based on the straight line method so as to write off the costs of assets, after taking into account provisions for diminution in value, over their estimated useful lives. The asset lives adopted are reviewed annually and for the years ended 31 March 2008, 2007 and 2006 were:

	2008	2007	2006
AGR power stations	6-15 years	4-16 years	5-17 years
PWR power station	27 years	28 years	30 years
Coal power station	8 years	9 years	10 years
Other buildings	30 years	30 years	30 years
Other plant and equipment	18 months - 5 years	18 months - 5 years	18 months - 5 years

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, or to improve its operational performance, is included in the asset's carrying amount or recognised as a separate asset, as appropriate, when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group and the cost of the item can be measured reliably. Expenditure to improve safety or in order to meet increased regulatory standards is also capitalised. Expenditure on major inspection and overhauls of production plant is capitalised, within other plant and equipment, when it meets the asset recognition criteria and is depreciated over the period until the next period during which a reactor is shut down. For AGR power stations, this depreciation period is two to three years, for the PWR power station it is 18 months and for Eggborough it is four years.

Major spare parts are classified as property, plant and equipment and assigned to individual stations when they are expected to be utilised over more than one period. They are depreciated using the applicable station lifetime estimate.

Gains and losses on the disposal of property, plant and equipment are included in operating profit.

(xv) Intangible Assets (excluding Goodwill)

The costs of acquired computer software are capitalised on the basis of the costs incurred to acquire and bring the specific software into use, and are amortised using the straight line method over their estimated operational lives for a maximum of five years. Costs directly associated with the development of computer software programmes that are expected to generate economic benefits over a period in excess of one year are also capitalised and amortised over their estimated operational lives.

Purchased Renewable Obligation Certificates (**"ROCs"**) and Levy Exemption Certificates (**"LECs"**) are initially recognised at cost within intangible assets. A liability for ROCs is recognised based on the level of electricity supplied to customers, and is calculated in accordance with percentages set by HM Government and the renewable obligation certificate buyout price for that period. ROCs and LECs have sustainable values and can be used over an unrestricted period and therefore they are not amortised.

Under the EU Emissions Trading Scheme (**"EU ETS"**), granted carbon allowances received in a period are initially recognised at nil value within intangible assets. Purchased carbon allowances are initially recognised at cost within intangible assets. Allowances granted are apportioned over the year in line with actual and forecast emissions for the relevant emissions year. A liability is recognised when actual emissions are greater than the granted allowances apportioned for the year. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date, with movements in the liability recognised in operating profit. Forward contracts for the purchase or sale of carbon allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the consolidated income statement in the unrealised net gains or losses on derivative financial instruments and commodity contracts line. On delivery of forward contracts, carbon allowances are capitalised in intangible assets at cost, with any permanent reduction to bring the carrying value in line with market prices being presented within fuel costs. Carbon allowances have a sustainable value and can be used in settlement of the Group's EU ETS obligation at any time within the corresponding EU ETS phase. As a result, carbon allowances are not amortised.

(xvi) Impairment of Tangible and Intangible Assets (excluding Goodwill)

At each balance sheet date, the Group reviews its tangible assets and intangible assets (excluding goodwill (see note 2(xvii))) to determine whether there is any indication that those assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is assessed. If an asset is impaired, a provision is made to reduce the asset's carrying amount to the estimated recoverable amount.

(xvii) Goodwill

Goodwill arising on acquisitions represents the excess of the fair value of the consideration at acquisition compared to the fair value of the identifiable net assets acquired. Goodwill is capitalised as an intangible asset on the consolidated balance sheet. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill balances are assessed for impairment at least annually and at other balance sheet dates if there is any indication of impairment.

(xviii) NLF Funding Arrangements

Under the arrangements with the Secretary of State, the NLF will fund, subject to certain exceptions, the Group's qualifying uncontracted nuclear liabilities and qualifying decommissioning costs. To the extent there is any surplus remaining in the NLF after all obligations have been discharged, this amount will be paid to the Secretary of State. The Group is responsible for funding certain excluded or disqualified liabilities and will, in certain circumstances, be required to compensate or indemnify the NLF and the Secretary of State in relation to such liabilities. The Group's obligations under these arrangements with the Secretary of State are guaranteed by certain companies within the Group.

In consideration for the assumption of these liabilities by the Secretary of State and the NLF, British Energy Bond Finance plc (formerly British Energy Holdings plc) (a subsidiary of British Energy) issued £275m in Bonds to the NLF at RED. The Group will also make the following payments to the NLF: (i) an annual contribution (**"Cash Sweep Payment"**) initially equal to 65%, reduced to 36% following the partial conversion, of the Group's adjusted net cash flow, adjusted for certain corporate actions but never to exceed 65% (**"Cash Sweep Percentage"**); (ii) fixed decommissioning contributions equal to £20m per annum (indexed to RPI but tapering off as the nuclear power stations were scheduled to close at RED); and (iii) £150,000 (indexed to RPI) for every tonne of uranium in PWR fuel loaded into the Sizewell B reactor after RED.

The NLF has the right from time to time to convert all or part of the Cash Sweep Payment into convertible shares of British Energy (the NLF conversion right). On a full conversion of its remaining interest, the NLF would hold up to approximately 35% of the thereby enlarged equity share capital of British Energy. However, the terms of the convertible shares include a limit on the voting rights of such shares equal to a maximum of 29.9% while held by the NLF. See note 30 for more details on the convertible shares.

The annual Cash Sweep Payment accrual can only be determined after the end of the financial year and is contingent based on cash generation in the year. Therefore, it is only recognised and provided for when it becomes determinable and not in any interim financial periods. It will be recorded as an operating cost of the applicable financial year. The annual Cash Sweep Payment accrual becomes payable 25 business days after publication of the Annual Report and Accounts.

The fixed decommissioning obligations of £20m per annum have been recorded as a liability on the consolidated balance sheet at their discounted value and disclosed as the NLF liability. The NLF liability is reduced as payments are made to the NLF. Each year the financing charges in the consolidated income statement include the revalorisation of NLF liabilities required to discharge one year's discount from the liability.

PWR fuel loaded after RED will increase the qualifying nuclear liability recognised for back end PWR fuel costs as set out above and will increase the NLF receivable by a corresponding amount. The difference between the payment of £150,000 (indexed to RPI) per tonne made to the NLF on the loading of PWR fuel and the increase in the liability recognised upon loading of this fuel is matched against back end fuel costs as the loaded tonnes are burned in the PWR reactor.

(xix) NLF and Nuclear Liabilities Receivables

The HM Government indemnity is provided to indemnify any future shortfall on NLF funding of qualifying uncontracted nuclear liabilities (including PWR back end fuel services) and qualifying nuclear decommissioning costs.

The NLF receivable asset recognised represents the aggregate value of the Nuclear Liabilities Fund and the HM Government indemnity such that the receivable equals the present value of the associated qualifying nuclear liabilities.

The HM Government indemnity is also provided to cover the cost of services for spent AGR fuel loaded pre-Restructuring. The nuclear liabilities receivable is recognised in respect of the indemnity such that the receivable equals the present value of the associated qualifying nuclear liabilities.

The NLF receivable and the nuclear liabilities receivable are stated in the consolidated balance sheet at current price levels, discounted at a long-term real rate of interest of 3% per annum to take account of the timing of payments. Each year the financing charges in the consolidated income statement include the revalorisation of these receivables required to match the revalorisation of the nuclear liabilities.

(xx) Nuclear Liabilities

Nuclear liabilities represent provision for the Group's liabilities in respect of the costs of waste management of spent fuel and nuclear decommissioning. The provisions represent the Directors' best estimates of the costs expected to be incurred. They are calculated based on the latest technical evaluation of the processes and methods likely to be used, and reflect current engineering knowledge. The provisions are based on such commercial agreements as are currently in place, and reflect the Directors' understanding of the current HM Government policy and regulatory framework. Given that HM Government policy and the regulatory framework on which the Group's assumptions have been based may be expected to develop and that the Directors' plans will be influenced by improvements in technology and experience gained from decommissioning activities, liabilities and the resulting provisions are likely to be adjusted.

In recognising the costs of generating electricity, accruals are made in respect of the following:

(a) Back End Fuel Costs

The treatment of back end fuel costs in the consolidated income statement has been dealt with under the accounting policies for fuel costs above. These nuclear liabilities cover the reprocessing and storage of spent nuclear fuel and the long-term storage, treatment and eventual disposal of nuclear waste. They are based, as appropriate, on contractual arrangements or the latest technical assessments of the processes and methods likely to be used to deal with these obligations under the current regulatory regime. Accruals are included within nuclear liabilities in the consolidated balance sheet, which are based on contractual arrangements and long-term cost forecasts, and which are reviewed regularly and adjusted where necessary.

(b) Decommissioning of Nuclear Power Stations

The consolidated financial statements include provision for the full cost of decommissioning the Group's nuclear power stations. Provision is made on the basis of the latest technical assessments of the processes and methods likely to be used for decommissioning under the current regulatory regime.

The liabilities for back end fuel costs and decommissioning are stated in the consolidated balance sheet at current price levels, discounted at a long-term real rate of interest of 3% per annum to take account of the timing of payments. Each year the financing charges in the consolidated income statement include the revalorisation of liabilities required to discharge one year's discount from provisions made in prior years and restate these provisions to current price levels.

(xxi) Financial Instruments

Recognition, Classification and Subsequent Measurement of Financial Assets and Liabilities

IAS 39 — Financial Instruments: Recognition and Measurement (**"IAS 39"**) requires that all financial assets and liabilities initially be recognised at fair value in the consolidated balance sheet with changes in fair value reported through the consolidated income statement, or the hedge reserve to the extent that effective cash flow hedges exist. Exceptions apply to assets classified as loans and receivables and held-to-maturity investments, which are measured at amortised cost using the effective interest method, and also to equity investments in instruments whose fair value cannot be reliably measured, which are recognised and measured at cost. Financial liabilities are measured at fair value or at amortised cost using the effective interest method. The Group measures all debt instruments initially at fair value, and this is taken to be the fair value of the consideration received.

Where financial assets or financial liabilities are measured at amortised cost, transaction costs (any such costs incremental to and directly attributable to the issue of the financial instruments) are included in the calculation of the effective interest rate and are, in effect, amortised through the consolidated income statement over the life of the instrument. Where financial assets or financial liabilities are measured at fair value, transaction costs are recognised immediately in the consolidated income statement.

If there is objective evidence that the Group will not be able to collect all of the amounts due under the original terms of an invoice, an impairment loss on the respective trade receivable will be recognised. In such an instance, the carrying value of the receivable is reduced, with the amount of the loss recognised in the consolidated income statement. Impaired trade receivables are derecognised when they are assessed as irrecoverable.

Financial assets are derecognised when the contractual right to the cash flow from the asset expires. Financial liabilities are derecognised when the obligation specified in the contract is extinguished or expires.

Accounting for Derivatives and Commodity Contracts

The Group's activities expose it primarily to risks associated with electricity generation, the purchase of fuel for use in the generation process, the purchase of carbon allowances and the supply of electricity to end customers in both the wholesale and retail markets. The Group follows a trading strategy of selling forward a proportion of the Group's output to reduce the Group's exposure to potential falls in the market price of electricity. The use of derivative financial instruments occurs primarily within the Group's electricity trading and coal and carbon allowance procurement activities.

The Board has endorsed the use of derivative financial instruments as hedging tools and the Group uses derivative and non-derivative financial instruments to manage its exposures.

Physical and financially settled instruments are held by the Group to match offsetting physical positions and are not held for proprietary trading purposes.

Where commodity contracts, such as electricity and fuel, are entered into in accordance with the Group's own purchase, sale or usage requirements (own use) they are excluded from the scope of IAS 39 and are accounted for on an accruals basis. Amounts payable or receivable in respect of these contracts are recorded within trade payables and trade receivables, respectively.

Where a commodity contract is not entered into or does not continue to be held to meet the Group's own purchase, sale or usage requirements, it is treated as a derivative financial instrument, and the recognition and measurement requirements of IAS 39 are applied. Derivative financial instruments are presented in the derivative financial instruments and commodity contracts line of the consolidated balance sheet.

Derivative financial instruments that are held for trading, as defined by IAS 39, are initially recognised at fair value and all changes in fair value are subsequently accounted for through the unrealised net gains or losses on derivative financial instruments and commodity contracts line of the consolidated income statement. Held for trading assets and liabilities are classified as current in the consolidated balance sheet.

Derivative financial instruments that are designated and are effective as hedges of future cash flows are initially recognised at fair value and changes in the fair value are recognised directly in equity, in the cash flow hedge reserve. The ineffective portion of the hedge is recognised immediately in the consolidated income statement. Hedging instruments are classified as current or non-current with reference to the period of delivery.

The Group designates derivatives as cash flow hedging instruments when it is expected that there will be a high inverse correlation between the changes in fair value of the hedging instrument and the changes in the fair value of the cash flows of the hedged item. This is measured primarily using the dollar offset method. Such correlation is required to be within the limits of 80% to 125% for hedge accounting to be permitted. Prospective and retrospective testing is carried out on a regular basis, at least on each reporting date, to establish whether the assumptions and application criteria for hedge accounting are supported. The Group discontinues hedge accounting where the hedging relationship correlation is outside the required parameters.

Derivative instruments are de-designated from a hedge relationship when:

- the hedging instrument or item expires or is settled;
- the forecast transaction is no longer considered to be highly probable; and
- the hedging instrument no longer qualifies for hedge accounting under IAS 39 rules.

Any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity, in the cash flow hedge reserve, until the forecast transaction is settled. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised within equity is transferred to the consolidated income statement of the period.

Valuation of Commodity Contracts and Derivatives

The Group's valuation policy for derivative and other financial instruments is to maximise the use of quoted prices from active trading markets. All contracts that fall within the scope of IAS 39 are valued using observable market prices. Certain long-term structured transactions have been classified as own use and therefore fall outside the scope of IAS 39. The Group considers that the UK electricity market is active for up to two years ahead, with reliable broker quotes and published prices available for this period.

Purchase contracts are valued against the quoted bid price and sales contracts are valued against the quoted offer prices, with no provisions made for liquidity. Valuation adjustments are made for the time value of money, which is applied to all contracts, and credit risk, which will be applied where applicable.

Principal values are undiscounted and are derived from the aggregate volumes and relevant contract prices of those sale and purchase contracts that are within the scope of IAS 39. The principal values provide an indication of the scope of the use of derivatives but do not reflect the risk the Group is exposed to from entering into derivatives.

Embedded Derivatives

The Group also evaluates contracts for embedded derivatives, and considers whether any embedded derivatives have to be separated from the underlying host contract and accounted for separately in accordance with IAS 39 requirements. Where embedded derivatives have terms that are not closely related to the terms of the host contract in which they are included, they are accounted for separately from the host contract as derivatives, with changes in the fair value recorded in the consolidated income statement on the unrealised net gains or losses on derivative financial instruments and commodity contracts line, to the extent that the hybrid instrument is not already accounted for at fair value.

If the fair value cannot be determined reliably based on the terms and conditions of the embedded derivatives, the fair value of the embedded derivatives is calculated as the difference between the value of the hybrid instrument and the host contract (excluding the derivative element).

Offsetting of Derivative Assets and Liabilities

The Group offsets a financial asset and a financial liability and reports the net amount only when the Group has a legally enforceable right to set off the amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Impact on Effective Tax Rate

Income tax for interim reporting periods is calculated by applying an estimate of the annual effective tax rate to the interim result excluding IAS 39 adjustments, and by calculating tax at the standard rate for the IAS 39 adjustments arising within the period.

(xxii) Inventory — Stores

Inventory held in stores is recorded at the lower of cost and net realisable value. Stores inventory is accounted for using the weighted average cost method.

(xxiii) Restricted Cash and Other Financial Assets and Cash and Cash Equivalents

Restricted cash primarily consists of cash pledged as collateral. Other financial assets principally comprise net cash provided to satisfy variation margin calls in relation to trading through exchanges.

Cash and cash equivalents include cash on hand with banks and short-term deposits with a maturity of three months or less from the date of acquisition.

(xxiv) Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, expected future cash flows are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability.

(xxv) Employee Benefits — Post Retirement Benefit Obligations

The Group provides for pension costs in accordance with IAS 19 (2004) — Employee Benefits (**"IAS 19"**). Contributions to the Group's defined benefit pension schemes are assessed by qualified actuaries. The Group operates two separate pension arrangements in the UK within the Electricity Supply Pension Scheme, which is a defined benefit scheme. Pension scheme assets are measured using market values, which for securities is based on bid price values. Pension costs are assessed using the projected unit method so that the cost of providing pensions is charged to the consolidated income statement in a manner which spreads the service cost over the expected service lives of employees. The retirement benefit obligation is measured as the present value of the estimated future cash outflows, discounted using the yields on high quality corporate bonds of appropriate maturity. The expected return on the plan assets and the increase during the period in the present value of the defined benefit obligations arising from the passage of time are included in other finance expenses. Actuarial gains and losses are recognised immediately within the consolidated statement of recognised income and expense.

The capital cost of ex gratia and supplementary pensions is charged to the consolidated income statement, to the extent that the arrangements cannot be covered by any surplus in schemes, in the accounting period in which they are granted.

Certain additional unfunded retirement benefits are provided to eligible employees. The cost and actuarial gains and losses of providing such benefits are charged to the consolidated income statement and consolidated statement of recognised income and expense, respectively.

(xxvi) New Accounting Standards

The following accounting standards have been adopted by the Group for 2008:

- IFRS 7 — Financial Instruments: Disclosures; and
- IAS 1 — Amendments to IAS 1 Presentation of Financial Statements.

The impact of the adoption of these standards has been to expand the disclosures provided in relation to financial instruments and the management of capital.

The following accounting interpretations have been adopted by the Group this year:

- IFRIC 7 — Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies;
- IFRIC 8 — Scope of IFRS 2;

- IFRIC 9 — Reassessment of Embedded Derivatives; and
- IFRIC 10 — Interim Financial Reporting and Impairment.

The application of these interpretations has had no impact on the Group's accounting policies.

The following accounting standards and interpretations which have not been applied in these financial statements have been issued but are not yet effective:

- IFRS 8 — Operating Segments;
- IAS 23 (R) — IAS 23 (Revised) — Borrowing Costs;
- IFRIC 11 — IFRS 2: Group and Treasury Share Transactions;
- IFRIC 12 — Service Concession Arrangements;
- IFRIC 13 — Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008); and
- IFRIC 14 — IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The adoption of these standards and interpretations is not expected to have a material impact on the Group's financial statements.

The following accounting standard was adopted by the Group in 2007:

- IFRIC 4 — Determining Whether an Arrangement contains a Lease,

and requires that arrangements which have the nature of a lease, but not the legal form, be accounted for in accordance with IAS 17 — Leases. The application of this interpretation has had no material impact on the Group's financial statements.

3 Segmental Information

The Group's activities are in one business segment, being the generation and sale of electricity, and are in one geographic segment, being the United Kingdom. There are no other significant classes of business or geographic areas.

4 Output and Revenue

The analysis of output that is unaudited is as follows:

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		TWh	
Output			
AGR nuclear power stations	40.5	42.3	51.5
PWR nuclear power station	9.8	8.9	8.9
Coal-fired power station — Eggborough	8.1	7.2	8.0
Total output	58.4	58.4	68.4

An analysis of revenue is as follows:

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		£m	
Revenue			
Wholesale generation sales	1,307	1,328	1,175
Direct supply sales excluding recovery of energy supply costs and renewable energy purchases recharged to customers	1,070	1,252	1,017
Revenue from generated electricity	2,377	2,580	2,192
Energy supply costs recharged to customers	367	362	356
Renewable energy purchases recharged to customers	56	46	26
Miscellaneous income	11	11	19
Total revenue	2,811	2,999	2,593

All sales are made to external customers.

5 Operating and Energy Costs

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		£m	
Fuel costs — nuclear	300	278	349
Fuel costs — Eggborough	227	156	207
Total fuel costs	527	434	556
Materials and services	583	562	487
Staff costs (see note 6)	396	374	322
Operating costs of generated electricity	1,506	1,370	1,365
Energy supply costs recharged to customers	367	362	356
Renewable energy purchases recharged to customers	56	46	26
Total operating and energy costs	1,929	1,778	1,747

Operating and energy costs are stated after charging/(crediting):

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		£m	
Research expenditure	15	13	13
Operating lease costs	8	5	5
Movement in provision for unburnt fuel at station closure	(2)	(21)	10
Movement in provision against stores inventory	1	2	(2)
Movement in provision for doubtful debts (see note 19)	1	1	6
Write down of carbon allowances (see note 18)	58	41	—

For 2007, within operating and energy costs and partially offsetting the write down of carbon allowances of £41m is a £39m credit representing the revaluation to market prices of the Group's 2006 EU ETS liability, which is presented within accruals in trade and other payables.

Auditors' Remuneration

It is the Group's policy to engage the external auditors, PricewaterhouseCoopers LLP, on assignments where their expertise and experience with the Group are important, or where they win work on a competitive basis. An analysis of auditors' remuneration and expenses is provided below:

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		£000	
Audit fees payable for the Group's annual financial statements	622	680	870
Fees payable for other services:			
Audit of the Company's subsidiaries pursuant to legislation	177	175	200
Other services pursuant to legislation	135	177	236
Other services	490	1,540	1,201
Taxation services	124	179	204
	926	2,071	1,841
Fees payable in respect of the Group's pension schemes:			
Audit	40	35	33
Total auditors' remuneration and expenses	1,588	2,786	2,744

Included within fees payable for other services in the year ended 31 March 2007 was £1,253,000 (2006: £316,000) of costs that were recharged to a third party.

PricewaterhouseCoopers LLP acted as auditors to the Group's pension schemes. The appointment of auditors to the Group's pension schemes and the fees paid in respect of these audits are agreed by the trustees of each scheme, who act independently from the management of the Group. These audit fees are borne by the Group.

6 Employee Information

(i) Staff costs

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		£m	
Salaries	295	271	245
Social security costs	32	29	26
Pension costs (see note 27)	70	68	53
Amounts capitalised	(7)	(5)	(5)
Share-based payments (see note 34)	6	2	3
Severance costs	—	9	—
Total staff costs	396	374	322

Amounts capitalised are transferred to property, plant and equipment and recorded within the additions line of note 16.

For the year ended 31 March 2007, severance costs of £9m (2006: £nil) were included in staff costs, which included £5m of pension past service costs.

(ii) Employee numbers

Average number of employees by category during the year were:

	2008	2007	2006
		Number	
Power stations:			
Nuclear	4,263	4,148	3,933
Eggborough	280	275	261
Engineering, technical and corporate support	1,578	1,516	1,449
Average number of employees	6,121	5,939	5,643

For 2006, the basis for calculating the average number of employees has been modified to include apprentices. This has increased the average number of employees for 2006 by 111 from the number reported in the 2006 consolidated financial statements.

7 Key Management Compensation

The remuneration of key management personnel during the year was as follows:

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		£000	
Salaries and other short-term employee benefits	5,941	3,403	4,150
Termination benefits	—	1,489	654
Post employment benefits	214	182	160
Share-based payments	13	91	1,557
Total of key management compensation	6,168	5,165	6,521

Key management personnel comprises executive and non-executive members of the Board together with those members of senior management who report directly to the chief executive. On 17 November 2006, a senior management reorganisation took place which increased the number of individuals defined as key management. As a result of this change, the 2007 definition of key management was amended and the table above only includes their emoluments since this date. In 2006, key management personnel comprised executive and non-executive members of the Board of Directors and the Executive Committee. Key management during the year ended 31 March 2006 included 14 management personnel, of whom two left the Group, one non-executive Board member joined and four senior managers were included within the definition of key management as a result of the reorganisation during the year ended 31 March 2007.

Emoluments of key management personnel are borne by the following subsidiary companies: British Energy Limited, British Energy Power and Energy Trading Limited and British Energy Generation Limited. The amounts received by the non-executive Directors in respect of their services as non-executive Directors were £803,000 (2007: £758,000; 2006: £671,000).

8 Cash Sweep Payment Credit

As part of the Contribution Agreement made at the time of Restructuring, the Group has an obligation to make annual Cash Sweep Payments to the Nuclear Liabilities Fund should certain criteria be met. Under the terms of the original Contribution Agreement, on a conversion by the NLF of part or all of its Cash Sweep Payment right, the NLF was entitled to both a Cash Sweep Payment on the part converted for the period up to conversion and any dividend in respect of the same period on the shares arising from the conversion. The Group obtained agreement from the NLF and the Secretary of State for Trade and Industry (now the Secretary of State for Business, Enterprise and Regulatory Reform) to an amendment to the Cash Sweep Payment right and Cash Sweep Payment percentage adjustment formula in relation to the partial conversion, which took place in the year, so as to ensure the principle of economic parity was maintained and to avoid an unintended dilution of British Energy's equity shareholders' interests. As a result, the £305m accrued in the 2007 Annual Report and Accounts for the Cash Sweep Payment due for the year ended 31 March 2007 was reduced by £134m to £171m to reflect the NLF's agreement to waive the proportion of the 2007 obligation due that was extinguished by the partial conversion in June 2007. The £134m reduction has been recognised as a credit in the consolidated income statement for this year; the remaining £171m obligation was paid in July 2007.

9 Cash Sweep Payment Accrual

Under the terms of the Restructuring, the Group has an obligation to make payments to the NLF should certain criteria be met. The basis of the Cash Sweep Payment accrual, which remains subject to review by the NLF, is as follows:

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		£m	
(Decrease)/increase in cash (as per the consolidated statement of cash flows)	(73)	463	403
Increase/(decrease) in restricted cash	178	(111)	(15)
Increase in restricted cash excluded from Cash Sweep Payment accrual	(1)	(1)	—
Increase/(decrease) in restricted cash for Agreed Collateral Purposes	177	(112)	(15)
Other	1	—	3
Increase in available cash	105	351	391
Cash Sweep Payments to the NLF	171	105	—
Administration payment to the NLF	1	—	
Transfer (to)/from Forecast Expenditure Reserve	(55)	22	(177)
Equity dividends paid	140	—	—
Amounts received from issue or sale of ordinary shares	(7)	(6)	(9)
Cash required to be (retained)/released to meet Target Amount	(67)	1	(43)
Adjusted net cash flow	288	473	162
Weighted average payment percentage	35.4%	64.4%	64.74%
Cash Sweep Payment accrual	102	305	105

An accrual for the Cash Sweep Payment of £102m (2007: £305m; 2006: £105m) is included in trade and other payables within current liabilities (see note 24). In July 2007 a reduced Cash Sweep Payment of £171m for the year ended 31 March 2007 was paid (see note 8).

Target Amount and Cash Required to be Retained to Meet Target Amount

The Target Amount is £490m plus the Incremental Collateral Amount, which is the amount by which cash applied to providing collateral for the generation, sale and purchase by the Group of electricity (i.e. for Agreed Collateral Purposes) exceeds £200m. Any increase or decrease in the Incremental Collateral Amount shall automatically increase or decrease the Target Amount by the same amount. The restricted cash for Agreed Collateral Purposes at 31 March 2008 is £267m (2007: £90m; 2006: £201m); therefore the Target Amount and cash required to be retained to meet the Target Amount at the balance sheet dates are as follows:

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		£m	
Cash required to be retained to meet Target Amount in prior years	490	491	448
Base Target Amount	(490)	(490)	(490)
Incremental collateral in excess of £200m (see above)	(67)	—	(1)
Target Amount at 31 March	(557)	(490)	(491)
Cash required to be (retained)/released to meet Target Amount	(67)	1	(43)

Payments to NLF

Payments to NLF represent the aggregate of any payments made by or on behalf of the Group to the NLF during the year, excluding fixed decommissioning payments of £20m per annum (indexed to RPI but tapering off as the nuclear power stations were scheduled to close at RED) and £150,000 (indexed to RPI) for every tonne of uranium in PWR fuel loaded into the Sizewell B reactor after RED.

Forecast Expenditure Reserve

The Group has increased the Forecast Expenditure Reserve by £55m (2007: £22m reduction) to £210m (2007: £155m; 2006: £177m). The Forecast Expenditure Reserve will be used to meet capital expenditure commitments and non-recurring maintenance and repair of a capital nature which is payable in the following financial year, as well as to fund capital expenditure, as defined in the underlying agreements.

Weighted Average Payment Percentage

The weighted average payment percentage has decreased from 64.4% at 31 March 2007 (64.74% at 31 March 2006) to 35.4% at 31 March 2008 principally, as a result of the NLF's partial conversion into equity of its Cash Sweep Payment right in June 2007. The remainder of the decrease relates to the exercise of 6,955,809 British Energy Warrants and the Cash Sweep Payment, offset by the impact of the dividend payment made during the year. At 31 March 2008, there were 6,764,057 unexercised British Energy Warrants remaining.

Payment Percentage

The NLF Cash Sweep percentage is 35.1% at 31 March 2008 (2007: 64.0%; 2006: 64.6%).

10 Financing Charges/(Credits)

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		£m	
Interest payable:			
Interest payable on bonds	40	44	47
Other interest and finance charges payable	37	17	3
Total interest payable	77	61	50

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		£m	
Interest receivable:			
Interest receivable	(89)	(53)	(26)
Total interest receivable	(89)	(53)	(26)

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		£m	
Other finance (income)/expenses:			
Revalorisation of nuclear liabilities (see note 25)	248	413	276
Revalorisation of nuclear liabilities receivable	(150)	(175)	(122)
Revalorisation of NLF receivable	(98)	(238)	(154)
Revalorisation of contracts provision (see note 26)	2	6	10
Revalorisation of NLF liabilities (see note 28)	15	17	12
Net revalorisation charges	17	23	22
Expected return on plan assets in the pension schemes (see note 27)	(182)	(164)	(136)
Interest on defined benefit obligations (see note 27)	146	131	126
Net credit to finance charges for retirement benefit obligations	(36)	(33)	(10)
Net other finance (income)/expenses	(19)	(10)	12

11 Taxation

(i) Analysis of Tax Charge for the Year

Tax Charged to the Consolidated Income Statement

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		£m	
Current tax:			
UK Corporation tax			
Current year	176	59	—
Prior year	29	—	—
	205	59	—
Deferred tax:			
Temporary differences			
Current year	21	273	221
Prior year	(23)	(1)	(52)
	(2)	272	169
Tax charged to the consolidated income statement	203	331	169

Included within the £52m prior year differences in the year ended 31 March 2006 was a £23m credit in relation to recognition of a deferred tax asset at 31 March 2006, which at RED did not satisfy the recognition criteria within IFRS 3 — Business Combinations (**"IFRS 3"**) due to uncertainty of recoverability.

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		£m	
Tax on Items Taken Directly to Equity			
Deferred tax:			
Net actuarial (losses)/gains on retirement benefit obligations	(60)	21	26
(Losses)/gains on hedged items	(30)	14	(3)
	(90)	35	23
Adjustment for implementation of IAS 39	—	—	(7)
Tax on items taken directly to equity	(90)	35	16

(ii) Reconciliation of the Total Tax Charge

The tax expense in the consolidated income statement for the year is higher (2007: higher; 2006: lower) than the standard rate of corporation tax in the UK of 30% (2007: 30%; 2006: 30%). The differences are reconciled below:

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		£m	
Profit before taxation	538	796	599
Tax on profit at the UK standard rate of corporation tax of 30% (2007: 30%)	161	239	180
Non tax-deductible Cash Sweep Payment accrual net of Cash Sweep Payment credit and conversion asset amortisation	41	92	32
Effect on deferred tax of substantively enacted future changes in tax rates	(4)	—	—
Other non tax-deductible or non-taxable items	(1)	1	9
Adjustment to deferred tax for prior years	(23)	(1)	(52)
Adjustment to current tax for prior years	29	—	—
Taxation charged to the consolidated income statement	203	331	169

(iii) Deferred Income Tax Liability

An analysis of the movements in deferred tax assets and liabilities is shown below. Deferred tax assets and liabilities have been offset as they relate to income taxes levied by the same taxation authority and the Group has a legally enforceable right to set off current tax assets against current tax liabilities.

	Accelerated capital allowances	Tax losses	Advance corporation tax	Decommissioning	Retirement benefit obligations	Contracts provision	Derivative financial instruments and commodity contracts	Other timing differences	Total
					£m				
As at 31 March 2006	(316)	261	77	102	64	46	8	2	244
Prior year credit/(charge) to consolidated income statement	19	(45)	—	22	—	—	—	5	1
Adjusted balance as at 1 April 2006	(297)	216	77	124	64	46	8	7	245
(Charge)/credit to consolidated income statement	(1)	(215)	—	—	(24)	(31)	1	(3)	(273)
Recognised in the statement of recognised income and expense (see note 31)	—	—	—	—	(21)	—	(14)	—	(35)
As at 31 March 2007	(298)	1	77	124	19	15	(5)	4	(63)
Prior year credit to consolidated income statement	5	18	—	—	—	—	—	—	23
Adjusted balance as at 1 April 2007	(293)	19	77	124	19	15	(5)	4	(40)
Credit/(charge) to consolidated income statement	9	(19)	—	2	(14)	(3)	1	(1)	(25)
Effect of substantively enacted future changes in tax rates	19	—	—	(9)	(5)	—	(1)	—	4
Recognised in the statement of recognised income and expense (see note 31)	—	—	—	—	60	—	30	—	90
Transfer to current tax	—	—	(74)	—	—	—	—	—	(74)
As at 31 March 2008	(265)	—	3	117	60	12	25	3	(45)

Within the £45m net deferred tax liability (2007: £63m; 2006: £244m asset) there are deferred tax assets of £220m (2007: £240m; 2006: £560m) and deferred tax liabilities of £265m (2007: £303m; 2006: £316m). £5m (2007: £78m) of deferred tax asset is expected to be recovered within the next 12 months and £43m (2007: £12m) of deferred tax liability is expected to be settled within the next 12 months. At 31 March 2008, the Group has not recognised a deferred tax asset relating to tax losses of approximately £45m (2007: £32m; 2006: £nil) as the timing of utilisation of these losses is currently uncertain.

(iv) Current Tax Liability

	2008	2007
As at 1 April	10	—
Current year tax charge	176	59
Prior year tax charge	29	—
Payments made during the year	(118)	(49)
Utilisation of advance corporation tax	(74)	—
As at 31 March	23	10

12 Unrealised Net Losses on Derivative Financial Instruments and Commodity Contracts

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		£m	
Unrealised net (losses)/gains on derivative financial instruments and commodity contracts	(3)	(2)	18

The unrealised net losses on derivative financial instruments and commodity contracts of £3m (2007: £2m; 2006: £18m gain) represent the net movements in the fair value of held for trading derivative financial instruments and commodity contracts in the year. Further details of the Group's derivative financial instruments and commodity contracts are set out in note 22.

13 Dividends Paid, Declared and Proposed

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2008	Year ended 31 March 2007
	pence per share		£m	
Paid:				
2007 Base dividend, paid as a final dividend	13.6	—	140	—
Declared:				
2007 Additional dividend, paid as an interim dividend	14.5	—	150	—
Proposed:				
2008 Base dividend, payable as a final dividend	13.6	13.6	141	140

The additional dividend declared was paid on 3 April 2008 and is therefore not recognised as a distribution in these consolidated financial statements as it was not paid until after the balance sheet date.

The proposed base dividend is subject to approval by members at the annual general meeting of British Energy on 17 July 2008. If approved, the dividend will be payable to shareholders on British Energy's shareholder register at close of business on 27 June 2008 and will be paid on 31 July 2008.

14 Earnings Per Share

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
Basic earnings per share			
Net profit for the year attributable to shareholders (£m)	335	465	430
Weighted average share capital (number of shares)	946,439,433	570,769,647	566,822,853
Earnings per share (pence)	35.4	81.5	75.9
Diluted earnings per share			
Net profit for the year attributable to shareholders (£m)	335	465	430
Diluted weighted average share capital (number of shares)	951,958,947	582,148,528	582,708,874
Diluted earnings per share (pence)	35.2	79.9	73.8
Adjusted earnings per share			
Net profit for the year attributable to shareholders (£m)	335	465	430
Adjustment in respect of Cash Sweep Payment credit (£m)	(134)	—	—
Adjustment in respect of Cash Sweep Payment accrual (£m)	102	305	105
Adjustment in respect of conversion asset amortisation (£m)	167	—	—
Adjusted net profit for the year attributable to shareholders (£m)	470	770	535
Basic weighted average share capital (number of shares)	946,439,433	570,769,647	566,822,853
Adjustment to weighted average share capital for timing of partial conversion share issue (number of shares)	81,147,538	—	—
Maximum Cash Sweep conversion at balance sheet date (number of shares)	559,718,765	1,027,081,460	1,041,887,863
Adjusted weighted average share capital (number of shares)	1,587,305,736	1,597,851,107	1,608,710,716
Adjusted earnings per share (pence)	29.6	48.2	33.3

Basic Earnings Per Share

The basic earnings per share for the year has been calculated by dividing the net profit for the year attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

__Diluted Earnings Per Share__

The diluted earnings per share calculation is based on the weighted average of 946,439,433 (2007: 570,769,647; 2006: 566,822,853) ordinary shares in issue together with the dilutive weighted average of potential ordinary shares of 5,519,514 (2007: 11,378,881; 2006: 15,886,021) in respect of British Energy Warrants.

__Adjusted Earnings Per Share__

The Directors consider that the adjusted earnings per share calculation is a more appropriate earnings measure because the Cash Sweep Payment accrual of £102m (2007: £305m; 2006: £105m) and the net profit for the year attributable to shareholders of £335m (2007: £465m; 2006: £430m) does not necessarily reflect the respective economic interests of the NLF and equity shareholders in the profits of the Group. The calculation in any given year of the annual Cash Sweep Payment accrual is based on cash flows and the retention of appropriate cash (Target Amount) and expenditure (Forecast Expenditure Reserve) reserves (see note 9).

For 2008, the adjusted earnings per share has been calculated by excluding the following from the net profit for the year attributable to shareholders:

- the Cash Sweep Payment credit relating to the year ended 31 March 2007;
- the Cash Sweep Payment accrual for the year; and
- the amortisation of the conversion asset for the year.

The weighted average share capital is adjusted by the number of shares that would have been in issue if:

- the NLF had fully converted its remaining interest at the balance sheet date; and
- the partial conversion had taken place at the start of the year, rather than during the year.

For 2007 and 2006, the adjusted earnings per share have been calculated by excluding the Cash Sweep Payment expense from earnings and adjusting the weighted average share capital by the number of shares that would have been in issue if the NLF had fully converted its interest at the balance sheet date.

15 Conversion Asset

	2008	2007
	£m	
Non-current assets		
Conversion asset	1,993	—
Current assets		
Conversion asset	180	—
Total conversion asset	2,173	—

The following table illustrates the movement in the conversion asset for the year ended 31 March 2008.

	Total
	£m
Cost arising on conversion	
Arising on partial NLF conversion	2,340
As at 31 March 2008	2,340
Accumulated amortisation	
Charge for the year	167
As at 31 March 2008	167
Carrying amount	
As at 31 March 2008	2,173

On 30 May 2007, the Secretary of State for Trade and Industry (now the Secretary of State for Business, Enterprise and Regulatory Reform) announced his intention to direct the NLF to convert and sell part of its interest in British Energy. On 1 June 2007, British Energy received notice from the NLF intimating its intention to convert and sell approximately 400 million shares in the Company, with an over-allotment option of a further 50 million shares in the Company. As a result, on 6 June 2007, British Energy issued 450 million convertible shares of 10p each to the NLF, which were re-designated as 450 million ordinary shares of 10p each and

admitted to the Official List of the UKLA and to trading on the London Stock Exchange on the same day. Following the partial conversion and share issue, the Cash Sweep Payment percentage was reduced to approximately 36 per cent. and this resulted in the recognition of a conversion asset of £2,340m, additional equity share capital of £45m and additional share premium of £2,295m, representing the excess of the conversion share price of £5.20 over the nominal value of shares issued. The conversion asset represents the fair value of the obligation which was removed as a result of the exercise of the conversion right.

The conversion asset is amortised over the estimated useful accounting lives of the Group's nuclear power stations. The amortisation of the conversion asset is recognised in the amortisation of conversion asset line in the consolidated income statement.

16 Property, Plant and Equipment

	Power stations	Other land and buildings	Other plant and equipment	Total
		£m		
Cost				
As at 31 March 2006	1,676	39	196	1,911
Additions	83	—	141	224
Disposals	(1)	—	(42)	(43)
As at 31 March 2007	1,758	39	295	2,092
Additions	81	—	116	197
Disposals	(1)	(4)	(26)	(31)
As at 31 March 2008	1,838	35	385	2,258
Accumulated depreciation				
As at 31 March 2006	151	—	67	218
Charge for the year	132	—	75	207
Disposals	(1)	—	(42)	(43)
As at 31 March 2007	282	—	100	382
Charge for the year	135	—	103	238
Disposals	(1)	—	(26)	(27)
As at 31 March 2008	416	—	177	593
Carrying amount				
As at 31 March 2008	1,422	35	208	1,665
As at 31 March 2007	1,476	39	195	1,710
As at 31 March 2006	1,525	39	129	1,693

Property, plant and equipment with a carrying amount of £237m (2007: £260m; 2006: £275m) is subject to security restrictions.

Included in property, plant and equipment is £18m (2007: £11m; 2006: £15m) of capital work in progress which is not depreciated.

17 NLF and Nuclear Liabilities Receivables

	2008	2007	2006
		£m	
Non-current assets			
NLF receivable	3,344	3,246	2,992
Nuclear liabilities receivable	1,966	2,028	2,059
	5,310	5,274	5,051
Current assets			
Nuclear liabilities receivable	202	195	186
Total NLF and nuclear liabilities receivables	5,512	5,469	5,237

The NLF receivable asset represents amounts that will be reimbursed by the NLF equal to the qualifying nuclear liabilities recognised at the balance sheet date. The balance recognised at 31 March 2008 is receivable after more than one year and is restricted in its use. This matches the uncontracted nuclear liabilities and decommissioning costs (see note 25), included in non-current liabilities.

The nuclear liabilities receivable represents amounts due under the historic BNFL contracts which will be reimbursed by HM Government. This matches the contracted nuclear liabilities included in current and non-current liabilities (see note 25).

18 Goodwill and Intangible Assets

	Goodwill	Software	ROCs and LECs	Carbon allowances	Total
			£m		
Cost					
As at 31 March 2006	345	29	27	34	435
Additions	—	11	40	44	95
Disposals	—	—	(30)	(34)	(64)
As at 31 March 2007	345	40	37	44	466
Additions	—	10	69	58	137
Disposals	—	—	(44)	(102)	(146)
As at 31 March 2008	345	50	62	—	457
Accumulated amortisation and other charges					
As at 31 March 2006	23	6	—	—	29
Charge for the year	—	6	—	—	6
Write down	—	—	—	41	41
As at 31 March 2007	23	12	—	41	76
Charge for the year	—	9	—	—	9
Write down	—	—	—	58	58
Disposals	—	—	—	(99)	(99)
As at 31 March 2008	23	21	—	—	44
Carrying amount					
As at 31 March 2008	322	29	62	—	413
As at 31 March 2007	322	28	37	3	390
As at 31 March 2006	322	23	27	34	406

Goodwill

Goodwill of £345m arose on the completion of the acquisition at RED. Under the requirements of IFRS 3, during the year ended 31 March 2006 £23m was charged to the consolidated income statement to reduce goodwill in relation to recognition of a deferred tax asset at 31 March 2006, which at RED did not satisfy the recognition criteria within IFRS 3 due to uncertainty of recoverability. Additionally, during that year £23m was credited within the tax charge in the consolidated income statement to reflect the recognition of the deferred tax asset.

For impairment testing purposes goodwill has been fully allocated to one cash generating unit, being the total of the Group's operating and generating assets. There were no intangible assets with indefinite useful lives allocated to the cash generating unit.

The recoverable amount of the cash generating unit at 31 March 2008 was determined using estimated fair value less costs to sell. The calculation of fair value less costs to sell was based on a discounted cash flow valuation over the lives of the power stations, using available market information to reflect the amount that the Group estimates that it could have obtained, at the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

The calculation of fair value less costs to sell for the cash generating unit is most sensitive to the following key assumptions:

- electricity prices;
- projected output;
- fuel costs;

- other operating costs and investment;
- Cash Sweep Payment obligation; and
- value attributable to potential nuclear new build development.

The Group's approach in determining the key assumptions was as follows:

Electricity prices were based on contracted and projected commodity prices for electricity. Projected market prices for electricity were based on an external market view of projected long-term electricity prices.

Projected output was based on expected levels of output over the expected operating lives of the power stations using the Group's own engineering projections, which considered historical performance, plant degradation, plant maintenance activity and investment, and allowed for scheduled timings of outages and refuelling. Where possible these assumptions were validated externally.

Fuel costs were based on contracted and projected commodity prices, for coal and nuclear fuel, and using the Group's own engineering projections for consumption, having considered historical consumption data and projected plant performance.

Other operating costs and investment was estimated using the Group's own engineering projections, where relevant, and having considered historical performance, plant degradation, plant maintenance activity and investment. The estimates of other operating costs and investment used in the discounted cash flow projection were consistent with those used in the Group's three-year business plan. In subsequent periods the growth rate applied to other operating costs was based on the RPI and fully reflects the expected operating lives of the power stations.

The impairment calculations made allowance for projected levels of Cash Sweep Payment. The projection used the Cash Sweep Percentage as at 31 March 2008 as a starting point, with adjustments in subsequent years to allow for retentions of undistributed cash following payment of dividends in line with the Group's dividend policy. A pre-tax discount rate of 17% (2007: 23%) was used (equivalent to a post-tax discount rate of 9% (2007: 9%)).

The Group's value attributable to potential nuclear new build development has been assessed by the Directors.

With regard to the assessment of value of the cash generating unit, the Group is of the opinion that, based on current knowledge, reasonably possible changes in any of the above key assumptions would not cause the carrying value to exceed the recoverable amount.

Software

Software is amortised over its estimated operational life for a maximum of five years. The amortisation of software is recognised in the other amortisation line of the consolidated income statement.

ROCs and LECs

ROCs and LECs have a sustainable value and can be used in settlement of an obligation over an undefined period and therefore, on this basis, ROCs and LECs are not amortised. Included within additions of £69m in the year (2007: £40m; 2006: £30m) are ROCs and LECs with a value of £9m (2007: £8m; 2006: £4m) which were produced internally.

Carbon Allowances

Carbon allowances are not amortised because they are held to settle the Group's EU ETS obligation and therefore have a sustainable value. During the year the Group took delivery of Phase I carbon allowances, which had been purchased under forward contracts. In line with the Group's accounting policy, these carbon allowances were recognised within intangible assets at cost. Subsequently, a write down of £58m (2007: £41m; 2006: £nil) was charged to the consolidated income statement to reflect a reduction in market prices of Phase I carbon allowances. During the year these allowances were used to settle the Group's 2007 EU ETS obligation; therefore the write-down has had no impact on the carrying value of carbon allowances at 31 March 2008.

19 Trade and Other Receivables

	2008	2007 £m	2006
Non-current assets			
Trade receivables:			
Wholesale customers	292	168	—
Other receivables	25	—	—
	317	168	—
Current assets			
Trade receivables:			405
Wholesale customers	178	184	—
Retail customers	199	222	—
Other receivables	36	44	47
Prepayments	38	28	3
	451	478	455
Total trade and other receivables	768	646	455

Non-current trade receivables of £292m (2007: £168m; 2006: £nil) relate to cash receipts from an interest bearing capped collateral power sales contract, which will be received in the period up to 2011. There is also £28m in relation to this contract included within current wholesale trade receivables.

Non-current other receivables of £25m (2007: £nil) relate to financial security for transmission connection and construction agreements at four potential nuclear new build sites.

Trade receivables are stated net of provisions for doubtful debts of £7m at 31 March 2008 (2007: £8m; 2006: £9m) that relate only to retail customer trade receivables. Movements in the provision for doubtful debts of trade receivables were as follows:

	2008	2007
As at 1 April	8	9
Charge for the year	4	4
Amounts written off	(2)	(2)
Unused amounts released	(3)	(3)
As at 31 March	7	8

Trade receivables are analysed in the table below. Of the trade receivables held with wholesale counterparties, 98% (2007: 96%) are of an investment grade quality rated at least A. Over 70% (2007: over 75%) of the amounts receivable from large industrial and commercial retail customers are insured. With respect to the trade receivables that are neither past due nor impaired, there are no indications as at the reporting date that they will not meet their payment obligations.

	2008	2007
Analysis of trade receivables		
Retail and wholesale trade receivables neither impaired nor past due	653	553
Retail trade receivables past due but not impaired:		
Within 29 days	11	13
30 to 59 days	2	3
60 to 179 days	2	—
Over 180 days	1	5
Total trade receivables	669	574

The Group does not typically renegotiate the terms of trade receivables. However, if a negotiation does take place, the outstanding balance is included in the analysis based on the original payment terms. There were no significant renegotiated balances outstanding at 31 March 2008 or 31 March 2007.

20 Inventories

	2008	2007	2006
		£m	
Current assets			
Unburnt nuclear fuel in reactors	993	1,032	1,013
Provision for unburnt fuel at station closure	(799)	(801)	(822)
Net unburnt nuclear fuel in reactors	194	231	191
Other nuclear fuel and uranium	157	83	89
Coal	41	39	19
Stores	56	46	43
Total inventories	448	399	342

21 Restricted Cash and Other Financial Assets and Cash and Cash Equivalents

	2008	2007	2006
		£m	
Current assets			
Cash used for collateral	267	90	201
Other financial assets	13	51	—
Other restricted cash	6	5	5
Total restricted cash and other financial assets	286	146	206
Cash and cash equivalents	1,028	1,101	638
Total restricted cash and other financial assets and cash and cash equivalents	1,314	1,247	844

At 31 March 2008, restricted cash and other financial assets and cash and cash equivalents amounted to £1,314m (2007: £1,247m; 2006: £844m) with maturity dates due within one year.

At 31 March 2008, £267m (2007: £90m; 2006: £201m) was invested in various currencies to support collateral arrangements. During the year ended 31 March 2008 these funds earned a weighted average interest rate of 4.88% (2007: 3.72%). Availability of cash invested to support collateral arrangements is restricted over the periods of the relevant collateralised positions.

Other financial assets principally comprise net cash provided to satisfy variation margin calls in relation to trading through exchanges. These funds are non-interest bearing and availability of the cash pledged is restricted pending settlement of the related forward instrument.

Cash not immediately required for business purposes is invested in line with the Group's treasury policy. At 31 March 2008, all cash investments not used to support collateral arrangements were due to mature within three months. The investments made during the year ended 31 March 2008 have a weighted average interest rate of 5.84% (2007: 4.92%; 2006: 4.52%).

As at 31 March 2008 and 2007, all cash and cash equivalent deposits are with counterparties with investment grades of at least AAA for money market funds, or a short-term rating of A1, P1 or F1 for all other deposits, as per the Group's treasury management policy.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash at bank of £1,028m (2007: £1,101m; 2006: £638m).

22 Financial Instruments and Derivatives

Overview

The Group's principal financial instruments include derivative commodity contracts for the sale and purchase of electricity, purchase of coal and carbon allowances, interest-bearing debt, loans, investments in short-dated commercial paper, cash held in collateral accounts, cash and short-term deposits.

The main financial risks faced by the Group are trading risks in respect of the sale of electricity. Electricity trading risks include exposure to electricity price fluctuations, balancing of output volume with contractual commitments, commodity (coal, carbon allowances and uranics) price risk and counterparty credit risk. These are managed by the Group's Trading and Sales division which operates within policies and procedures that are approved and monitored by the Board. The Trading and Sales division is not permitted to take speculative open positions.

Non-trading financial risks, including liquidity, interest rate and foreign exchange risks, are managed by the Group's central treasury department which also operates within policies and procedures that are approved and monitored by the Board. The treasury department is not permitted to take speculative open positions.

The foregoing discussion summarises how the Group manages its exposures to risks in respect of electricity prices, output balancing, commodity prices, counterparty credit risk, liquidity, interest rates and foreign exchange rates. The Group also has an exposure to risks associated with fluctuations in the debt and equity markets through the pension schemes; further details of the pension schemes are provided in note 27.

Fair Values

Set out below is a comparison by category of book values and fair values of all the Group's financial assets and financial liabilities.

	Book value 2008	Fair value 2008	Book value 2007	Fair value 2007	Book value 2006	Fair value 2006
			£m			
Derivative financial instruments and commodity contracts						
Financial assets						
Held for trading	53	53	82	82	26	26
Hedging relationships	—	—	23	23	3	3
	53	53	105	105	29	29
Financial liabilities						
Held for trading	(43)	(43)	(69)	(69)	(11)	(11)
Hedging relationships	(99)	(99)	(20)	(20)	(46)	(46)
	(142)	(142)	(89)	(89)	(57)	(57)
Total derivative financial instruments and commodity contracts	(89)	(89)	16	16	(28)	(28)

At 31 March 2008, 2007 and 2006, all derivative financial instruments and commodity contracts financial assets were included in current assets in the consolidated balance sheet. At 31 March 2008, £142m (2007: £74m; 2006: £57m) of the derivative financial instruments and commodity contracts financial liabilities were classified as current liabilities with none classified as non-current liabilities (2007: £15m; 2006: £nil) in the consolidated balance sheet.

Of the derivative financial instruments and commodity contracts resting with a counterparty, 81% (2007: 95%) are of an investment grade quality of at least A- rated. The decrease in the percentage from the prior year is due to the increase in the volume of open contracts for the purchase of green energy, the majority of which rest with unrated counterparties.

At 31 March 2008 and 2007, the maximum exposure to credit risk is the fair value of the derivative financial instruments and commodity contract assets above.

	Book value 2008	Fair value 2008	Book value 2007	Fair value 2007	Book value 2006	Fair value 2006
			£m			
Other financial assets and liabilities comprise the following:						
Other financial assets and liabilities						
Financial assets						
NLF and nuclear liabilities receivables	5,512	5,512	5,469	5,469	5,237	5,237
Trade receivables	669	669	574	574	405	405
Other receivables	25	25	—	—	—	—
Restricted cash and other financial assets	286	286	146	146	206	206
Cash and cash equivalents	1,028	1,028	1,101	1,101	638	638
	7,520	7,520	7,290	7,290	6,486	6,486
Financial liabilities						
Borrowings	(516)	(525)	(573)	(578)	(626)	(671)
Trade payables	(256)	(256)	(200)	(200)	(166)	(166)
Accruals	(337)	(337)	(472)	(472)	(346)	(346)
Back end fuel costs contracted	(2,168)	(2,168)	(2,223)	(2,223)	(2,245)	(2,245)
Provisions for other liabilities and charges	(12)	(12)	(16)	(16)	(22)	(22)
NLF liabilities	(208)	(208)	(216)	(216)	(221)	(221)
	(3,497)	(3,506)	(3,700)	(3,705)	(3,626)	(3,671)
Total other financial assets and liabilities	4,023	4,014	3,590	3,585	2,860	2,815

At 31 March 2008 and 2007, the maximum exposure to credit risk is the fair value of the other financial assets above.

Details of the categories of financial assets and liabilities are set out below.

Derivative Financial Instruments and Commodity Contracts

All contracts for the sale of electricity through British Energy Direct, most long-term structured sales contracts and all coal procurement contracts are categorised as being held for the Group's own purchase, sale or usage requirements and are therefore accounted for on an accruals basis because they are outside the scope of IAS 39.

GTMA and ISDA contracts are within the scope of IAS 39 as the Group follows the industry practice of net settling these contracts. As a result, all changes in fair value impact the consolidated income statement for those contracts which do not qualify for cash flow hedge accounting. The movements in fair value in the year are presented within unrealised net losses on derivative financial instruments and commodity contracts in the consolidated income statement.

Cash flow hedge accounting has been utilised wherever possible to ensure that earnings continue to be recognised in line with the Group's operational strategies by reflecting the earnings effects of derivative instruments in the same period as the hedged item affects earnings. The variability of cash flows arising from a highly probable forecast sale of electricity under an existing variable priced own use sales contract has been designated as a hedged item for cash flow hedge accounting purposes. Fair value changes of those GTMA and ISDA contracts which meet the requirements for cash flow hedge accounting are deferred in equity, within the hedge reserve, until settlement of the hedging instrument or hedged item.

Options contracts are recognised at fair value, with movements in fair value being presented within unrealised net losses on derivative financial instruments and commodity contracts in the consolidated income statement.

Exposures have been expressed as net positions by counterparty wherever there is the intention and ability to legally set off assets and liabilities.

(i) Held for Trading

The Group classifies as "held for trading" short-term contracts, contracts which are not designated as cash flow hedges and contracts which have been de-designated from hedging relationships. Typically, the term of these contracts does not exceed 12 months with prices fixed at inception.

The fair value of derivative financial instruments and commodity contracts asset and liability positions are valued, where possible, using quoted market prices. More details on the method for determining fair value is set out in note 2(xxi). The fair value of held for trading instruments equals the book value at 31 March 2008, 31 March 2007 and 31 March 2006.

At 31 March 2008, the Group had held for trading assets of £53m (2007: £82m; 2006: £26m) and liabilities of £43m (2007: £69m; 2006: £11m). The movement in the fair value in the year is presented within unrealised net losses on derivative financial instruments and commodity contracts in the consolidated income statement and totals a loss of £3m (2007: £2m; 2006: £18m gain) before tax.

The principal value of held for trading derivative financial instruments and commodity contracts at 31 March 2008 was £969m (2007: £903m; 2006: £488m). The £969m falls due within one year while at 31 March 2007, of the £903m, £856m fell due within one year and £47m fell due after more than one year but not more than three years (at 31 March 2006, £446m of the £488m fell due within one year and £42m fell due after more than one year but not more than three years). Included within the principal value of £969m (2007: £903m) is £792m (2007: £531m) relating to contracts where there will be a contractual outflow of cash from purchase contracts, all falling due within one year. As at 31 March 2007, of the £531m, £495m fell due within one year and £36m fell due after more than one year but not more than three years.

(ii) Hedging Relationships

As at 31 March 2008 and 31 March 2007, cash flow hedges were in place up to 31 March 2009 (at 2006, cash flow hedges were in place up to 31 March 2007) with the uncertain cash flow values on certain variable-priced sales contracts being hedged by fixed price GTMA and ISDA transactions. The fair value of hedging instruments equals the book value at 31 March 2008 and at 31 March 2007 (and at 31 March 2006). At 31 March 2008, the Group had cash flow hedging instrument liabilities of £99m (2007: £20m; 2006: £46m) and no cash flow hedging instrument assets (2007: £23m; 2006: £3m). The movement in hedging relationships in the year was £102m (2007: £46m; 2006: £12m) and is presented as a debit (2007: credit; 2006: debit) to the hedge reserve within equity.

There are no forecast transactions previously thought to be available for hedge accounting that are no longer expected to occur.

The principal value of derivative financial instruments and commodity contracts which are hedging relationships at 31 March 2008 was £91m (2007: £259m; 2006: £152m). The £91m falls due within one year while at 31 March 2007, of the £259m (2006: £152m), £150m (2006: £152m) fell due within one year and £109m (2006: £nil) fell due after more than one year but not more than three years.

Other Financial Assets and Liabilities

The book value of the NLF and nuclear liabilities receivables is equal to the fair value; refer to note 17 for details of the valuation.

The carrying values of trade receivables, trade payables and accruals are equal to their fair values.

The fair values of restricted cash and other financial assets and cash and cash equivalents are equal to the book values due to short-term maturities. Details of the interest rate profile of these financial assets are included in note 21.

Borrowings consist of the Bonds and the fair value has been estimated using the quoted closing clean market price at the balance sheet date. Details of the interest rate and maturity profile of these financial liabilities are included in note 23.

The basis of valuation of back end fuel costs is included in note 25.

The book value of provisions and other charges is equal to the fair value.

The book value of the NLF liabilities is equal to the fair value; refer to note 28 for details of the valuation.

Foreign Exchange

The Group uses foreign exchange contracts and other derivative instruments as deemed necessary to economically hedge the primary market exposures associated with the Group's underlying assets, liabilities and committed transactions. During the year ended 31 March 2008 the Group had three main sources of exposure to potential foreign currency risk. These exposures related to contracts for the purchase of coal and uranics, which are predominantly in US dollars, and the purchase of carbon allowances, which are in euros.

The Group has a number of different contracts in place to purchase coal, some of which include pricing which is subject to dollar exchange rate movements. Refer to note 36 for details of the Group's commitments to purchase coal.

The Group incurs pass-through foreign currency costs relating to the supply, conversion and enrichment of uranium at the average exchange rate relevant to the fuel supplied. As at 31 March 2008, the Group had foreign currency commitments for nuclear fuel amounting to £70m (2007: £131m; 2006: £159m) out of a total fuel commitment of £1,440m (2007: £1,568m; 2006: £1,642m) (see note 36).

During the year the Group has been involved in the purchase of £58m (2007: £44m; 2006: £34m) of Phase I carbon allowances at the euro foreign exchange rate ruling at the time of the transaction (see note 2(ix)). Additionally, the Group has £14m (2007: £81m; 2006: £63m) of commitments to purchase forward carbon allowances at 31 March 2008. At 31 March 2008, the Group had a net total of £9m (2007: £13m; 2006: £nil) of forward contracts in place to economically hedge its exposure to movements in prices of Phase II carbon allowances.

There are potential future foreign currency receivables in respect of amounts outstanding from the sale of Bruce Power. When these cash flows become more certain in the future, the Group will evaluate currency hedging opportunities.

23 Borrowings

	2008	2007	2006
		£m	
The borrowings mature as follows:			
Current liabilities			
Amounts falling due within one year	61	57	53
Non-current liabilities			
Amounts falling due after more than one year but not more than two years	65	61	57
Amounts falling due after more than two years but not more than five years	154	176	196
Amounts falling due in more than five years	236	279	320
	455	516	573
Total borrowings	**516**	**573**	**626**

Borrowings comprise the following:

	2008	2007	2006
		£m	
Long-term "project finance" loan — Sterling	111	123	134
Bonds — Sterling	405	450	492
Total borrowings	**516**	**573**	**626**

Total debt of £516m (2007: £573m; 2006: £626m) comprised:

- a long-term "project finance" loan of £111m (2007: £123m; 2006: £134m) secured on the assets of Eggborough Power Limited (**"EPL"**), a subsidiary company that operates the Eggborough coal-fired power station. The loan bears interest at a rate of 7.0% (2007: 7.0%; 2006: 7.0%); and
- an aggregate principal amount of £405m (2007: £450m; 2006: £492m) Sterling-denominated guaranteed bonds due between 2009 and 2022. The bonds bear interest at a rate of 7.0% (2007: 7.0%; 2006: 7.0%).

The effective interest rate of the Group's fixed rate borrowings is 7.0% (2007: 7.0%; 2006: 7.0%).

The long-term "project finance" loan is secured by a mortgage over the shares of EPL, an assignment of the EPL Share Purchase Agreement and Tax Deed of Covenant and a debenture comprising fixed and floating charges over EPL's assets.

The bonds are supported by a guarantee provided jointly and severally on a senior basis by British Energy and certain subsidiaries of the Group.

Interest on borrowings

	2008	2007
Interest on borrowings falls due as follows:		
Amounts falling due within one year	36	40
Amounts falling due after more than one year but not more than two years	32	36
Amounts falling due after more than two years but not more than five years	69	81
Amounts falling due in more than five years	81	101
Total interest payable on borrowings	**218**	**258**

Credit facilities

During the year ended 31 March 2008 the Group increased its committed letter of credit facilities to £350m (2007: £300m; in 2006, the Group had a receivables financing facility agreement with Barclays of up to a maximum of £60m subject to the level of trade receivables). These facilities contain covenants for the benefit of the facility providers, to support the collateral requirements of the Group's trading business. The balance of £350m now comprises five separate bilateral facilities (2007: three). Two of the five bilateral facilities, totalling £175m, expire in June 2008 and September 2008 with the remaining three facilities, totalling £175m, expiring in September 2009. All five facilities were undrawn in the year ended 31 March 2008.

The Group had an undrawn receivables financing facility of up to a maximum of £60m subject to the level of the Group's trade receivables, which expired in the year ended 31 March 2008.

24 Trade and Other Payables

	2008	2007	2006
		£m	
Current liabilities			
NLF liabilities (see note 28)	23	22	21
Trade payables	256	200	166
Other taxes and social security	43	82	90
Cash Sweep Payment accrual (see note 9)	102	305	105
Accruals	235	167	241
Total trade and other payables	**659**	**776**	**623**

25 Nuclear Liabilities

	2008	2007	2006
		£m	
Current liabilities			
Nuclear liabilities	202	195	186
Non-current liabilities			
Nuclear liabilities	5,310	5,274	5,051
Total nuclear liabilities	**5,512**	**5,469**	**5,237**

Movements in the nuclear liabilities in the year ended 31 March 2008 are as follows:

	Back end fuel costs contracted	Back end fuel costs uncontracted	Decom-missioning	2008 Total
		£m		
As at 31 March 2006	2,245	308	2,684	5,237
Charged to the consolidated income statement:				
Revalorisation	175	24	214	413
Operating costs	—	—	8	8
Loading of PWR fuel	—	8	—	8
Payments in the year	(197)	—	—	(197)
As at 31 March 2007	2,223	340	2,906	5,469
Charged to the consolidated income statement:				
Revalorisation (see note 10)	150	23	75	248
Payments in the year	(205)	—	—	(205)
As at 31 March 2008	2,168	363	2,981	5,512

Back End Fuel Costs Contracted

Accruals for AGR spent fuel services relating to fuel loaded into reactors up to RED are based on the terms of the Historic Liability Funding Agreement (**"HLFA"**) with BNFL. The pattern of payments within the HLFA were fixed (subject to indexation by RPI) at RED and will be funded by HM Government under the HM Government indemnity.

Back End Fuel Costs Uncontracted

Provisions for services relating to the disposal of associated nuclear waste of both PWR and AGR stations along with the storage and disposal of PWR spent fuel are based on cost estimates derived from the latest technical assessments.

Decommissioning

The costs of decommissioning the power stations have been estimated on the basis of ongoing technical assessments of the processes and methods likely to be used for decommissioning under the current regulatory regime. The estimates are designed to reflect the costs of making the sites of the power stations available for alternative use in accordance with the Group's decommissioning strategy.

Accounting Life Extension

During the year ended 31 March 2008 the discounted decommissioning liabilities reduced following the extension of the accounting lives of Hinkley Point B and Hunterston B power stations by five years to 2016. As a result of the accounting life extensions, the level of undiscounted estimated nuclear decommissioning liabilities remains unchanged; however, the decommissioning workstreams will occur later, thereby reducing the discounted nuclear decommissioning liabilities by £125m. HM Government has indemnified the Group for any future shortfall of NLF funding in respect of qualifying decommissioning costs and therefore the reduction in discounted nuclear decommissioning liabilities is fully offset by a corresponding decrease in the NLF receivable. As a result, there is no net revalorisation impact for this change in the consolidated income statement.

During the year ended 31 March 2007 decommissioning costs increased by £8m to reflect an increase in the level of estimated nuclear liabilities as a result of completion of British Energy's quinquennial review. This review was substantially completed in the year ended 31 March 2006, but still required final approval, which was received in 2007 and resulted in the incremental £8m, which was in addition to the £956m recorded in 2006 as an IFRS 3 fair value adjustment. As mentioned above, as part of the Restructuring arrangements, the Group is indemnified by HM Government for any future shortfall in NLF funding of qualifying nuclear liabilities and decommissioning costs; therefore the NLF receivable has also increased by £8m. Both increases have been reflected through operating costs and therefore there is no net impact on the consolidated income statement.

Projected Payment Details

Based on current estimates of station lives and lifetime output projections, the following table shows, in current prices, the likely undiscounted payments, the equivalent sums discounted at 3 per cent. real per annum to the balance sheet date and the amounts accrued to date.

	Back end fuel costs contracted	Back end fuel costs uncontracted	Decom-missioning	2008 Total	2007 Total	2006 Total
			£m			
Undiscounted	2,709	2,773	9,357	14,839	14,500	14,001
Discounted	2,168	515	2,981	5,664	5,610	5,375
Accrued to date	2,168	363	2,981	5,512	5,469	5,237

The differences between the undiscounted and discounted amounts reflect the fact that the costs concerned will not fall due for payment for a number of years. The differences between the discounted amounts and those accrued to date will be charged to the consolidated income statement over the remaining station lives since they relate to future use of fuel.

Under the terms of the contracts with BNFL referred to above and in accordance with the projected pattern of payments for decommissioning and other liabilities, taking account of the decommissioning fund arrangements described in note 2(xx), the undiscounted payments in current prices are expected to become payable as follows:

	Back end fuel costs contracted	Back end fuel costs uncontracted	Decom-missioning	2008 Total	2007 Total	2006 Total
			£m			
Within 5 years	1,040	16	17	1,073	1,225	983
6-10 years	891	32	933	1,856	1,828	1,597
11-25 years	778	153	2,417	3,348	3,141	3,382
26-50 years	—	390	1,256	1,646	1,632	1,621
51 years and over	—	2,182	4,734	6,916	6,674	6,418
	2,709	2,773	9,357	14,839	14,500	14,001

26 Provisions for Other Liabilities and Charges

	2008	2007	2006
		£m	
Current liabilities			
Contracts provision	17	15	110
Other provisions	2	10	17
	19	25	127
Non-current liabilities			
Contracts provision	25	37	47
Other provisions	17	13	12
	42	50	59
Total provisions for other liabilities and charges	61	75	186

Movements in provisions for other liabilities and charges in the year ended 31 March 2008, 2007 and 2006 are as follows:

	Contracts provision	Other provisions	Total
		£m	
As at 1 April 2006	157	29	186
Arising during the year	—	18	18
Utilised in the year	(80)	—	(80)
Released in the year	(17)	(9)	(26)
Payments in the year	(14)	(15)	(29)
Revalorisation	6	—	6
As at 1 April 2007	52	23	75
Arising during the year	—	5	5
Utilised in the year	(2)	—	(2)
Payments in the year	(10)	(9)	(19)
Revalorisation (see note 10)	2	—	2
As at 31 March 2008	42	19	61

(i) Contracts Provision

The Group's portfolio of commodity contracts was fair valued at RED as part of the application of acquisition accounting. The net contracts provision is being utilised over the lives of the contracts fair valued at RED and is expected to be fully utilised by 2011 with the current portion of £17m expected to be utilised within the next 12 months. The provision utilisation of £2m (2007: £76m; 2006: £95m) is presented in the other operating income line of the consolidated income statement. Other operating income also includes an £8m (2007: £nil) realisation of a contingent asset relating to the Group's disposal of its interest in Bruce Power. For the year ended 31 March 2007 a release of £17m (2006: £nil) was also presented in the other operating income line of the consolidated income statement.

(ii) Other Provisions

Other provisions are made up of severance provisions, provisions for onerous leases, a provision for additional unfunded retirement benefits (see note 27) and a provision for Eggborough site restoration costs. £2m (2007: £10m; 2006: £17m) of the other provisions is expected to be utilised within the next 12 months in relation to severance and onerous leases. Accordingly, this is classified as a current liability. The remainder of the other provisions are classified as non-current.

27 Retirement Benefit Obligations

(i) Pension Schemes

The Group operates two separate defined benefit pension arrangements in the UK within the Electricity Supply Pension Scheme (**"ESPS"**), the British Energy Generation Group (**"BEGG"**) for the majority of employees and the British Energy Combined Group (**"BECG"**) for the employees at Eggborough power station. The ESPS is a defined benefit scheme, which is externally funded and subject to triennial actuarial valuation. Each pension group that participates in the ESPS is financially independent from the other groups.

The cash funding requirements of the pension schemes are determined by triennial actuarial valuations by the independent scheme actuaries. The most recent triennial valuations of the BEGG and BECG schemes were carried out at 31 March 2007 and have been agreed by the pension trustees. Any deficiency disclosed in the BEGG or BECG schemes following a triennial actuarial valuation will be funded by the Group. The balance sheet valuations for accounting purposes under IAS 19 have been carried out by a separate independent actuary using the projected unit method.

(ii) Contributions

The Group contributed 22.4% (2007: 22.4%; 2006: 22.4%) to the BEGG pension scheme and 19.7% (2007: 19.7%; 2006: 19.7%) to the BECG pension scheme as employer's normal contributions for the year ended 31 March 2008. Members who do not participate in the salary conversion arrangement and who are required to pay employee contributions contribute 5% (2007: 5%; 2006: 5%) and 6% (2007: 6%; 2006: 6%) to the BEGG and BECG schemes, respectively. Members who participate in the salary conversion arrangements have their salaries reduced by 5% (2007: 5%; 2006: 5%) or 6% (2007: 6%; 2006: 6%) depending on whether they are members of the BEGG or BECG scheme, these monies being paid to the BEGG and BECG schemes as additional employer contributions.

Additional agreed employer contributions were paid towards the BEGG scheme's funding deficit of £20m for the year ended 31 March 2008 (2007: £20m; 2006: £69m). For the year ended 31 March 2007, £40m (2006: £50m) of agreed accelerated contributions was also paid towards the BEGG scheme's funding deficit. The Group made additional employer contributions of £1m (2007: £1m; 2006: £1m) to the BECG scheme in the year.

The 31 March 2007 triennial actuarial valuation of the BEGG scheme has been agreed with a funding deficit of £174m at that date. From 1 April 2008 the rate of employer's regular contributions for future service benefits under the BEGG scheme increased from 22.4% to 27.3%. Additional employer contributions will be paid towards the BEGG scheme's funding deficit at a rate of £35m per annum paid monthly from 1 April 2008 until 31 December 2013. The requirement for additional contributions will be reviewed as part of the next triennial valuation as at 31 March 2010.

The 31 March 2007 triennial actuarial valuation of the BECG scheme has been agreed with a funding deficit of £3m at that date. From 1 April 2008 the rate of employer's regular contributions for future service benefits under the BECG scheme increased from 19.7% to 22.2%. The Group will continue to make additional employer contributions towards the BECG scheme's funding deficit, having regard to appropriate funding advice.

The Group expects to contribute a total of £119m, including additional employer contributions, to the schemes in the year ending 31 March 2009.

At 31 March 2008, there was £7m (2007: £7m; 2006: £3m) of contributions owed to the pension schemes included in accruals.

(iii) Amounts Recognised in the Consolidated Balance Sheet

The amounts recognised in the consolidated balance sheet under IAS 19 in respect of the Group's funded defined benefit pension schemes are as follows:

	2008	2007	2006
		£m	
Fair value of plan assets	2,710	2,671	2,455
Present value of funded defined benefit obligations	(2,926)	(2,736)	(2,670)
Retirement benefit obligations recognised in the consolidated balance sheet	(216)	(65)	(215)

Certain additional retirement benefits are provided to eligible employees. These obligations are unfunded and the liability recorded at 31 March 2008 was £6m (2007: £5m; 2006: £3m) and is included within other provisions (see note 26).

(iv) Plan Assets, Expected Rates of Return and Benefit Obligations

Changes in the fair value of plan assets are as follows:

	2008	2007	2006
		£m	
Opening fair value of plan assets	2,671	2,455	1,962
Expected return on plan assets (see note 10)	182	164	136
Actuarial (losses)/gains	(145)	6	312
Contributions by employer	85	125	124
Contributions by plan participants	8	7	7
Benefits paid	(91)	(86)	(86)
Closing fair value of plan assets	2,710	2,671	2,455

The plan assets include investments in the Group's equity, amounting to less than 1% (2007: less than 1%; 2006: less than 1%) of plan assets.

The major categories of plan assets and their expected rates of return are as follows:

	2008 Expected return	2008	2007 Expected return	2007	2006 Expected return	2006
	%	£m	%	£m	%	£m
Equities	8.00	1,188	8.30	1,326	7.90	1,438
Bonds	5.20	1,054	4.80	865	4.40	565
Property	6.25	241	6.55	270	6.15	251
Hedge funds	6.50	107	6.80	103	6.40	94
Other	5.00	120	5.00	107	4.00	107
Total		2,710		2,671		2,455

The expected long-term rate of return on assets assumption was developed with consideration to the current level of expected returns on risk-free investments (primarily HM Government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The actual return on plan assets was £37m (2007: £170m; 2006: £448m), £145m less than (2007: £6m more than; 2006: £312m more than) the expected return on assets at the beginning of the year.

Changes in the present value of the defined benefit obligations are as follows:

	2008	2007	2006
		£m	
Opening defined benefit obligations	2,736	2,670	2,343
Current service cost	70	68	52
Past service cost	4	9	4
Interest cost (see note 10)	146	131	126
Contributions by plan participants	8	7	7
Actuarial losses/(gains)	53	(63)	224
Benefits paid	(91)	(86)	(86)
Closing defined benefit obligations	2,926	2,736	2,670

For the year ended 31 March 2007, £9m (2006: £4m) and £1m (2006: £nil) were contributed to the pension schemes from the Group's severance provisions established in previous years in relation to past service costs and current service costs respectively.

(v) Actuarial Assumptions

The major assumptions used by the actuaries in determining the defined benefit obligations were:

	2008	2007	2006
		% p.a.	
Price inflation	3.30	3.00	2.75
Rate of general increase in salaries	4.80	4.50	4.25
Rate of increase of pensions in payment	3.30	3.00	2.75
Discount rate	6.00	5.40	5.00

Mortality Assumptions

The mortality assumptions used for the triennial actuarial valuations as at 31 March 2007 for the BEGG and BECG schemes have also been adopted for the IAS 19 determination of both schemes' defined benefit obligations as at 31 March 2008. These assumptions are based on the 00 series tables published by the Continuous Mortality Investigations Bureau. The life expectancy assumptions for members at age 65 are as follows:

	2008 Male years	2008 Female years	2007 Male years	2007 Female years
Currently aged 65	21.6	24.0	18.2	21.1
Currently aged 45	23.5	25.9	18.2	21.1

(vi) Amounts Recognised in the Consolidated Income Statement

Amounts recognised in the consolidated income statement in respect of the retirement benefit obligations are as follows:

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		£m	
Current service cost (see note 6)	70	67	52
Past service cost (see note 6)	—	5	—
Expected return on plan assets in the pension schemes (see note 10)	(182)	(164)	(136)
Interest on defined benefit obligations (see note 10)	146	131	126
Total amounts recognised in the consolidated income statement	34	39	42

The current service cost charge for the year is included in staff costs in the consolidated income statement, and comprises £70m (2007: £67m; 2006: £52m) in respect of the funded defined benefit pension schemes. Additionally, for the year ended 31 March 2007, £1m (2006: £1m) was also recognised in respect of the unfunded pension scheme (see note 6). The interest cost and expected return on plan assets are included in finance charges in the consolidated income statement.

(vii) Amounts Recognised in the Consolidated Statement of Recognised Income and Expense

Amounts recognised in the consolidated statement of recognised income and expense in respect of the retirement benefit obligations are as follows:

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
		£m	
Actual return less expected return on pension plan assets	(145)	6	312
Experience gains/(losses) arising on defined benefit obligations	17	(25)	16
Changes in assumptions underlying present value of defined benefit obligations	(70)	88	(240)
Net actuarial (losses)/gains on retirement benefit obligations for the year	(198)	69	88

The cumulative amount of actuarial gains and losses, before deferred tax, recognised in the consolidated statement of recognised income and expense in respect of funded retirement benefit obligations is a net gain of £41m (2007: £239m; 2006: £170m).

An actuarial loss of £1m (2007: £1m; 2006: £nil) has also been recognised in the consolidated statement of recognised income and expense in respect of the unfunded pension scheme; therefore the total actuarial loss taken to equity is £199m (2007: £68m gain) (see note 31).

(viii) History of Experience Gains and Losses

The history of the schemes' deficits is as follows:

	2008	2007	2006	2005
		£m		
Fair value of plan assets	2,710	2,671	2,455	1,962
Present value of funded defined benefit obligations	(2,926)	(2,736)	(2,670)	(2,343)
Retirement benefit obligation recognised in the consolidated balance	(216)	(65)	(215)	(381)

The history of experience gains and losses is as follows:

		As % of plan assets/ obligations		As % of plan assets/ obligations		As % of plan assets/ obligations
	2008	2008	2007	2007	2006	2006
	£m	%	£m	%	£m	%
Actual return less expected return on pension plan assets	(145)	(5)	6	—	312	13
Experience gains/(losses) arising on defined benefit obligations	17	1	(25)	(1)	16	1
Changes in assumptions underlying present value of defined benefit obligations	(70)	(2)	88	3	(240)	(9)

(ix) Sensitivity Analysis

Impact of changing material assumptions	Increase/ decrease in assumption	2008 Indicative effect on scheme liabilities %	Increase/ decrease in assumption	2007 Indicative effect on scheme liabilities %
Price inflation	0.25%	+/−4	0.25%	+/−5
Rate of general increase in salaries	0.25%	+/−1	0.25%	+/−2
Rate of increase of pensions in payment	0.25%	+/−3	0.25%	+/−3
Discount rate	0.25%	−/+5	0.25%	−/+5
Mortality	1 year	+/−2	1 year	+/−3

28 NLF Liabilities

	2008	2007	2006
		£m	
Current liabilities			
NLF liabilities (see note 24)	23	22	21
Non-current liabilities			
NLF liabilities	185	194	200
Total NLF liabilities	208	216	221

Movements in the NLF liabilities in the year ended 31 March 2008 and 31 March 2007 are as follows:

	2008
	£m
As at 1 April 2007	216
Charged to the consolidated income statement: Revalorisation (see note 10)	15
Payments in the year	(23)
As at 31 March 2008	208

	2007 (£m)
As at 1 April 2006	221
Charged to the consolidated income statement:	
Revalorisation	17
Payments in the year	(22)
As at 31 March 2007	216

The NLF liabilities represent the Group's commitment arising on Restructuring to make fixed decommissioning contributions equal to £20m per annum (indexed to RPI but tapering off as the nuclear power stations were scheduled to close at RED) discounted at 3% real to its net present value.

29 Deferred Income

	2008	2007 £m	2006
As at 31 March	5	5	5

The deferred income recorded relates to consideration received for two options, an asset option and a share option, which were granted as part of the Restructuring. If exercised, subject to a number of conditions as summarised below, the options would enable the participants in the long-term "project finance" loan to acquire the Eggborough power station assets (asset option) or to acquire the shares in EPL (share option) which operates the coal-fired power station. In addition, the Group has a pre-emption right if the participants in the long-term "project finance" loan, sell or transfer their options to a third party.

The options may be exercised at any time prior to 31 August 2009, following which the participants in the long-term "project finance" loan may acquire the shares in, or assets of, EPL on 31 March 2010 in consideration of approximately £104m, subject to certain adjustments depending on the condition of the power station and cancellation of the outstanding debt (currently estimated to be £83m), or at any time prior to 31 August 2009 on the occurrence of an event of default in consideration for a fee (which varies depending on the type of event of default) and the cancellation of the outstanding debt at such time.

The options, if unexercised, expire on 31 March 2010.

The deferred income will be realised upon the exercise or expiry of the options as described above.

30 Called Up Share Capital

	2008	2007 £m	2006
2,800,000,000 (2007 and 2006: 2,800,000,000) ordinary shares of 10p each	280	280	280
2,000,000,000 (2007 and 2006: 2,000,000,000) convertible shares of 10p each	200	200	200
One (2007 and 2006: one) special rights redeemable preference share of £1	—	—	—
	480	480	480

Allotted, called up and fully paid:
Equity shareholders' funds:

	2008	2007 £m	2006
1,033,550,744 (2007: 576,594,935; 2006: 570,195,496) ordinary shares of 10p each	103	58	57
	103	58	57
Non-equity shareholder's funds:			
One (2007 and 2006: one) special rights redeemable preference share of £1	—	—	—
	—	—	—
Called up share capital	103	58	57

Movements in each class of shares were as follows:

	Ordinary shares of 10p each		Convertible shares of 10p each		Redeemable preference shares of £1 each	
	Number	£	Number	£	Number	£
As at 1 April 2006	570,195,496	57,019,550	—	—	1	1
Warrants exercised	6,399,439	639,944	—	—	—	—
As at 31 March 2007	576,594,935	57,659,494	—	—	1	1
Arising on NLF partial conversion	—	—	450,000,000	45,000,000	—	—
Re-designation of convertible shares as ordinary shares	450,000,000	45,000,000	(450,000,000)	(45,000,000)	—	—
Warrants exercised	6,955,809	695,581	—	—	—	—
As at 31 March 2008	1,033,550,744	103,355,075	—	—	1	1

On 30 May 2007, the Secretary of State for Trade and Industry (now the Secretary of State for Business, Enterprise and Regulatory Reform) announced his intention to direct the NLF to convert and sell part of its interest in British Energy. On 1 June 2007, British Energy received notice from the NLF intimating its intention to convert and sell approximately 400 million shares in the Company, with an over-allotment option of a further 50 million shares in the Company. As a result, on 6 June 2007, British Energy issued 450 million convertible shares of 10p each to the NLF, which were re-designated as 450 million ordinary shares of 10p each and admitted to the Official List of the UKLA and to trading on the London Stock Exchange on the same day. Following the partial conversion and share issue, the Cash Sweep Payment percentage was reduced to approximately 36% and resulted in the recognition of a conversion asset of £2,340m, additional equity share capital of £45m and additional share premium of £2,295m, representing the excess of the partial conversion share price of £5.20 over the nominal value of shares issued. The conversion asset represents the fair value of the obligation which was removed as a result of the partial exercise of the conversion right.

Ordinary Shares

The holders of ordinary shares are entitled to be paid any profits of British Energy available for distribution and determined to be distributed. On the winding-up of British Energy, holders of ordinary shares will be entitled to receive the nominal capital paid up or credited as paid up on the shares together with any further amounts available to be paid, which will be allocated proportionately to holders of ordinary shares. The holders of ordinary shares are entitled to receive notice of general meetings and to attend, speak and vote at such meetings.

Convertible Shares

The NLF has the right from time to time to convert all or part of its entitlement to the Cash Sweep Payment into convertible shares in British Energy (the NLF conversion right). On a full conversion of its remaining interest, the NLF would hold up to approximately 35% of the thereby enlarged equity share capital of British Energy. Subsequent to a conversion, the NLF may dispose of its convertible shares (which on disposal become ordinary shares) at any time, subject to certain restrictions. Among other things, the NLF may not exercise the NLF conversion right or dispose of any convertible shares if such disposal would require British Energy to have produced listing particulars or a prospectus more than five times in a consecutive period of 7.5 years. The convertible shares may only be held by NLF or its successor in title, a Minister of the Crown, the Treasury, a department, non-departmental body or other agency of the Crown, any body corporate established by statute some or all of the members of which are appointed by a Minister of the Crown or other HM Government entity or any person directly or indirectly wholly-owned by, or held on trust for, the Secretary of State or other Minister of the Crown.

Save in respect of voting rights, the convertible shares have the same rights, are subject to the same restrictions and rank *pari passu* with the ordinary shares of British Energy in all respects. The number of votes that the holder of the convertible shares is entitled to exercise in respect of its holding of convertible shares is the lesser of: (i) 29.9% (and, for this purpose, taking into account the voting rights attributable to any other ordinary shares held or acquired by any person acting in concert with the holder); and (ii) the number of convertible shares which the holder would otherwise be entitled to vote if the convertible shares were ordinary shares. The convertible shares will convert into ordinary shares of British Energy automatically on transfer to a third party by the holder but are not convertible at the election of the holder prior to such a transfer.

Special Rights Redeemable Preference Share of £1

The Special Share is redeemable at par at any time after 30 September 2006 at the option of the Secretary of State, after consulting British Energy. This share, which may only be held by and transferred to one or more of Her Majesty's Secretaries of State, another Minister of the Crown, the Solicitor for the affairs of Her Majesty's Treasury or any other person acting on behalf of the Crown, does not carry any rights to vote at general meetings, but entitles the holder to attend and speak at such meetings. The Special Share confers no rights to participate in the capital or profits of British Energy beyond its nominal value. The consent of the holder of the Special Share is required for certain matters, including the alteration or removal of the provisions in British Energy's Articles of Association relating to the Special Share and to the limitations on shareholdings.

In addition, consent of the holder of the Special Share is required in relation to, among other things, certain amendments to the Articles of Association of BEPF, BEL, BEG or BEG (UK), or a disposal by British Energy of its shares in these companies. However, the holder of the Special Share will only be entitled to withhold consent to such an amended mentor disposal if, in the holder's opinion, the matter in question would be contrary to the interests of national security. British Energy's Articles of Association include full details of these restrictions.

Warrants

On Restructuring, 29,298,286 warrants of £0.98 were allotted. The British Energy warrants are freely exercisable at the option of the British Energy warrant holder. The subscription rights may be exercised at any time in respect of certificated British Energy warrants on lodging of a duly completed subscription notice and remittance of the subscription price or, in respect of the British Energy warrants held in uncertificated form, if CREST Co. Limited receives a properly authenticated dematerialised instruction and payment through CREST in accordance with its rules. In the year ended 31 March 2008, 6,955,809 (2007: 6,399,439; 2006: 8,880,037) of these British Energy warrants were exercised, leaving 6,764,057 (2007: 13,719,866; 2006: 20,119,305) unexercised. The British Energy warrants entitle the holder to subscribe to acquire an equivalent number of ordinary shares at a subscription price of £0.98 per share within five years of Restructuring.

Own Shares

The Group has investments in its own shares, held in relation to the Group's share incentive schemes, through shareholdings held by British Energy Employee Share Trust and Abbey National AESOP Trust. The value of these shares is presented within total equity. At 31 March 2008, 1,913,946 (2007: 1,478,545; 2006: 412,348) shares were held in trust. The maximum number of own shares held during the year was 1,946,438 (2007: 1,497,849; 2006: 434,701).

31 Equity

	Called up equity share capital	Share premium	Capital reserve	Hedge reserve	Warrant reserve	Retained earnings	Total equity
				£m			
As at 1 April 2006	57	24	767	(31)	35	1,249	2,101
Net profit for the year attributable to shareholders	—	—	—	—	—	465	465
Net income recognised directly in equity	—	—	—	46	—	68	114
Deferred tax on items recognised directly in equity (see note 11)	—	—	—	(14)	—	(21)	(35)
Total income for the year	—	—	—	32	—	512	544
Share-based payments (see note 34)	—	—	—	—	—	2	2
Purchase of own shares for share incentive schemes	—	—	—	—	—	(6)	(6)
Exercise of warrants	1	16	—	—	(11)	—	6
As at 31 March 2007	58	40	767	1	24	1,757	2,647
Net profit for the year attributable to shareholders	—	—	—	—	—	335	335
Net expense recognised directly in equity	—	—	—	(102)	—	(199)	(301)
Deferred tax on items recognised directly in equity (see note 11)	—	—	—	30	—	60	90
Total (expenses)/ income for the year	—	—	—	(72)	—	196	124
Equity dividends paid (see note 13)	—	—	—	—	—	(140)	(140)
Shares issued	45	2,295	—	—	—	—	2,340
Capital reduction	—	(2,295)	—	—	—	2,295	—
Share-based payments (see note 34)	—	—	—	—	—	6	6
Purchase of own shares for share incentive schemes	—	—	—	—	—	(2)	(2)
Exercise of warrants	—	19	—	—	(12)	—	7
As at 31 March 2008	103	59	767	(71)	12	4,112	4,982

(i) Called Up Equity Share Capital

Called up equity share capital represents the nominal value of shares in issue (see note 30).

(ii) Share Premium

The share premium recorded at 31 March 2008 of £59m (2007: £40m; 2006: £24m) represents the excess of the fair value of British Energy Warrants exercised and British Energy Warrant proceeds received since Restructuring over the nominal value of the shares issued on exercise.

As a result of the partial conversion by the NLF on 6 June 2007, additional share premium of £2,295m was recognised during the year (see note 30). On 22 October 2007, the Court of Session in Edinburgh approved a £2,295m reduction of British Energy's share premium account, thereby creating distributable reserves of this value. The reduction of the share premium reserve by £2,295m equates to the amount of new share premium created in relation to the NLF partial conversion.

(iii) Capital Reserve

The Restructuring involved bondholders and significant creditors compromising their claims against the Group in exchange for, among other things, the issue of Bonds (see note 23) by BEBF (a wholly-owned subsidiary of British Energy) and new ordinary shares of British Energy. The capital reserve was created on the issue of shares at RED and represents the excess of the fair value of the claims of the significant creditors and bondholders over the legal liability foregone. The capital reserve is not distributable.

(iv) Hedge Reserve

The £102m loss (2007: £46m gain; 2006: £12m loss) in the hedge reserve in the year reflects the fair value movement, before the deferred tax credit of £30m (2007: £14m charge; 2006: £3m credit), of the contracts that have been designated as cash flow hedging instruments. This movement comprises an £84m net loss (2007: £3m gain; 2006: £31m net loss) on hedging instruments recognised in the year, plus an £18m loss (2007: £43m gain; 2006: £19m gain) relating to amounts released from the hedge reserve as contracts are delivered and included in the consolidated income statement (see note 22).

Where hedge accounting is permitted, gains and losses on hedging instruments are recognised directly in equity until the contract is settled, at which point the gain or loss is transferred to the consolidated income statement. When trades are de-designated as hedging instruments, cumulative gains or losses are retained in equity until the forecast transaction is settled. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised within equity is transferred to the consolidated income statement for the period.

(v) Warrant Reserve

On Restructuring, the shareholders in British Energy were entitled to receive shares in British Energy and British Energy Warrants. The British Energy Warrants entitle the holder to subscribe for ordinary shares in British Energy within five years of the Restructuring. As the British Energy Warrants are exercised, this reserve will be transferred to share capital and the share premium account. During the year, 6,955,809 British Energy Warrants (2007: 6,399,439; 2006: 8,880,037) were exercised, resulting in an increase of 6,955,809 ordinary shares (2007: 6,399,439), an increase to share premium of £19m (2007: £16m; 2006: £24m) and a reduction in the warrant reserve of £12m (2007: £11m; 2006: £16m). There was no resulting increase in share capital (as compared with a £1m share capital increase in both 2007 and 2006). The proceeds received in the year in relation to the exercise of the British Energy Warrants amounted to £7m (2007: £6m; 2006: £9m).

(vi) Retained Earnings

Total income and expense in the year comprises the profit attributable to shareholders of £335m (2007: £465m; 2006: £430m), net actuarial gains and losses on retirement benefit obligations for the year of £199m loss (2007: £68m gain; 2006: £88m gain) and related deferred tax credit of £60m (2007: £21m charge; 2006: £26m charge).

An equity dividend of £140m (2007: £nil) was paid to ordinary shareholders from retained earnings during the year (see note 13).

As discussed above, £2,295m (2007: £nil) has been credited to retained earnings in relation to the approved capital reduction.

Under IFRS 2, £6m (2007: £2m; 2006: £3m) has been credited to retained earnings in relation to the Share Incentive Plan, the Deferred Incentive Plan and the Long-Term Deferred Bonus Plan (see note 34).

During the year, £2m (2007: £6m; 2006: £nil) of own shares were purchased from the market and held in trust in order to satisfy obligations in relation to the Group's share incentive schemes.

32 Acquisition of British Energy

On 14 January 2005, British Energy Group plc acquired British Energy, which was provisionally valued and stated in the 31 March 2005 financial statements. In accordance with IFRS 3, an adjustment has been made for amendments to those provisional fair values as at 14 January 2005, as stated in the 31 March 2005 financial statements, following the completion of the quinquennial review of assumptions underlying the

British Energy Group's provision for certain nuclear liabilities. The provisional and amended values of the net assets acquired are as follows:

	Provisional fair values	Adjustments	Amended fair values
		£m	
Assets			
Non-current assets	6,331	956	7,287
Current assets	1,382	—	1,382
Total assets	7,713	956	8,669
Liabilities			
Current liabilities	(893)	—	(893)
Non-current liabilities	(5,629)	(956)	(6,585)
Total liabilities	(6,522)	(956)	(7,478)
Net assets acquired	1,191	—	1,191
Goodwill arising on acquisition	345	—	345
Consideration paid	1,536	—	1,536

The adjustments in the table arose following the quinquennial review, which is subject to final agreement with the NDA and the other regulators (Nuclear Installations Inspectorate, the Environment Agency and the Scottish Environment Protection Agency). The level of the estimated nuclear liabilities increased by £956m, on a discounted basis, resulting in the total liability at RED being restated at £5,265m. As part of the Restructuring arrangements, the British Energy Group is indemnified by HM Government for any future shortfall on NLF funding of qualifying nuclear liabilities and decommissioning costs. Therefore the increase in liabilities was fully offset by a corresponding increase in the indemnity from HM Government at the date.

33 Principal Group Companies

Details of British Energy's principal subsidiary undertakings, which are consolidated into the Group's financial statements, are as follows:

	Country of incorporation	Proportion of ownership interest and voting power (%)	Principal activity
British Energy Bond Finance plc (formerly British Energy Holdings plc)	Great Britain	100	Holding Company
British Energy Limited	Great Britain	100	Holding Company
British Energy Generation Limited	Great Britain	100	Generation and sale of electricity
British Energy Power and Energy Trading Limited	Great Britain	100	Energy trading
British Energy Direct Limited	Great Britain	100	Sale of electricity
Eggborough Power Limited	Great Britain	100	Generation and sale of electricity

A full list of subsidiary undertakings will be annexed to British Energy's next annual return.

34 Share-based Payments

The expense recognised for share-based payments in respect of employee services received during the year ended 31 March 2008 was £6m (2007: £2m; 2006: £3m) (see note 6) and related entirely to equity-settled share-based payment transactions. Details of each of the employee share plans are given below.

Share Incentive Plan

Under the Share Incentive Plan (**"SIP"**), employees, including the executive directors, who are resident in the UK and meet the service requirements, are eligible for awards under the SIP. Awards under the SIP are limited each year by relevant tax legislation and for the year ended 31 March 2008 will take the form of free shares. The value of the annual award is linked to performance conditions and, in respect of the year ended 31 March

2008, these performance conditions related to cost control, unplanned losses and length of the fixed nuclear book. These are considered to be non-market conditions under IFRS 2 and dividends attach to the awards; therefore, the shares are fair valued at the market value on the date of grant. The free shares are initially held in a trust and vest unconditionally for participating employees after being held within the trust for three years, contingent upon participants being in continued employment by the Group. Any dividends paid on shares held within the trust are converted into additional shares.

The following table illustrates the number of, and movements in, share awards under this scheme:

	2008	2007
	Number	
Outstanding at 1 April	748,933	—
Granted during the year	483,527	764,308
Forfeited during the year	(36,353)	(15,375)
Exercised	(4,110)	—
Unvested at 31 March	1,191,997	748,933

The fair value of shares granted during the year was £5.43 per share (2007: £6.93).

The shares exercised in the year related to individuals who left the Group's employment and were permitted to exercise their shares early in accordance with the scheme rules. The weighted average share price of awards exercised during the year was £5.29.

Deferred Incentive Plan

The Deferred Incentive Plan (**"DIP"**) is available to selected senior employees who are eligible to receive conditionally awarded options in shares in British Energy at nil cost. The value of the annual award is linked to performance conditions and, in respect of the year ended 31 March 2008, these performance conditions related to cost control, unplanned losses and length of the fixed nuclear book. The share options vest over a period of between one and three years from the date of grant dependent on the percentage of performance targets achieved and the contractual life of each option granted is 10 years.

The following table illustrates the number of, and movements in, share options under this scheme during the year:

	2008	2007
	Number	
Granted during the year	348,947	—
Forfeited during the year	(12,355)	—
Exercised	(707)	—
Unvested at 31 March	335,885	—

The fair value of options granted during the year was £5.43 per share.

The share options exercised in the year related to individuals who left the Group's employment and were permitted to exercise their shares early in accordance with the scheme rules. The weighted average share price of options exercised during the year was £5.72.

The remaining contractual life of options outstanding at 31 March 2008 was 9.2 years.

Long-Term Deferred Bonus Plan

The Long-Term Deferred Bonus Plan was available to certain Executive Directors and selected senior executives who were eligible to receive conditionally awarded options in shares in British Energy at nil cost. There was no award made in the year in respect of this scheme and no further awards are to be made under this scheme. For previous awards granted, the share options vest over a three-year period from the date of grant and the contractual life of each option granted is 10 years.

The following table illustrates the number of, and movements in, share options under this scheme during the year:

	2008	2007
	Number	
Outstanding at 1 April	276,852	—
Granted during the year	—	296,301
Forfeited during the year	(4,804)	(1,672)
Exercised	(24,097)	(17,777)
Outstanding at 31 March	247,951	276,852
Exercisable at 31 March	141,048	57,256

The fair value of options granted during the year ended 31 March 2007 was £4.86.

The weighted average share price of options exercised during the year was £5.37 per share (2007: £4.65). The remaining contractual life of options outstanding at 31 March 2008 was 8.7 years (2007: 9.7 years).

British Energy Executive Share Option Plan 2004

The British Energy Executive Share Option Plan 2004 was available to certain full-time directors or qualifying employees. The options outstanding at 31 March 2007 related to two grants of awards and were subject to a performance condition related to nuclear output during the year ended 31 March 2008. These performance conditions were not met in the year and the awards have subsequently lapsed. No further awards are to be made under this scheme.

The following table illustrates the number of, the exercise prices of, and movements in share options under, this scheme during the year:

	2008	Weighted average exercise price 2008	2007	Weighted average exercise price 2007	2006	Weighted average exercise price 2006
	Number	£	Number	£	Number	£
Outstanding at 1 April	515,000	4.89	240,000	5.00	—	—
Granted during the year	—	—	275,000	4.80	240,000	5.00
Lapsed following assessment of performance criteria	(515,000)	—	—	—	—	—
Outstanding at 31 March	—	—	515,000	4.89	240,000	5.00
Exercisable at 31 March	—	—	—	—	—	—

These options were granted on 24 November 2006 and 20 December 2005 and are dependent on a performance condition based on nuclear output during the financial year ending 31 March 2008. Subject to this performance condition, the options granted will vest on the third anniversary of the dates of the grants, on 24 November 2009 and 20 December 2008, respectively. The contractual life of each option granted is 10 years.

The weighted average remaining contractual life of options outstanding at 31 March 2007 was 9.2 years. The range of exercise prices for options outstanding at 31 March 2007 was £4.80 to £5.00.

Interim Bonus Plan

The Interim Bonus Plan is a deferred bonus scheme which related to the year ended 31 March 2005. The awards were granted to members of the Executive Committee either wholly in shares (in the case of Executive Directors) or in shares and in cash (in the case of Executive Committee members). The awards were based on a proportion of salary and vest over a three-year period, with one-third of the award vesting immediately, one-third after one year and the final third after two years. The contractual life of each option granted is 10 years.

The following table illustrates the number of, and movements in, share options under this scheme during the year. The exercise price of these options is £nil.

	2008	2007	2006
		Number	
Outstanding at 1 April	57,206	101,910	124,263
Settled during the year	—	(44,704)	—
Exercised	—	—	22,353
Outstanding at 31 March	57,206	57,206	101,910
Exercisable at 31 March	57,206	38,138	19,070

The remaining contractual life of options outstanding at 31 March 2008 was 7.3 years (2007: 8.3 years).

Share Option Schemes Granted by BEL

Share options were granted in previous years by BEL. Legal advice has been obtained to the effect that the changes in the corporate structure of the Group as a result of the Restructuring did not trigger the early exercise provisions under these options. The Remuneration Committee decided not to allow holders of the options in BEL to roll them over into options over shares in British Energy. The options granted by BEL are still capable of exercise, but immediately on exercise the shares will be converted into shares in British Energy in the ratio of 50:1. Accordingly, the effective exercise price of the options is significantly higher than the current share price and it is unlikely the options will be exercised.

35 Contingent Assets

The Group has certain contingent assets as a result of its disposal of its 82.4% interest in Bruce Power. During the year the Group received a payment of C$15 million as additional consideration in respect of the restart of Bruce A Units 3 and 4. This has been recognised within the consolidated income statement in other operating income (see note 26).

The treatment of expenditure at the Bruce Power Station during the period of the Group's part ownership is currently being considered by the Canadian tax authorities and could result in a rebate of a material amount of tax to the Group (see note 36).

36 Contingent Liabilities

On 12 February 2004, BEL and BEIH received a notice of warranty claims from the consortium which purchased the Group's 82.4% interest in Bruce Power alleging breach of certain warranties and representations relating to tax and to the condition of certain plant at the Bruce Power Station.

The principal tax claim relates to the treatment of expenditure at the Bruce Power power station during the period of the Group's part ownership and is currently being considered by the Canadian tax authorities. The treatment proposed by the Group could result in a rebate of a material amount of tax to the Group that has not been recognised in the consolidated financial statements; it is impracticable to provide an estimate of the potential amount of the tax rebate. The consortium claims that allowance of the expenditure for that period would cause it to lose future deductions. BEIH has rejected the tax claim and expects to defend it if it is pursued further. The Group is confident that the amount of the claim should not, in any event, materially exceed the amount of the rebate, and that the tax claim should have no material cash flow impact on the Group.

The claim relating to the condition of the plant is based upon alleged erosion of certain parts of the steam generators, including the support plates, through which boiler tubes pass, which it is alleged resulted in an extended outage of one unit at the plant to carry out repair works and loss of revenues and costs of approximately C$64.5 million. The consortium also claims that the alleged erosion may reduce the operating life of the unit and/or result in further repairs involving further losses. On 10 February 2006, BEL and BEIH filed a Notice of Action against Ontario Power Generation and Bruce Power with the Ontario Superior Court of Justice seeking a contribution and indemnity from Ontario Power Generation and Bruce Power with respect to any amounts for which BEL or BEIH may be found liable as a result of the steam generator claim brought on 12 February 2004 by the consortium which acquired BEL's 82.4% interest in the Bruce Power plant.

On 7 December 2006, the consortium served a notice of arbitration on BEL and BEIH in relation to the purchase price payable by the consortium on the purchase of Bruce Power. Under the disposal arrangements the parties agreed a post-completion adjustment to the purchase price to account for the value of the Bruce Power pension plan as determined by a mutually appointed actuarial adviser, Watson Wyatt. The consortium alleges that the valuation was incorrect, resulting in British Energy benefiting by C$23.1 million which the consortium is now claiming together with interest and costs.

The consortium has also commenced legal proceedings against Watson Wyatt, David Proctor (an actuary and one of their employees) and Mebs Merali (an actuary and former employee) who were responsible for evaluating the Bruce Power pension plan and post-completion adjustment to the purchase price payable by the consortium. On 15 May 2007, Watson Wyatt and David Proctor served notice of a third-party action on BEL and BEIH seeking an indemnity against any amounts for which they may be found liable. On 11 September 2007, Mebs Merali served a similar notice on BEL and BEIH. The Group expects to defend the claims. BEL and BEIH commenced a fourth-party claim against Bruce Power and Bruce Power Inc in respect of the third-party claim by Watson Wyatt and David Proctor and a separate third-party claim by Mebs Merali on 21 February 2008 and 20 February 2008, respectively, seeking a contribution, indemnity and relief from any damages/costs for which BEL and BEIH may be found liable or incur in the third-party claims or the arbitration by the consortium. The arbitration proceedings in the claim by the consortium commenced on 10 March 2008.

Under the agreement with the consortium, C$20 million is retained in trust to meet any representation and warranty claims, and this may be retained pending agreement or determination of the claims.

The Group has given certain indemnities and guarantees in respect of its subsidiary undertakings. No losses are anticipated to arise under these indemnities and guarantees, provided relevant subsidiary undertakings continue on a going concern basis.

The Group is involved in a number of other claims and disputes arising in the normal course of business which are not expected to have a material effect on the Group's financial position.

37 Financial Commitments

(i) Capital Commitments

	2008	2007	2006
		£m	
Capital expenditure contracted but not provided:			
Property, plant and equipment	29	24	39
Intangible assets	27	104	81
Total capital commitments	56	128	120

(ii) Operating Lease Commitments

At the balance sheet date, the Group has outstanding commitments under non-cancellable operating leases which fall due as follows:

	2008	2007	2006
		£m	
Within one year	—	5	5
In the second to fifth years inclusive	2	8	13
Later than five years	2	7	8

(iii) Other Contractual Commitments

Under contractual arrangements, the Group has the following nuclear fuel commitments at 31 March 2008:

	2009	2010	2011	2012	2013	Thereafter	Total
				£m			
Commitments to purchase in the year	190	181	123	121	108	717	1,440

At 31 March 2008, the estimated minimum commitment for the supply of coal was 1m tonnes (2007: 4m tonnes; 2006: 4m tonnes), which, at contract prices on 31 March 2008, equates to approximately £96m (2007: £139m; 2006: £142m), all of which falls due within one year. At 31 March 2007, 3m tonnes (2006: 2m tonnes) with an approximate value of £116m (2006: £77m) fell due within one year and 1m tonnes (2006: 2m tonnes) with an approximate value of £23m fell due after more than one year but not more than three years.

In addition to the liabilities and provisions recognised and described in the notes to the consolidated financial statements, the Group has provided certain guarantees and commitments in respect of the extent of capital expenditure by Eggborough Power Limited. The Group also enters into commitments to purchase and sell electricity in the normal course of business.

The Group has a commitment to make the Cash Sweep Payment as described in note 2(xviii). The annual Cash Sweep Payment accrual can only be determined after the end of the financial year and is contingent based on cash generation in the year. Therefore, it is only recognised and provided for when it becomes determinable. At 31 March 2008, £102m has been accrued (2007: £305m; 2006: £105m).

38 Related Parties

British Energy is a public limited company owned by the Company's shareholders and operates within an extensive contractual framework established as part of the Restructuring. The most significant contract, in terms of the limitations it places on the business, is the Contribution Agreement between the Secretary of State and British Energy. Within this contractual framework, British Energy is managed independently by the Board, which continues to direct the finances and operating policies of the Group and is subject to the normal private sector disciplines, fiduciary duties and Companies Act requirements. British Energy considers that no party is a controlling party under the terms of IAS 24 — Related Party Disclosures (**"IAS 24"**).

The following transactions were carried out with related parties:

(i) Entities with Significant Influence over the Group

The Group considers HM Government to be a related party due to the significant influence exercised by HM Government following the Group's Restructuring. The following transactions took place during the year with HM Government and sponsored bodies under its control:

- HM Government met the Group's historic contracted nuclear liabilities to BNFL, an HM Government-controlled body. The nuclear liabilities receivable was recognised on the consolidated balance sheet in relation to these liabilities and decreased from £2,223m at 31 March 2007 (£2,245m at 31 March 2006) to £2,168m at 31 March 2008.
- The Group made payments to the NLF of £24m (2007: £29m). The payments were in relation to fixed decommissioning funding contributions of £23m (2007: £22m; 2006: £21m) and £1m (2007: £1m; 2006: £0.2m) in respect of the Group's share of the NLF's administration costs. In the year ended 31 March 2007, a payment of £6m (2006: £6m) was made in respect of PWR fuel loaded into Sizewell B reactor, with no equivalent payment made in the year ended 31 March 2008.
- The Group made payments to BNFL of £289m (2007: £295m; 2006: £350m) during the year in respect of front and back end fuel costs. In addition, under HM Government indemnity in respect of historic nuclear liabilities, consideration of £205m (2007: £197m; 2006: £189m) was passed to BNFL in the year. The balance outstanding due to BNFL at the end of the year was £16m (2007: £16m; 2006: £26m). Amounts due from the Group to BNFL at 31 March 2008 under the HLFA amounted to £2,168m (2007: £2,223m; 2006: £2,245).
- The Group is required to make Cash Sweep Payments to the NLF depending on certain criteria being met. See note 9 for further details.

The NLF, an HM Government-controlled company, was issued with Bonds of £275m by BEBF as part of the Restructuring on 15 January 2005; however, as they are bearer bonds, the Group is unable to confirm the total value held by the NLF at 31 March 2008. The outstanding amount of Bonds issued to the NLF is included within the £405m of Sterling bonds outstanding at 31 March 2008; see note 23 for further details.

The Group has also entered into a number of material transactions in its normal course of business with other sponsored bodies and departments of HM Government, including HM Revenue & Customs.

(ii) Key Management Personnel

The compensation of key management personnel is set out in note 7.

39 Non-adjusting Post-Balance Sheet Events

On 21 March 2007, HM Government announced its intention to phase out industrial buildings allowances with effect from 1 April 2008. The phasing out of industrial buildings allowances was not included in the 2007 Finance Act and so is not considered to be substantively enacted at the balance sheet date. An estimate of the financial effect of this change, calculated at 28%, is that it would increase the net deferred tax liability by £37m to £82m.

Section IV

Unaudited Financial Information on British Energy

Unaudited Financial Statements for the six months ended 28 September 2008

The financial information contained in this Section III of this Part III has been extracted without material adjustment from the unaudited financial statements of British Energy for the six months ended 28 September 2008. The half-yearly financial statements were prepared in accordance with the Disclosure and Transparency Rules of the FSA and with IAS 34 — Interim Financial Reporting (**"IAS 34"**) as adopted by the European Union. The half-yearly financial statements should be read in conjunction with British Energy's Annual Report and Accounts for the year ended 31 March 2008, which have been prepared in accordance with IFRS as adopted by the European Union.

In this Section III of this Part III, references to the "Company" are to British Energy. References to the "Group" are to the Company and its subsidiaries. In addition, in this Section III, references to the "Directors" or the "Board of Directors" are to be taken as references to the board of directors of British Energy as at the relevant time.

British Energy Group Plc

Consolidated Income Statement
For the six months ended 28 September 2008
(Unaudited)

	Notes	Six months ended 28 September 2008	Six months ended 30 September 2007
		£m	
Revenue	3	1,281	1,390
Operating and energy costs	4	(1,024)	(879)
		257	511
Other operating income		13	9
Cash Sweep Payment credit	5	—	134
Cash Sweep Payment accrual		—	—
Depreciation		(114)	(119)
Amortisation of conversion asset		(89)	(70)
Other amortisation		(5)	(4)
Unrealised net gains/(losses) on derivative financial instruments and commodity contracts		8	(68)
Operating profit/(loss)		70	393
Financing (charges)/credits			
Interest payable	6	(41)	(39)
Interest receivable	6	38	40
Net other finance (expense)/income	6	(9)	13
Profit/(loss) before taxation		58	407
Taxation	7	(35)	(164)
Net profit/(loss) for the period attributable to shareholders	11	23	243
Earnings/(loss) per share (pence):			
Basic	9	2.2	28.2
Diluted	9	2.2	28.0

British Energy Group Plc

Consolidated Statement of Recognised Income and Expense
For the six months ended 28 September 2008
(Unaudited)

	Notes	Six months ended 28 September 2008	Six months ended 30 September 2007
		£m	
Net (losses)/gains on hedged items for the period	11	(16)	(42)
Net actuarial (losses)/gains on retirement benefit (obligations)/assets for the period	10, 11	(150)	190
Tax on items taken directly to equity for the period	11	46	(44)
Net (expense)/income recognised directly in equity		(120)	104
Net profit/(loss) for the period attributable to shareholders	11	23	243
Total recognised income and expense		(97)	347

British Energy Group Plc

Consolidated Balance Sheet
As at 28 September 2008
(Unaudited)

	Notes	As at 28 September 2008	As at 31 March 2008	As at 30 September 2007
			£m	
Assets				
Non-current assets				
Conversion asset		1,904	1,993	2,050
Property, plant and equipment		1,671	1,665	1,690
NLF and nuclear liabilities receivables		5,451	5,310	5,345
Goodwill and intangible assets		365	413	367
Trade and other receivables		281	317	257
Retirement benefit assets	10	—	—	147
		9,672	9,698	9,856
Current assets				
Conversion asset		180	180	220
Inventories		496	448	423
Nuclear liabilities receivable		211	202	201
Trade and other receivables		520	451	356
Restricted cash and other financial assets		250	286	193
Cash and cash equivalents		759	1,028	1,068
Derivative financial instruments and commodity contracts		117	53	22
		2,533	2,648	2,483
Total assets		12,205	12,346	12,339
Liabilities				
Current liabilities				
Borrowings		(61)	(61)	(57)
Trade and other payables		(599)	(659)	(383)
Current tax liability		(29)	(23)	(178)
Nuclear liabilities		(211)	(202)	(201)
Provisions for other liabilities and charges		(14)	(19)	(23)
Derivative financial instruments and commodity contracts		(214)	(142)	(98)
		(1,128)	(1,106)	(940)
Non-current liabilities				
Borrowings		(455)	(455)	(516)
Retirement benefit obligations	10	(347)	(216)	—
Nuclear liabilities		(5,451)	(5,310)	(5,345)
Deferred income tax liability		(5)	(45)	(82)
Provisions for other liabilities and charges		(36)	(42)	(44)
NLF liabilities		(188)	(185)	(187)
Deferred income		(5)	(5)	(5)
Derivative financial instruments and commodity contracts		—	—	(18)
		(6,487)	(6,258)	(6,197)
Total liabilities		(7,615)	(7,364)	(7,137)
Net assets		4,590	4,982	5,202
Equity				
Called up share capital	11	103	103	104
Share premium	11	60	59	2,351
Capital reserve	11	767	767	767
Hedge reserve	11	(83)	(71)	(28)
Warrant reserve	11	11	12	13
Retained earnings	11	3,732	4,112	1,995
Total shareholders' equity (including non-equity shareholders' interest)	11	4,590	4,982	5,202

British Energy Group Plc

Consolidated Statement of Cash Flows
For the six months ended 28 September 2008
(Unaudited)

	Notes	Six months ended 28 September 2008	Six months ended 30 September 2007
		£m	
Operating activities			
Operating profit		70	393
Depreciation		114	119
Amortisation of conversion asset		89	70
Other amortisation		5	4
Share-based payments		5	4
Unrealised net (gains)/losses on derivative financial instruments and commodity contracts		(8)	68
Movement in provisions for other liabilities and charges		(3)	(8)
Decrease in Cash Sweep Payment accrual		—	(134)
Cash Sweep Payment		(102)	(171)
Interest paid		(32)	(29)
Interest received		38	40
NLF liabilities payment		(6)	(11)
Difference between pension contributions paid and amounts recognised in consolidated income statement		(17)	(5)
Taxation paid		(23)	(21)
Increase in inventories		(48)	(24)
(Increase)/decrease in trade and other receivables		(33)	33
Decrease/(increase) in restricted cash and other financial assets		36	(47)
Increase/(decrease) in trade payables and other payables		23	(98)
Decrease in intangible assets		49	24
Net cash inflow generated from operations		157	207
Cash flows from investing activities			
Purchases of property, plant and equipment		(122)	(99)
Purchases of software		(4)	(5)
Net cash used in investing activities		(126)	(104)
Cash flows from financing activities			
Purchase of own shares for share incentive schemes		(9)	(2)
Exercise of warrants		—	6
Equity dividends paid	8	(291)	(140)
Net cash used in financing activities		(300)	(136)
Net decrease in cash and cash equivalents		(269)	(33)
Cash and cash equivalents at the beginning of the period		1,028	1,101
Cash and cash equivalents at the end of the period		759	1,068

1 Basis of Preparation

In preparing the half-yearly financial statements for the six months ended 28 September 2008, the Board of Directors of British Energy have used the principal accounting policies and methods of computation as set out in British Energy's Annual Report and Accounts for the year ended 31 March 2008. The half-yearly financial report has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority and with IAS 34 as adopted by the European Union. The half-yearly financial statements should be read in conjunction with British Energy's Annual Report and Accounts for the year ended 31 March 2008, which have been prepared in accordance with IFRS as adopted by the European Union.

The preparation of the half-yearly financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses.

The information shown for the year ended 31 March 2008 does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 and has been extracted from the statutory accounts for the year ended on that date, which have been filed with the Registrar of Companies. The report of the auditors on the statutory accounts for the year ended 31 March 2008 was unqualified and did not contain a statement under section 237 of the Companies Act 1985.

The half-yearly financial statements for the six months ended 28 September 2008 are unaudited but have been reviewed by the auditors.

This half-yearly report was approved by the Board of Directors on 18 November 2008.

During the period there has been no change to the Group's accounting policies as a result of new accounting standards and interpretations. Please refer to British Energy's Annual Report and Accounts for the year ended 31 March 2008 for further details.

2 Seasonality of Operations

Electricity demand in the UK is seasonal, in that demand and prices are generally lower in the summer than in the winter. As a result, the Group schedules a significant proportion of planned outages for the summer months. This seasonality in both prices and output has a direct effect on financial performance and cash flows.

3 Output, Revenue and Segmental Information

	Six months ended 28 September 2008	Six months ended 30 September 2007
	TWh	
Output		
Nuclear power stations	19.2	27.8
Coal-fired power station — Eggborough	3.5	2.9
Total output	22.7	30.7

	Six months ended 28 September 2008	Six months ended 30 September 2007
	£m	
Revenue		
Wholesale generation sales	499	695
Direct supply sales excluding recovery of energy supply costs and renewable energy purchases recharged to customers	572	483
Revenue from generated electricity	1,071	1,178
Energy supply costs recharged to customers	187	190
Renewable energy purchases recharged to customers	18	17
Miscellaneous income	5	5
Total revenue	1,281	1,390

The Group's activities are in one business segment, being the generation and sale of electricity, and are in one geographic segment, being the United Kingdom. There are no other significant classes of business or geographic areas.

4 Operating and Energy Costs

	Six months ended 28 September 2008	Six months ended 30 September 2007
	£m	
Fuel costs — nuclear	112	160
Fuel costs — Eggborough	146	63
Total fuel costs	258	223
Materials and services	343	251
Staff costs	218	198
Operating costs of generated electricity	819	672
Energy supply costs recharged to customers	187	190
Renewable energy purchases recharged to customers	18	17
Total operating and energy costs	1,024	879

5 Cash Sweep Payment Credit

As part of the Contribution Agreement made at the time of Restructuring, British Energy has an obligation to make annual Cash Sweep Payments to the NLF should certain criteria be met. Under the terms of the original Contribution Agreement, on a conversion by the NLF of part or all of its Cash Sweep Payment right, the NLF was entitled to both a Cash Sweep Payment on the part converted for the period up to conversion and any dividend in respect of the same period on the shares arising from the conversion. British Energy obtained agreement from the NLF and the Secretary of State to an amendment to the Cash Sweep Payment right and Cash Sweep Payment percentage adjustment formula in relation to the partial conversion, which took place in the comparable period, so as to ensure that the principle of economic parity was maintained and to avoid an unintended dilution of British Energy's equity shareholders' interests. As a result, the £305m accrued in the 2007 Annual Report and Accounts for the Cash Sweep Payment due for the year ended 31 March 2007 was reduced by £134m to £171m to reflect the NLF's agreement to waive the proportion of the 2007 obligation due that was extinguished by the partial conversion in June 2007. The £134m reduction has been recognised as a credit in the consolidated income statement for the comparable period; the remaining £171m obligation was paid in July 2007.

6 Financing Charges/(Credits)

	Six months ended 28 September 2008	Six months ended 30 September 2007
	£m	
Interest payable:		
Interest payable on bonds	18	20
Other interest and finance charges payable	23	19
Total interest payable	41	39

	Six months ended 28 September 2008	Six months ended 30 September 2007
	£m	
Interest receivable:		
Interest receivable	(38)	(40)
Total interest receivable	(38)	(40)

	Six months ended 28 September 2008	Six months ended 30 September 2007
	£m	
Other finance expenses/(income):		
Revalorisation of nuclear liabilities	247	179
Revalorisation of nuclear liabilities receivable	(97)	(73)
Revalorisation of NLF receivable	(150)	(106)
Revalorisation of contracts provision	1	—
Revalorisation of NLF liabilities	10	4
Net revalorisation charge	11	4
Expected return on plan assets in the pension schemes (see note 10)	(89)	(91)
Interest on defined benefit obligations (see note 10)	87	74
Net credit to finance charges for retirement benefit (obligations)/assets	(2)	(17)
Net other finance expense/(income)	9	(13)

7 Taxation

	Six months ended 28 September 2008	Six months ended 30 September 2007
	£m	
Current tax:		
UK Corporation tax	29	189
	29	189
Deferred tax:		
Temporary differences	6	(25)
	6	(25)
Tax charged/(credited) to the consolidated income statement	35	164

The tax charge for the six months ended 28 September 2008 has been computed in accordance with the generally accepted practice which provides that the forecast effective tax rate on the forecast full year profits before tax and IAS 39 adjustments be applied to the actual reported profit before tax and IAS 39 adjustments for the period. The forecast full year effective tax rate on this basis is 67 per cent. In addition, the standard tax rate of 28 per cent. is applied to the IAS 39 adjustments in the period. The forecast full year effective tax rate of 67 per cent. is higher than the standard tax rate of 28 per cent. due to the forecast Cash Sweep Payment, accrued only at the year end, and conversion asset amortisation, which are treated as operating costs, being disallowable for tax purposes. The increase in the forecast full year effective tax rate also reflects an additional deferred tax charge as a result of the introduction of legislation to phase out industrial buildings allowances.

8 Dividends Paid

	Six months ended 28 September 2008	Six months ended 30 September 2007
	£m	
Paid:		
2008 base dividend, paid as a final dividend: 13.6p per share	141	—
2007 additional dividend, paid as an interim dividend: 14.5p per share	150	—
2007 base dividend, paid as a final dividend: 13.6p per share	—	140
Total dividends paid	291	140

9 Earnings per Share

	Six months ended 28 September 2008	Six months ended 30 September 2007
Basic earnings per share:		
Net profit for the period attributable to shareholders (£m)	23	243
Weighted average share capital (number of shares, million)	1,031	863
Earnings per share (pence)	2.2	28.2
Diluted earnings per share:		
Net profit for the period attributable to shareholders (£m)	23	243
Diluted weighted average share capital (number of shares, million)	1,036	869
Diluted earnings per share (pence)	2.2	28.0
Adjusted earnings per share:		
Net profit for the period attributable to shareholders (£m)	23	243
Adjustment in respect of Cash Sweep Payment credit (£m)	—	(134)
Adjustment in respect of conversion asset amortisation (£m)	89	70
Adjustments in respect of taxation (£m)	(15)	68
Adjusted net profit for the period attributable to shareholders (£m)	97	247
Basic weighted average share capital (number of shares, million)	1,031	863
Adjustment to weighted average share capital for timing of partial conversion share issue (number of shares, million)	—	164
Maximum Cash Sweep conversion at balance sheet date (number of shares, million)	571	560
Adjusted weighted average share capital (number of shares, million)	1,602	1,587
Adjusted earnings per share (pence)	6.1	15.6

The basic earnings per share for the period has been calculated by dividing the net profit for the period attributable to shareholders by the weighted average number of ordinary shares in issue during the period.

The diluted earnings per share calculation is based on the weighted average of 1,031 million (comparable period: 863 million) ordinary shares in issue together with the dilutive weighted average of potential ordinary shares of 5 million (comparable period: 6 million) in respect of British Energy Warrants.

The Directors consider that the adjusted earnings per share calculation is a more appropriate earnings measure because the Cash Sweep Payment accrual and the net profit attributable to shareholders do not necessarily reflect the respective economic interests of the NLF and equity shareholders in the profits of the Group. The calculation in any given year of the annual Cash Sweep Payment accrual is based on cash flows and the retention of an appropriate cash amount (**"Target Amount"**) and a forecast expenditure amount (**"Forecast Expenditure Reserve"**).

The adjusted earnings per share has been calculated by excluding the following from the net profit for the period attributable to shareholders:

- the amortisation of the conversion asset for the period;
- the impact of the Cash Sweep Payment and amortisation of the conversion asset for the year ending 31 March 2009 on the effective tax rate used for the six months' charge; and
- for the comparable period, the Cash Sweep Payment credit relating to the year ended 31 March 2007 and related tax effect.

The weighted average share capital is adjusted by the number of shares that would have been in issue if:

- the NLF had fully converted their remaining interest at the balance sheet date; and
- for the comparable period, the partial conversion had taken place on 1 April 2007 and not on the actual partial conversion date of 6 June 2007.

There would be no significant change to the adjusted earnings per share if calculated on a diluted basis.

- Revised from previous disclosure of 9.8p, following a revision to the methodology for the tax adjustment.

10 Retirement Benefit (Obligations)/Assets

(i) Pension Schemes

The British Energy Group operates two separate defined benefit pension arrangements within the Electricity Supply Pension Scheme (**"ESPS"**), the British Energy Generation Group (**"BEGG"**) for the majority of employees and the British Energy Combined Group (**"BECG"**) for the employees at Eggborough power station. The ESPS is a defined benefit scheme, which is externally funded and subject to triennial actuarial valuation. Each pension group that participates in the ESPS is financially independent from the other groups.

The cash funding requirements of the pension schemes are determined by triennial actuarial valuations by an independent scheme actuary. The most recent triennial valuations of the BEGG and BECG schemes were carried out at 31 March 2007 and have been agreed by the trustees. Any deficit disclosed in the BEGG or BECG schemes following a triennial actuarial valuation will be funded by the Group. The balance sheet valuations for accounting purposes under IAS 19 — Employee Benefits have been carried out by a separate independent actuary using the projected unit method.

(ii) Amounts Recognised in the Consolidated Balance Sheet

The changes in the retirement benefit (obligations)/assets recognised in the consolidated balance sheet are as follows:

	As at 28 September 2008	As at 30 September 2007
	£m	
Opening retirement benefit obligations at 1 April	(216)	(65)
Current service cost	(39)	(35)
Past service cost	—	(2)
Other finance income	2	17
Contributions by employer	56	42
Net actuarial (losses)/gains	(150)	190
Closing retirement benefit (obligations)/assets	(347)	147

11 Equity

	Called up equity share capital	Share premium	Capital reserve	Hedge reserve	Warrant reserve	Retained earnings	Total equity
				£m			
Balance as at 1 April 2008	103	59	767	(71)	12	4,112	4,982
Net profit for the period attributable to shareholders	—	—	—	—	—	23	23
Net expense recognised directly in equity	—	—	—	(16)	—	(150)	(166)
Deferred tax on items recognised directly in equity	—	—	—	4	—	42	46
Total expense for the period	—	—	—	(12)	—	(85)	(97)
Equity dividends paid (see note 8)	—	—	—	—	—	(291)	(291)
Share-based payments	—	—	—	—	—	5	5
Purchase of own shares for share incentive schemes	—	—	—	—	—	(9)	(9)
Exercise of warrants	—	1	—	—	(1)	—	—
Balance as at 28 September 2008	103	60	767	(83)	11	3,732	4,590

	Called up equity share capital	Share premium	Capital reserve	Hedge reserve	Warrant reserve	Retained earnings	Total equity
				£m			
Balance as at 1 April 2007	58	40	767	1	24	1,757	2,647
Net profit for the period attributable to shareholders	—	—	—	—	—	243	243
Net (expense)/income recognised directly in equity	—	—	—	(42)	—	190	148
Deferred tax on items recognised directly in equity	—	—	—	13	—	(57)	(44)
Total (expense)/income for the period	—	—	—	(29)	—	376	347
Equity dividends paid (see note 8)	—	—	—	—	—	(140)	(140)
Shares issued	45	2,295	—	—	—	—	2,340
Share-based payments	—	—	—	—	—	4	4
Purchase of own shares for share incentive schemes	—	—	—	—	—	(2)	(2)
Exercise of British Energy Warrants	1	16	—	—	(11)	—	6
Balance as at 30 September 2007	104	2,351	767	(28)	13	1,995	5,202

On 30 May 2007, the Secretary of State for Trade and Industry (now the Secretary of State for Business, Enterprise and Regulatory Reform) announced his intention to direct the NLF to convert and sell part of its interest in British Energy Group plc. On 1 June 2007, British Energy Group plc received notice from the NLF intimating its intention to convert and sell approximately 400 million shares in the Company, with an over-allotment option of a further 50 million shares in the Company. As a result, on 6 June 2007, British Energy Group plc issued 450 million convertible shares of 10p each to the NLF, which were re-designated as 450 million ordinary shares of 10p each and admitted to the Official List of the UKLA and to trading on the London Stock Exchange on the same day. Following the partial conversion and share issue, the Cash Sweep Payment percentage was reduced to approximately 36 per cent. and resulted in the recognition of a conversion asset of £2,340m, additional equity share capital of £45m and additional share premium of £2,295m, representing the excess of the partial conversion share price of £5.20 over the nominal value of shares issued. The conversion asset represents the fair value of the obligation which was removed as a result of the partial exercise of the conversion right.

On 22 October 2007, the Court of Session in Edinburgh approved a £2,295m reduction of British Energy Group plc's share premium account, thereby creating distributable reserves of this value. The reduction of the share premium reserve by £2,295m equates to the amount of new share premium created in relation to the NLF partial conversion.

12 Contingent Assets

The Group has certain contingent assets as a result of its disposal of its 82.4 per cent. interest in Bruce Power LP.

A tax refund of approximately C$10.4 million relating to the treatment of expenditure at the Bruce Power Station during the period of the Group's interest has been accepted by the Canadian tax authorities and paid to the consortium which purchased the Group's 82.4 per cent. interest in Bruce Power LP. This amount is not likely to be received by the Group until all related claims are finalised.

In addition, the Group has commenced an appeal of a decision made by the Canadian tax authorities not to allow certain other expenditure for tax purposes and this could result in a rebate of a material amount of tax to the Group (see note 13).

13 Contingent Liabilities

On 12 February 2004, British Energy Limited and British Energy International Holdings Limited received a notice of warranty claims from the consortium which purchased the Group's 82.4 per cent. interest in Bruce Power LP, alleging breach of certain warranties and representations relating to tax and to the condition of certain plant at the Bruce Power Station.

The principal tax claim relates to the treatment of expenditure at the Bruce Power Station during the period of the Group's interest. The Canadian tax authorities have issued a decision confirming agreement in part with the Group's proposed tax treatment, resulting in a tax refund of approximately C$10.4 million being paid to the consortium. This amount is not likely to be received until all related claims are finalised. In addition, the respective Group companies have commenced an appeal of a decision by the Canadian tax authorities not to allow certain other expenditure for tax purposes. The treatment proposed by the respective Group companies could result in a rebate of a material amount of tax to the Group that has not been recognised in the consolidated financial statements; it is impracticable to provide an estimate of the potential amount of the tax rebate. The consortium claims that allowance of the expenditure for that period would cause it to lose future deductions. The respective Group companies have rejected the tax claim and expect to defend the claim if pursued further. The Group is confident that the amount of the claim should not, in any event, materially exceed the amount of the rebate, and that the tax claim should have no material economic impact on the Group.

The claim relating to the condition of the plant is based upon alleged erosion of certain parts of the steam generators, including the support plates, through which boiler tubes pass, which it is alleged resulted in an extended outage of one unit at the plant to carry out repair works and loss of revenues and costs of approximately C$64.5 million. The consortium also claims that the alleged erosion may reduce the operating life of the unit and/or result in further repairs involving further losses. On 10 February 2006, British Energy Limited and British Energy International Holdings Limited filed a Notice of Action against Ontario Power Generation (**"OPG"**) and Bruce Power LP with the Ontario Superior Court of Justice seeking a contribution and indemnity from OPG and Bruce Power LP with respect to any amounts for which British Energy Limited or British Energy International Holdings Limited may be found liable as a result of the steam generator claim brought on 12 February 2004 by the consortium which acquired the Group's 82.4 per cent. interest in the Bruce Power plant. On 21 October 2008, the consortium served a statement of claim confirming that it was seeking to recover C$64.5 million in respect of repair costs and lost revenues arising from an extended outage at one unit, and C$189.1 million in respect of repair costs and lost revenues from a proposed outage to replace the steam generators. The respective Group companies expect to defend the claim.

On 7 December 2006, the consortium served a notice of arbitration on British Energy Limited and British Energy International Holdings Limited in relation to the purchase price payable by the consortium on the purchase of Bruce Power LP. Under the disposal arrangements, the parties agreed a post-completion adjustment to the purchase price to account for the value of the Bruce Power pension plan as determined by a mutually appointed actuarial adviser, Watson Wyatt. The consortium alleged that the valuation was incorrect, resulting in the Group benefiting by C$23.1 million which the consortium sought to reclaim together with interest and costs. On 11 August 2008, a panel of arbitrators found in favour of the respective Group companies and the consortium's claim was dismissed.

The consortium has also commenced legal proceedings against Watson Wyatt, David Proctor (an actuary and one of their employees) and Mebs Merali (an actuary and former employee) who were responsible for evaluating the Bruce Power pension plan and post-completion adjustment to the purchase price payable by the consortium. On 15 May 2007, Watson Wyatt and David Proctor served notice of a third-party action on British Energy Limited and British Energy International Holdings Limited seeking an indemnity against any amounts for which they may be found liable. On 11 September 2007, Mebs Merali served a similar notice on British Energy Limited and British Energy International Holdings Limited. The respective Group companies expect to defend the claims. British Energy Limited and British Energy International Holdings Limited commenced a fourth-party claim against Bruce Power LP and Bruce Power Inc in respect of the third-party claim by Watson Wyatt and David Proctor and a separate third-party claim by Mebs Merali on 21 February 2008 and 20 February 2008, respectively, seeking a contribution, indemnity and relief from any damages/costs for which British Energy Limited and British Energy International Holdings Limited may be found liable or incur in the third-party claims or the arbitration by the consortium.

Under the agreement with the consortium, C$20 million is retained in trust to meet any representation and warranty claims, and this may be retained pending agreement or determination of the claims.

The Group has given certain indemnities and guarantees in respect of its subsidiary undertakings. No losses are anticipated to arise under these indemnities and guarantees, provided relevant subsidiary undertakings continue on a going concern basis.

The Group is involved in a number of other claims and disputes arising in the normal course of business which are not expected to have a material effect on the Group's financial position.

14 Related Parties

British Energy Group plc is a public limited company owned by its shareholders and operates within an extensive contractual framework established as part of the Restructuring. The most significant contract, in terms of the limitations it places on the business, is the Contribution Agreement between the Secretary of State and British Energy Group plc. Within this contractual framework, British Energy Group plc is managed independently by the Board, which continues to direct the finances and operating policies of the Group and is subject to the normal private sector disciplines, fiduciary duties and Companies Act requirements. British Energy Group plc considers that no party is a controlling party under the terms of IAS 24 — Related Party Disclosures.

The following transactions were carried out with related parties:

Entities with Significant Influence over the Group

The Group considers HM Government to be a related party due to the significant influence exercised by HM Government following the restructuring mentioned above. The following transactions took place during the period with HM Government and sponsored bodies under its control:

- HM Government meets the Group's historic contracted nuclear liabilities to BNFL, an HM Government-controlled body. The nuclear liabilities receivable is recognised on the consolidated balance sheet in relation to these liabilities and decreased from £2,168m at 31 March 2008 to £2,160m at 28 September 2008.
- The Group made payments to the NLF of £13m (2007: £12m). The payments were in relation to fixed decommissioning funding contributions of £6m (2007: £11m) and £7m (2007: £nil) in respect of PWR fuel loaded into the Sizewell B reactor. In the period to 30 September 2007 a payment of £1m was made in respect of the Group's share of the NLF's administration costs, with no equivalent payment made in the period ended 28 September 2008.
- The Group made payments to BNFL of £115m (2007: £167m) during the period in respect of front and back end fuel costs. In addition, under the HM Government indemnity in respect of historic nuclear liabilities, consideration of £106m (2007: £102m) was passed to BNFL in the period. The balance outstanding due to BNFL at the end of the period was £21m (31 March 2008: £16m). Amounts due from the Group to BNFL at 28 September 2008 under the Historic Liability Funding Agreement amounted to £2,160m (31 March 2008: £2,168m).
- The Group is required to make Cash Sweep Payments to the NLF depending on certain criteria being met. See note 5 for further details.

The NLF, an HM Government-controlled company, was issued with Bonds of £275m by British Energy Bond Finance plc as part of the restructuring on 15 January 2005; however, as they are bearer bonds, the Group is unable to confirm the total value held by the NLF at 28 September 2008. The outstanding amount of Bonds issued to the NLF is included within the £516m of borrowings outstanding at 28 September 2008.

The Group has also entered into a number of material transactions in its normal course of business with other sponsored bodies and departments of HM Government, including HM Revenue & Customs.

The Group has identified Lake Acquisitions Limited, a wholly-owned subsidiary of EDF S.A., as a related party. During the period the Group has entered into a number of material transactions in its normal course of business with certain subsidiary companies of EDF S.A.

PART IV

PRO FORMA STATEMENT SHOWING THE EFFECT OF THE TRANSACTIONS AND THE SEGEBEL DISPOSAL

1 Pro Forma Statement

The unaudited pro forma statement of net assets set out below has been prepared to illustrate the effect of the Transactions and the Segebel Disposal on the net assets of the Centrica Group as if the Transactions and the Segebel Disposal had taken place on 31 December 2008. The information, which is produced for illustrative purposes only, by its nature addresses a hypothetical situation and therefore does not represent the financial position of the Centrica Group. The unaudited pro forma statement of net assets is compiled on the basis set out below from:

(i) the audited consolidated balance sheet of the Centrica Group as at 31 December 2008, as published in the Centrica plc Annual Report and Accounts 2008, which has been incorporated by reference into this Circular; and

(ii) the other adjustments set out below.

The unaudited pro forma statement of net assets has been prepared on the basis that the Acquisition and the investment in 20 per cent. of NNB Holding Company will both be accounted for as interests in associates using the equity method of accounting. On Completion, for the purposes of the preparation of consolidated accounts, Centrica will be required to adjust the value of both Lake Group's and NNB Companies' assets and liabilities to fair value, with the excess consideration over and above the fair value of the assets and liabilities acquired being recognised as goodwill. The Centrica Group's interest in the net assets of Lake Group and the NNB Companies will be reported in interests in joint ventures and associates.

The historical financial information of the Centrica Group has been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, and is presented in Sterling.

References to the "Group" in the unaudited pro forma statement of net assets set out below are to Centrica and its subsidiaries.

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS AS AT 31 DECEMBER 2008

	Group as at 31 December 2008(1)	Acquisition of 50% shareholding in Segebel S.A.(2)	Disposal of 100% shareholding in Segebel S.A.(3)	Acquisition of 20% shareholding in Lake Acquisitions and 20% shareholding in NNB Holding Company(4)	Pro forma total
			£m		
Non-current assets					
Goodwill	1,510	—	—	—	1,510
Other intangible assets	671	—	—	—	671
Property, plant and equipment	4,680	—	—	—	4,680
Interests in joint ventures and associates	330	660	(892)	2,288	2,386
Deferred tax assets	311	—	—	—	311
Trade and other receivables	34	—	—	—	34
Derivative financial instruments	195	—	—	—	195
Available-for-sale financial assets	35	—	—	—	35
Retirement benefit assets	73	—	—	—	73
	7,839	660	(892)	2,288	9,895
Current assets					
Inventories	412	—	—	—	412
Current tax assets	39	—	—	—	39
Trade and other receivables	5,335	—	—	—	5,335
Derivative financial instruments	1,720	—	—	—	1,720
Available-for-sale financial assets	63	—	—	—	63
Cash and cash equivalents	2,939	(547)	1,185	(2,288)	1,289
	10,508	(547)	1,185	(2,288)	8,858
Total assets	18,347	113	293	—	18,753
Current liabilities					
Trade and other payables	(4,364)	—	—	—	(4,364)
Current tax liabilities	(365)	—	—	—	(365)
Bank overdrafts, loans and other borrowings	(330)	—	—	—	(330)
Derivative financial instruments	(3,932)	—	—	—	(3,932)
Provisions for other liabilities and charges	(29)	—	—	—	(29)
	(9,020)	—	—	—	(9,020)
Net current assets	1,488	(547)	1,185	(2,288)	(162)
Non-current liabilities					
Trade and other payables	(67)	—	—	—	(67)
Bank loans and other borrowings	(3,218)	—	—	—	(3,218)
Derivative financial instruments	(157)	—	—	—	(157)
Deferred tax liabilities	(448)	—	—	—	(448)
Retirement benefit obligations	(186)	—	—	—	(186)
Provisions for other liabilities and charges	(865)	—	—	—	(865)
	(4,941)	—	—	—	(4,941)
Net assets	4,386	113	293	—	4,792

Notes to the pro forma statement of net assets:

(1) This information has been extracted without material adjustment from the audited consolidated balance sheet of the Group as at 31 December 2008, as published in the Annual Report and Accounts of Centrica plc for the financial year ended 31 December 2008, which has been incorporated by reference into this Circular.

(2) On 20 January 2009, the Group acquired 50% of the issued share capital of Segebel S.A. for total consideration of €590 million (£547 million), including deferred consideration of €70 million (£65 million) that has since been paid and transaction costs of €5 million

(£5 million), bringing the Group's total ownership interest in Segebel S.A. to 100%. The transaction resulted in the Group acquiring a controlling interest in SPE SA. On acquisition, 100% of the assets and liabilities of Segebel S.A. were adjusted to fair value, giving rise to a revaluation reserve of £113 million arising from the result of the provisional fair values being higher than the carrying value of net assets at 31 December 2008 less £26 million of goodwill held in respect of Segebel S.A. at that time. These values are provisional because the Directors have not yet reached a final determination on all aspects of the fair value exercise. Although completed in January 2009, this transaction has been included in the pro forma statement of net assets provided above in order to give proper effect to the disposal of the Group's 100% interest in Segebel S.A. detailed in note (3) below.

Acquisition of 50% shareholding in Segebel S.A.:

	£m
Cash consideration for the 50% shareholding in Segebel S.A.	542
Transaction costs	5
Total consideration	547
Revaluation reserve	113
Increase in interests in joint ventures and associates	660

(3) Disposal of 100% shareholding in Segebel S.A.:

Proceeds on disposal of 100% shareholding in Segebel S.A. (€1,325m)	1,185
Carrying value of interest in Segebel S.A. at 31 December 2008	232
Acquisition of 50% shareholding in Segebel S.A. described in note (2) above	660
Carrying value of 100% shareholding in Segebel S.A.	892
Increase in net assets reflected above	293

(4) Acquisition of 20% shareholding in Lake Acquisitions and 20% shareholding in NNB Holding Company:

Cash consideration for 20% shareholding in Lake Acquisitions[1]	2,229
Cash consideration for 20% shareholding in NNB Holding Company (€32m)	29
Transaction costs (including certain transaction costs incurred in respect of the disposal of 100% shareholding in Segebel S.A. that have not been allocated)	30
Increase in interests in joint ventures and associates	2,288

No account has been taken of trading results or other transactions since 31 December 2008 for the Group or for Segebel S.A.

1 Assuming dividend and loan repayment as described in paragraph 1.1 of Part V (*"Further information on the Transaction Documents"*) of this Circular

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19 May 2009

Dear Sirs

Centrica plc (the "Company")

We report on the pro forma net assets statement (the **"Pro forma financial information"**) set out in Part IV of the Company's circular dated 19 May 2009 (the **"Circular"**) which has been prepared on the basis described in the notes to the Pro forma financial information, for illustrative purposes only, to provide information about how the Transactions and the Segebel Disposal might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ending 31 December 2008. This report is required by item 13.3.3R of the Listing Rules of the UK Listing Authority (the **"Listing Rules"**) and is given for the purpose of complying with that Listing Rule and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro forma financial information in accordance with item 13.3.3R of the Listing Rules.

It is our responsibility to form an opinion, as required by item 13.3.3R of the Listing Rules, as to the proper compilation of the Pro forma financial information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Opinion

In our opinion:

(a) the Pro forma financial information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART V

FURTHER INFORMATION ON THE TRANSACTION AGREEMENTS

The following is a summary of the principal terms of the Transaction Agreements. The Transaction Agreements are available for inspection as described in Part VI (*"Additional Information"*) of this Circular.

1 Subscription and Investment Agreement

The Subscription and Investment Agreement sets out the provisions pursuant to which GB Gas Holdings will subscribe for a 20 per cent. shareholding in Lake Acquisitions at Completion. It also governs how Lake Acquisitions and the British Energy Group are to be managed in the period until Completion and the termination rights of the parties in that period. EDF Energy will retain control of the conduct of the business of the Lake Group prior to Completion, subject to the specific covenants contained in the Subscription and Investment Agreement. For the purposes of facilitating an internal restructuring, EDF Energy is entitled to assign or novate the Subscription and Investment Agreement to a wholly-owned EDF Group entity that owns or controls substantially all of the assets of EDF Energy or is otherwise of sufficient financial standing.

1.1 Subscription by GB Gas Holdings for Lake Shares

GB Gas Holdings has agreed to subscribe for Lake Shares at Completion representing 20 per cent. of the issued share capital of Lake Acquisitions, subject to any potential dilution which may arise prior to Completion (as explained below in paragraph 2.4.1).

The total consideration for the interest in Lake Acquisitions is £2,289 million plus a £20 million payment reflecting Centrica's share of expenses incurred in relation to the Offers. This comprises £2,209 million (plus £20 million for expenses) for the subscription for Lake Shares and the purchase of up to £80 million of an outstanding debt facility.

British Energy is expected to pay a special dividend to Lake Acquisitions of up to £400 million and Lake Acquisitions will use this dividend to repay a debt facility. Centrica will be entitled to its pro-rata share of this dividend. If this dividend is not paid prior to Completion (or if the dividend is less than £400 million) and therefore the debt facility remains outstanding, Centrica will acquire its share of the outstanding debt facility (i.e. up to £80 million) at Completion. If a dividend is paid prior to Completion, Centrica's total consideration will be reduced by its pro-rata share of this dividend. For example, if the maximum expected dividend (£400 million) is paid, Centrica's total consideration will be reduced by £80 million, reflecting Centrica's pro-rata share.

The cash consideration for the subscription shares is £2,229 million, which amount:

1.1.1 includes £20 million that Centrica has agreed to pay to EDF Group representing 20 per cent. of the costs of financing the Offers and stamp duty payable by Lake Acquisitions in connection with the Offers; and

1.1.2 shall be increased by an amount equal to the time value of money at 5.5 per cent. per annum accruing daily on such amount from the Initial Longstop Date (as defined in paragraph 1.6 below) until the date on which the conditions precedent to the Subscription and Investment Agreement described in paragraph 1.3.1 below have been satisfied by GB Gas Holdings or waived.

The total consideration for the interest in Lake Acquisitions is therefore £2,309 million assuming the dividend is not paid prior to completion.

Centrica and EDF Group have agreed that the amount to be subscribed by GB Gas Holdings may be increased by up to 20 per cent. of any Required Funding that is provided to Lake Acquisitions in the period prior to Completion (which amount shall be increased by an amount equal to the time value of money as set out in paragraph 1.1.2 above). If Centrica opts to pay less than 20 per cent. of any Required Funding, EDF Energy will subscribe for further shares in Lake Acquisitions to the amount of Required Funding not paid by Centrica, diluting Centrica's investment in Lake Acquisitions proportionately.

The consideration for the subscription by GB Gas Holdings will be decreased by 20 per cent. of any (i) distributions or returns of capital made by Lake Acquisitions in the period prior to Completion; (ii) loans that are made, or any payment or advance under an existing loan, by a member of the Lake Group to any member of the EDF Group; (iii) any amounts which are owed by a member of the EDF Group to a member of the Lake Group and which are waived or released by the relevant member of the Lake Group in the period prior to

Completion; (iv) any transactions or related expenses in connection with the Offers paid by any member of the Lake Group other than as agreed in the Subscription and Investment Agreement; (v) any fees or related expenses paid by any member of the Lake Group to any member of the EDF Group in respect of the guarantees provided by members of the EDF Group referred to in paragraph 2.3.2 below; and (vi) interest equal to the time value of money on (i) to (v) above at 5.5 per cent. per annum accruing daily (as set out in paragraph 1.1.2 above).

1.2 Lake Acquisitions' Intra-Group Debt

On 23 September 2008, EDF entered into an intra-group loan facility with Lake Acquisitions for a principal amount of up to £13.2 billion, the purpose of which was to provide Lake Acquisitions with funds required in connection with the Offers (the **"Intra-Group Loan Facility"**). The Intra-Group Loan Facility was assigned to EDF Energy. Immediately prior to Completion, the amount outstanding under the Intra-Group Loan Facility will be equal to the aggregate subscription amounts to be received by Lake Acquisitions from GB Gas Holdings (as described in paragraph 1.1 above, the **"Lake Subscription Amounts"**) and the amount of an exceptional dividend to be paid by British Energy (in the amount of £400 million) not paid prior to Completion. On Completion, the Intra-Group Loan Facility will be repaid by an amount equal to the Lake Subscription Amounts. EDF Energy, GB Gas Holdings and Lake Acquisitions will then enter into an assignment agreement, on Completion, pursuant to which 20 per cent. of any remaining amount outstanding under the Intra-Group Loan Facility will be assigned to GB Gas Holdings. Such amount will then be repaid in full by Lake Acquisitions, proportionately to EDF Energy and GB Gas Holdings, using the proceeds of the dividend (exceptional or otherwise) to be paid by British Energy post-Completion or as soon as practicable thereafter, subject to certain restrictions.

1.3 Conditions Precedent

Completion of the Subscription and Investment Agreement is to take place contemporaneously with completion of the Segebel SPA and the NNB Shareholders' Agreement and is conditional upon the following:

1.3.1 competition approval having been obtained by Centrica from the OFT or the Competition Commission;

1.3.2 the HSE either confirming that no approval of the arrangements contemplated by the Subscription and Investment Agreement is required under any Nuclear Site Licence Condition or, if the HSE has indicated that such approval is required, the HSE approving such arrangements without requiring any modifications to the organisational structure or resources of British Energy or BEG, which modifications would have a material adverse effect on the business of the Lake Group taken as a whole;

1.3.3 the Shareholders approving the Transactions at the General Meeting;

1.3.4 the FSA having given notice in terms reasonably satisfactory to Centrica that it approves or has no objection to Centrica and any relevant member of the Centrica Group becoming a controller (within the meaning of section 422 FSMA) of BETS;

1.3.5 provided that neither the MVR Power Purchase Agreement nor the Phase 3 Equity Power Purchase Agreements have been entered into, the approvals and consents required under the Restructuring Agreements and/or the State Aid Deed having been obtained with respect to the terms of the Phase 2 Equity Power Purchase Agreements;

1.3.6 satisfaction or waiver of the conditions to the Segebel SPA (save for any conditions relating to completion of the Subscription and Investment Agreement); and

1.3.7 satisfaction or waiver of the conditions to the NNB Shareholders' Agreement (save for any conditions relating to the completion of the Subscription and Investment Agreement).

EDF Group and Centrica have agreed to establish a committee constituted by representatives from Centrica and EDF Group to monitor the progress of the Transactions and to promote the successful Completion of the Transactions. This committee shall meet at least once a month in the period until Completion.

1.4 Warranties

EDF International has provided certain warranties to GB Gas Holdings in respect of the Lake Group, taking into account that British Energy was recently a listed public company subject to regulatory disclosure regimes. The warranties include, without limitation, warranties relating to power and ability of the relevant parties to enter into the Transaction Agreements, disclosure of information to Centrica relating to the British

Energy Group being equivalent to the information received by EDF Group in connection with the Offers, the ownership of Lake Acquisitions, contracts, information technology matters, tax affairs of the Lake Group, the conduct of the business of the British Energy Group both during period of the Offers and since completion of the Offers, and legal and regulatory matters.

GB Gas Holdings will not be entitled to recover any amount under the warranties given by EDF International unless and until the claims under the warranties exceed £3 million in aggregate (in which case EDF International will be liable for an aggregate amount of such claims as agreed or determined only to the extent that such amount exceeds £3 million). In addition, GB Gas Holdings will not be entitled to claim for any individual claim (or series of individual claims arising from substantially identical facts or circumstances) if a liability agreed or determined in relation to such claim or series of claims does not exceed £800,000.

The aggregate amount which may be recovered by GB Gas Holdings from EDF International under the warranties given by EDF International is limited to 30 per cent. of the aggregate consideration for the Acquisition.

GB Gas Holdings has given warranties as to its power and ability to enter into the Transaction Agreements.

1.5 Undertakings

EDF Energy has undertaken to GB Gas Holdings that, prior to Completion, it will procure that the business of the British Energy Group will be carried on in the ordinary course and that the Lake Group will not carry out certain specified actions similar to those which would constitute Lake Reserved Matters under the Lake Shareholders' Agreement, which are described in paragraph 2.2.3 below. The agreed scope of the ordinary course exception to certain reserved matters includes exceptional or unforeseen circumstances or actions arising from, or incidental to, such business activities. EDF Energy has also undertaken to provide GB Gas Holdings with certain management and financial information in the period prior to Completion.

1.6 Term, Termination and Extension Loan Amount

Subject to GB Gas Holdings' ability to extend the term of the Subscription and Investment Agreement, it will terminate automatically on 10 August 2009 (being the date three months after the date of the Subscription and Investment Agreement, the **"Initial Longstop Date"**) or, if earlier, the date which falls three business days following a referral of the Transactions by the OFT to the Competition Commission.

If the conditions precedent to Completion described in paragraphs 1.3.1, 1.3.3 and 1.3.4 above are satisfied, or waived, prior to the Initial Longstop Date, the term of the Subscription and Investment Agreement is automatically extended to the first anniversary of the Subscription and Investment Agreement (the **"Extended Longstop Date"**). If the condition precedent described in paragraph 1.3.1 above is not satisfied, or waived, prior to the Initial Longstop Date, GB Gas Holdings is entitled to extend the term of the Subscription and Investment Agreement to the Extended Longstop Date provided that it executes the Extension Loan Agreement pursuant to which GB Gas Holdings agrees to lend £30 million (the **"Extension Loan Amount"**) to Lake Acquisitions. If the condition precedent described in paragraph 1.3.1 above has not been satisfied by GB Gas Holdings, or waived, by the Extended Longstop Date, GB Gas Holdings will release Lake Acquisitions from its obligation to repay, and thereby forfeit the Extension Loan Amount.

Centrica and EDF International are each entitled to terminate the Subscription and Investment Agreement within 10 days of Centrica not obtaining the approval of the Transactions by the Shareholders at the General Meeting.

Centrica is entitled to terminate the Subscription and Investment Agreement with immediate effect if there is a natural disaster, a decision of a site safety officer or if any serious nuclear incident occurs (in each case which results in the closure of a Power Station which constitutes a class 3 or higher on the INES scale of zero to seven).

EDF International is entitled to terminate the Subscription and Investment Agreement within 10 days of: (i) a change of control of Centrica; (ii) a bid for, or scheme of arrangement of, Centrica being recommended by the Board or (iii) a hostile offer for Centrica being announced and subsequently recommended by the Board. If EDF International does not terminate the Subscription and Investment Agreement within 10 days of (ii) or (iii) above, it may not subsequently rely on a change of control of Centrica to terminate the Subscription and Investment Agreement.

If a hostile offer for Centrica is announced, EDF International may, within 10 days of such announcement, defer Completion until 10 Business Days after such hostile offer is declared unconditional, lapses or is withdrawn.

1.7 Break Fee

GB Gas Holdings has agreed to pay a break fee of £25 million to EDF within three business days after the occurrence of any of the following:

1.7.1 the Shareholders not approving the Transactions or Centrica failing to convene or hold the General Meeting within eight weeks of the date of the subscription and Investment Agreement;

1.7.2 OFT or Competition Commission clearance not being obtained in accordance with the Subscription and Investment Agreement;

1.7.3 the Directors failing to recommend unanimously, or withdrawing their recommendation of, the Transactions; or

1.7.4 EDF Group exercising its right to terminate the Subscription and Investment Agreement following the recommendation by the Board of a bid for, or scheme of arrangement of, Centrica,

and such break fee is only payable once irrespective of more than one such event occurring.

2 Lake Shareholders' Agreement

The Lake Shareholders' Agreement to be executed on Completion regulates the relationship between GB Gas Holdings and EDF Energy following Completion in connection with their respective shareholdings in Lake Acquisitions and the conduct of the business of the Lake Group, including the Existing British Energy Fleet. EDF Energy, as the majority shareholder in Lake Acquisitions, will retain control of the conduct of the business of the Lake Group, subject to the specific rights and obligations granted to Centrica pursuant to the Lake Shareholders' Agreement.

2.1 Business

The business of the Lake Group is defined as comprising the principal activities of:

2.1.1 the business of operating, maintaining and decommissioning the British Energy Facilities and the management, storage and disposal of associated wastes;

2.1.2 holding the Lake Group's existing renewable energy sites through BERL with the purpose of selling such sites;

2.1.3 operating and maintaining the existing direct electricity sales business of the Lake Group through BED;

2.1.4 operating and maintaining the electricity trading business of the Lake Group through BETS;

2.1.5 operating and maintaining Eggborough safely; and

2.1.6 operating and maintaining DEL's gas-fired power stations safely,

and all in accordance with the Restructuring Agreements, State Aid Deed and applicable law and regulation.

2.2 Governance

The board of Lake Acquisitions will be responsible for overseeing the overall strategy of the Lake Group.

2.2.1 Board Representation

GB Gas Holdings will be entitled to appoint two directors to the board of Lake Acquisitions and EDF Energy will be entitled to appoint up to four times as many directors to the board of Lake Acquisitions as GB Gas Holdings. GB Gas Holdings will also be entitled to appoint one director to the board of British Energy (which will be the governing board responsible for the overall management of the British Energy Group) and the directors appointed by GB Gas Holdings to the board of Lake Acquisitions will further be entitled to receive board papers and minutes of board meetings of BEG (which will be responsible for maintaining the British Energy Group's nuclear licences and will have day-to-day operational responsibility for the Existing British Energy Nuclear Fleet). The EDF Energy directors will have four times as many votes as the GB Gas Holdings directors. GB Gas Holdings and EDF Energy are also entitled to appoint representatives to any committee of the boards of Lake Acquisitions and British Energy.

In certain circumstances, Centrica and EDF Group have agreed that GB Gas Holdings will lose its rights to appoint directors to the board of Lake Acquisitions and British Energy and to receive board papers and minutes of board meetings of BEG. These circumstances are described below in paragraphs 2.4, 2.7 and 2.8.

2.2.2 Management and Financial Information

In addition to the information which will be received by the directors appointed to the boards of Lake Acquisitions and British Energy and committee representatives, EDF Group and Centrica have agreed the content, form and procedures in respect of the management and financial information to be provided by Lake Acquisitions to each of EDF and Centrica. Such information will include budgets of the Lake Group, budget re-forecasts, historical management information and performance and other information which EDF Group and Centrica reasonably require to protect their interests as a shareholder in Lake Acquisitions in respect of such material information rights and for financial communications with their respective shareholders.

2.2.3 Reserved Matters

Following Completion, a number of actions require the unanimous approval of GB Gas Holdings and EDF Energy before they can be undertaken by any member of the Lake Group (the **"Lake Reserved Matters"**). These Lake Reserved Matters include:

(i) the creation of any encumbrance over or the transfer outside the Lake Group of shares in any member of the Lake Group, save for limited circumstances;

(ii) any change to or the creation of, allotment, or grant of option in respect of any shares, save for shares in Lake Acquisitions which are issued in respect of Required Funding;

(iii) the incurring of any debt which would result in the indebtedness incurred by the Lake Group exceeding €200 million in aggregate more than any amount outstanding under the Intra-Group Loan Facility, save for (a) refinancing existing indebtedness, (b) in respect of certain amounts which may be drawn by Lake Acquisitions under committed loan facilities established in connection with the Contribution Agreement, (c) pursuant to any EDF Group cash pooling arrangements in respect of amounts drawn down by BETS to meet margin calls under electricity trading contracts or (d) in relation to the provision of working capital pursuant to any long-term uranics supply contracts or letters of credit or other collateral provided under the trading contracts entered into by BETS;

(iv) any acquisition which would result in members of the Lake Group acquiring Shares or other assets in excess of €15 million, save for acquisitions (i) from wholly-owned members of the Lake Group; or (ii) made in the ordinary course of business;

(v) the proposal of any scheme of arrangement;

(vi) the reduction of the share capital of any member of the Lake Group;

(vii) (a) carrying on business activities other than those provided for in the Lake Shareholders' Agreement, (b) any cessation or abandonment to the business of the Lake Group (other than transferring assets dealt with in the Umbrella Agreement), (c) assignment, novation or termination of the Energy Services Agreement (subject to limited exceptions), and (d) any cessation of carrying on the ordinary course without material alteration in its nature the business of operating the Existing British Energy Fleet;

(viii) any amendments to the Restructuring Agreement, the Umbrella Agreement, the State Aid Deed, the State Aid PPA, the CVR Trust Deed, CVR Agency Agreement, the Pensions Agreements, Barclays Implementation Agreement, the Nuclear Power Notes or the CVRs, certain debt facilities or certain trading agreements which would or are likely to have a material adverse effect on any member of Lake Group (subject to certain limited circumstances);

(ix) the substitution of Lake Acquisitions as the issuer of the CVRs, except by a wholly-owned member of the Lake Group, any purchase or agreement to purchase NPNs with a value of £25 million from persons other than members of the EDF Group, any purchase or agreement to purchase NPNs from any member of the EDF Group or any redemption or agreement to redeem the CVRs;

(x) any disposal of any assets for €15 million or more to a third party who is not a member of the Lake Group, other than on arm's length terms, save for any transfer in accordance with the terms of the Umbrella Agreement or a transfer of spare parts;

(xi) any grant of rights in respect of the NNB land or the Bradwell Land to a member of the EDF Group or Lake Group other than to a member of the NNB Holding Entity Group;

(xii) any transfer of the NNB land or the Bradwell Land to any third party other than on arm's length terms pursuant to the terms of the Commitments or the Sites Undertaking;

(xiii) the creation of any encumbrance over any property or asset of the Lake Group other than in the ordinary course, as required pursuant to the Restructuring Agreements, pursuant to any cash pooling arrangement with the EDF Group or in relation to the decommissioning of the British Energy Facilities;

(xiv) the giving of any guarantee by a member of the Lake Group of an obligation owed by a member of the Lake Group or to a third party, other than in the ordinary course of business, as required pursuant to the Restructuring Agreements or pursuant to any cash pooling arrangement with the EDF Group;

(xv) the winding-up of any member of Lake Acquisitions, BEG or BEG (UK);

(xvi) any material change to the rights attaching to the Lake Shares under the constitutional documents of the Lake Acquisitions;

(xvii) the taking of steps to change the tax residency of Lake Acquisitions to other than the United Kingdom; and

(xviii) other than as contemplated in the NNB Shareholders' Agreement, any transfer of certain assets identified in the Umbrella Agreement other than with the consent of HMG under the Umbrella Agreement.

Such actions may be taken to the extent that they are (i) required to be taken by applicable law or regulation, (ii) required under the Umbrella Agreement, State Aid Deed, the Commitments, the Sites Undertaking, the Restructuring Agreements, the Transaction Agreements, the Sites Transfer Agreement (and connected agreements), any Related Party Transaction (see paragraph 2.2.5 below) or any commodity trading contract, (iii) taken to comply with the British Energy Group's Nuclear Site Licences or (iv) taken in respect of Eggborough pursuant to the Commitments.

The agreed scope of the ordinary course exception to certain reserved matters includes exceptional or unforeseen circumstances or actions arising from, or incidental to, the business activities of the Lake Group.

In certain circumstances, and subject to certain exceptions, GB Gas Holdings will lose its right to veto certain of these actions. These circumstances and the basis on which the rights are lost are described in paragraphs 2.4, 2.7 and 2.8.

2.2.4 Deadlock

If GB Gas Holdings and EDF Energy disagree in relation to any Lake Reserved Matter, there is an escalation procedure to senior management. If, ultimately, the disagreement is not resolved, the relevant transaction in dispute may not be carried out by Lake Acquisitions.

2.2.5 Related Party Transactions

EDF Energy and GB Gas Holdings have agreed that any transactions that are between the Lake Group and either the EDF Group or the Centrica Group, as the case may be, other than specifically excepted agreements shall be related party transactions for the purposes of the Lake Shareholders' Agreement. All related party transactions are to be entered into on **"Agreed Terms"**, which means at cost plus a minimum margin (in the case of services other than nuclear fuel cycle contracts and commodity trading contracts) or on a "most favoured nation basis" (in the case of nuclear fuel procurement services to be provided by the EDF Group) or arm's length terms in relation to commodity trading contracts.

Related party transactions are split into three categories, (i) UK shared services agreements, (ii) non-UK shared services agreements and (iii) technical related party transactions. When deciding whether to enter into a related party transaction, Lake Acquisitions will have regard to the overarching principles set out in the Lake Shareholders' Agreement which enshrine the principles of no value leakage and ensure that the Lake Group benefits from synergies and fleet efficiencies. GB Gas Holdings will be entitled to require an independent expert to review any such related party transactions to ensure that they are on 'Agreed Terms'. If the expert determines that such contracts are not on the 'Agreed Terms', EDF Energy undertakes to procure that the relevant member of the Lake Group and the counterparty to the relevant related party transaction will amend the terms of the contract so that it is on 'Agreed Terms'.

Following Completion, GB Gas Holdings will be entitled to verify whether related party transactions entered into with the EDF Group have been entered into on Agreed Terms. GB Gas Holdings will have an ongoing audit right exercisable in respect of any significant arrangements that the Lake Group enters into.

There is an escalation procedure for any dispute between GB Gas Holdings and EDF Energy as to whether a transaction is on Agreed Terms, which ultimately results in reference to and determination by an independent expert.

If it is determined that such transactions have not been entered into on Agreed Terms, EDF Group will be obliged to amend the relevant agreements such that they are on Agreed Terms going forward.

EDF Group also will be obliged to pay an amount of money to the relevant member of the Lake Group such that it is put in the financial position that it would have been in had the transactions been entered into on Agreed Terms.

2.3 Funding

2.3.1 Required Funding

Lake Acquisitions may request GB Gas Holdings and EDF Energy to provide funding (**"Required Funding"**) (in proportion to their respective shareholdings in Lake Acquisitions) to the extent that such funding cannot be provided from the Lake Group's existing facilities or cash resources without reducing such resources below a certain amount:

(i) if such funding is specified in the current budget of Lake Acquisitions;

(ii) if such funding is necessary to ensure British Energy complies with its obligations pursuant to the British Energy Nuclear Site Licences Conditions or is necessary to ensure compliance with the Restructuring Agreements or the State Aid Deed; or

(iii) in an insolvency scenario.

If GB Gas Holdings does not provide such funding when requested, pursuant to a certain procedure for such cash calls, EDF Energy is entitled to provide such funding and GB Gas Holdings will be diluted in accordance with the principles set out in paragraph 2.4.1 below.

2.3.2 Contingent Liabilities

GB Gas Holdings has indemnified EDF Energy in respect of certain liabilities that accrue to EDF Energy relating to the Offers, including in relation to EDF Group's guarantee of the CVRs. To the extent that EDF Group suffers loss in respect of those liabilities (rather than the Lake Group), EDF Group may in certain circumstances claim from GB Gas Holdings an amount equal to the proportionate shareholding of GB Gas Holdings in Lake Acquisitions at the time the loss was suffered.

EDF Energy and GB Gas Holdings have agreed to pay to each other an amount of any tax costs for which the EDF Group, Centrica Group or Lake Group is liable as a result of the failure by the others to pay any tax when due.

EDF Group and Centrica have also agreed to share, proportionate to their indirect shareholdings in Lake Acquisitions, any obligation in respect of energy efficiency and/or carbon emissions reduction targets imposed by HM Government on them, or the Lake Group in circumstances where such targets are calculated by reference to the Lake Group's output.

2.4 Dilution

2.4.1 Dilution Methodology

Following Completion, if GB Gas Holdings fails to meet a cash call (for Required Funding or otherwise) and EDF Energy instead provides GB Gas Holdings' share of such cash call, GB Gas Holdings' investment in Lake Acquisitions will be diluted proportionately by reference to the fair market value of the Lake Group at the relevant time as determined by an independent expert.

2.4.2 Consequences of Dilution in Lake Acquisitions

If GB Gas Holdings is diluted below a 12.5 per cent. shareholding in Lake Acquisitions, GB Gas Holdings will cease to be entitled to the benefit of certain provisions and rights under the Lake Shareholders' Agreement, including:

(i) the right of veto over certain Lake Reserved Matters, save that Centrica's right of veto shall be retained over: (a) the creation of share capital in Lake Acquisitions if on a non pre-emptive basis; (b) a scheme of arrangement, reduction of capital, winding-up or amendments to the constitutional documents of any member of the Lake Group to the extent any such matter would materially prejudice Centrica's rights under the Lake Shareholders' Agreement; (c) the restrictions relating to CVRs and NPNs; (d) the making of material changes to the business of Lake Acquisitions and to the agreements described in paragraph 2.2.3 (viii) above; (e) the giving of guarantees not required in the ordinary course, pursuant to the Restructuring Agreements or any cash pooling arrangements with the EDF Group; (f) changing the residency of Lake Acquisitions; and (g) the granting of any rights in respect of the land to be used for NNB activities to a member of the EDF Group other than to a member of the NNB Holding Entity Group;

(ii) the right to nominate directors to the boards of Lake Acquisitions and British Energy and to receive board papers and minutes of board meetings of BEG;

(iii) the right to information relating to the Lake Group (save for information which is reasonably required by Centrica to satisfy its legal, regulatory and accounting requirements or to calculate the tax payable on any disposal of its Lake Shares); and

(iv) the right to audit Related Party Transactions.

The quantum of dividend undertaken to be paid as further described in paragraph 2.5 below will also be halved in those circumstances.

GB Gas Holdings' obligations in respect of the contingent liabilities referred to in paragraph 2.3.2 above and Centrica's obligations to sell power and its rights to purchase power pursuant to the Equity Power Purchase Agreements and its obligation to sell power pursuant to the Residual Volumes Power Purchase Agreements will also be adjusted proportionate to Centrica's shareholding in Lake Acquisitions.

GB Gas Holdings would retain all other rights under the Lake Shareholders' Agreement. The rights which are retained by GB Gas Holdings are referred to as **"Economic Rights"**.

2.5 Dividends

GB Gas Holdings and EDF Energy have agreed that Lake Acquisitions and each member of the Lake Group will adopt a 100 per cent. dividend policy, subject to certain restrictions. There will be a mechanism to ensure, over a rolling four-year period, dividends equal the aggregate net profit, subject to there being sufficient aggregate net cashflow over the same period. GB Gas Holdings and EDF Energy have also agreed to make reasonable efforts to create distributable reserves to allow implementation of this dividend policy, should it be necessary.

2.6 Transfers of Lake Acquisitions Shares

2.6.1 Lock Ups

Centrica and EDF Energy have agreed pursuant to the Subscription and Investment Agreement that no interests in the Lake Shares may be transferred (or an agreement reached for the transfer of the Lake Shares) prior to Completion. Following Completion, GB Gas Holdings will be subject to a restriction which, save for transfers to other members of the Centrica Group, prevents it from selling its Lake Shares for a period of two years from Completion.

EDF Energy will be entitled to sell some of its Lake Shares from Completion, but for a period of two years from Completion, EDF Energy may not transfer Lake Shares if that transfer would result in EDF Energy ceasing to own in excess of 50 per cent. of the share capital of Lake Acquisitions.

2.6.2 Transfers by GB Gas Holdings

GB Gas Holdings may only transfer all, not some only, of its Lake Shares. If GB Gas Holdings does sell its Lake Shares, it may only sell to (a) a wholly-owned member of the Centrica Group which is of sufficient financial standing; (b) a shareholder of Lake Acquisitions provided that where such shareholder is not based in a Listed Territory it does not acquire rights or assume obligations under the Lake Shareholders' Agreement as a result of the transfer; (c) a third party which is of sufficient financial standing and based in a Listed Territory; or (d) to a purchaser approved by EDF Energy.

Before such a transfer completes (save in the case of a transfer to a wholly-owned member of the Centrica Group), GB Gas Holdings must provide EDF Energy with details of the material terms of the proposed transfer along with a certificate that the proposed transfer is a bona fide sale. EDF Energy will then have 50 business days to exercise pre-emption rights to acquire the shares on the same terms as the proposed sale.

2.6.3 Transfers by EDF Energy

If EDF Energy sells some of its Lake Shares to a third party (which must be of sufficient financial standing) and grants that third party superior rights and obligations (taken as a whole) to those of GB Gas Holdings, GB Gas Holdings will have the right to require that its rights and obligations in relation to Lake Acquisitions are amended to ensure that the new investor does not have superior rights and obligations when taken as a whole.

If EDF Energy transfers its Lake Shares such that it ceases to own in excess of 50 per cent. of the share capital of Lake Acquisitions, EDF Energy has the right to require GB Gas Holdings to sell all of its Lake Shares to the proposed purchaser. If EDF Energy does not exercise that right, it must provide GB Gas Holdings with the material terms and conditions of the proposed transfer. In such circumstances, GB Gas Holdings has 20 business days in which to provide notice to EDF Energy and the proposed purchaser that the proposed purchaser must also acquire GB Gas Holdings' entire shareholding in Lake Acquisitions on the same terms and conditions as the proposed transfer of EDF Energy's shareholding in Lake Acquisitions. If GB Gas Holdings does not sell its Lake Shares pursuant to such provisions, it will retain the benefit of its rights under the Lake Shareholders' Agreement to which the proposed purchaser must accede.

2.7 Centrica Change of Control

2.7.1 Consequences of any Change of Control

If there is a change of control of Centrica, GB Gas Holdings will lose its rights to appoint directors to the board of Lake Acquisitions and British Energy and to receive information in relation to the Lake Group (save for information reasonably required as described in paragraph 2.4.2(iii) above).

2.7.2 Consequences of a Change of Control by persons outside a Listed Territory

If there is a change of control of Centrica by a third party which is not located in a Listed Territory, GB Gas Holdings will lose its rights under the Lake Shareholders' Agreement other than Economic Rights, as if it had been diluted as described in paragraph 2.4.2 above, and EDF Energy will also have a right to exercise a call option in respect of GB Gas Holdings' Lake Shares.

The price that EDF Energy must pay if it exercises this option will be determined by independent experts, subject to a discount of 16 per cent. The experts will calculate the price of 100 per cent. of the Lake Shares and pro-rata this for the percentage of Lake Shares that are being acquired before applying the discount.

2.8 Default

If any Lake Shareholder becomes insolvent, any other Lake Shareholder can require the directors appointed by the insolvent Lake Shareholder to resign and that the insolvent Lake Shareholders' Lake Shares not be voted at any meeting of Lake Shareholders. Any other Lake Shareholder would also have a call option over the insolvent Lake Shareholders' Lake Shares. The price that EDF Energy must pay if it exercises this option will be determined by independent experts, subject to a discount of 6 per cent. The experts will calculate the price of 100 per cent. of the Lake Shares and pro-rata this for the percentage of Lake Shares that are being acquired before applying the discount.

If there is any material breach by GB Gas Holdings of the exclusivity and non-compete provisions (described in paragraph 2.11 below), any other Lake Shareholder can require the directors appointed by GB Gas Holdings to resign and that GB Gas Holdings' Lake Shares not be voted at any meeting of Lake Shareholders. Any other Lake Shareholder would also have a call option over GB Gas Holdings' Lake Shares. The exercise price for this option would be the same as described in paragraph 2.7.2 above.

2.9 Stapling of Equity Power Purchase Agreements to Lake Shares

On any transfer of GB Gas Holdings' Lake Shares, either pursuant to a voluntary transfer as described in paragraph 2.6 above, or pursuant to the exercise of a call option as described in paragraphs 2.7 and 2.8 above, any outstanding shareholder loans made by the Centrica Group to a member of the Lake Group, the Residual Volumes Power Purchase Agreements and the Equity Power Purchase Agreements will also be transferred at fair value to the transferee of GB Gas Holdings' Lake Shares.

2.10 Default under the Equity and Residual Values Power Purchase Agreements

If a termination payment is outstanding after five business days by a member of the EDF Group or Centrica Group under the Equity Power Purchase Agreements or the Residual Volumes Power Purchase Agreements, the affiliate Lake Shareholder of the non-defaulting buyer under such Power Purchase Agreements may require the affiliated Lake Shareholder of the defaulting party to transfer certain of its Lake Shares (and not to exercise voting rights in relation thereto). The price that EDF Energy must pay if it exercises this option will be determined by independent experts, subject to a discount of 6 per cent. The experts will calculate the price of 100 per cent. of the Lake Shares and pro-rata this for the percentage of Lake Shares that are being acquired before applying the discount.

2.11 Exclusivity and Non-compete

For so long as EDF Group and Centrica have shares in Lake Acquisitions, EDF Group and Centrica have agreed that they will not participate in any Competing Business in the UK. In addition Centrica has agreed not to participate in a Competing Business in the UK for a period of 24 months following the date that it ceases to be a Lake Shareholder. These provisions do not prevent EDF Group or the Centrica Group owning less than 5 per cent. of shares of listed companies nor shares in companies where any UK nuclear activities of that company or its group in the UK constitute less than 20 per cent. of the UK revenue of that company or its group. The restrictions also do not prevent Centrica or EDF Group from entering into any power purchase agreements, whether or not the counter party is carrying on or economically interested in a Competing Business.

3 The NNB Shareholders' Agreement

The NNB Shareholders' Agreement regulates the arrangements between Centrica and EDF Group in relation to the establishment, governance, funding, operation and decommissioning of NNB Projects. EDF Energy, as the majority shareholder in NNB Holding Company, will retain control of the conduct of the business of the NNB Companies, subject to the specific rights and obligations granted to Centrica pursuant to the NNB Shareholders' Agreement.

3.1 Business and Structure

3.1.1 Centrica and EDF Group have agreed that initially four new EPRs will be developed, constructed, owned, operated and decommissioned on the basis of the NNB Joint Venture.

3.1.2 The NNB Joint Venture will be structured as two limited companies. NNB Holding Company, which will be owned by EDF Energy and GB Gas Holdings, will be the investment entity, owning and controlling NNB Gen Company. NNB Gen Company will operate all the NNB Projects, hold the Nuclear Site Licence and own the assets constituting each NNB Project.

3.1.3 The land that is expected to be used by the NNB Joint Venture for the NNB Projects is currently owned by the British Energy Group and by EDF DCL. EDF Group and Centrica have agreed that this land will, once a number of conditions are satisfied, be leased to NNB Gen Company on market terms for the duration of the NNB Joint Venture. The land owned by the British Energy Group will then be sold, subject to the leases to NNB Gen Company, to a subsidiary of Lake Acquisitions (**"LandCo"**). EDF DCL may elect to also transfer the land it owns to LandCo.

3.2 Investments in NNB Joint Venture

3.2.1 GB Gas Holdings and EDF Energy have each agreed to subscribe for shares in NNB Holding Company at Completion. The subscription price for these shares will be calculated by reference to the actual costs incurred by EDF DCL in relation to pre-development costs and generic design costs for the NNB Projects in the period to Completion (or the budgeted costs pre-Completion if actual costs have not been determined) plus an amount for the budgeted costs for the six-month period following Completion.

3.2.2 If Completion takes place in the second half of 2009, GB Gas Holdings is expected to pay in aggregate approximately €32 million in respect of the shares in NNB Holding Company representing 20 per cent. of the share capital of NNB Holding Company. EDF Energy is expected to make a payment to NNB Holding Company of approximately €128 million in respect of shares in NNB Holding Company representing 80 per cent. of the share capital of NNB Holding Company. Part of the subscription proceeds will be applied by the NNB Companies to acquire pre-development contracts entered into by EDF Group prior to Completion.

3.2.4 As the subscription price will include a budgeted amount for pre-development costs and certain estimated land costs, a reconciliation process will take place following Completion.

3.3 Governance

The NNB Joint Venture will be managed as follows:

3.3.1 NNB Holding Company Board

NNB Holding Company Board will be the senior executive decision-making body and shall be responsible for, *inter alia,* overseeing the overall management and strategy of the NNB Companies, subject to the veto rights described at paragraph 3.3.7 below, taking decisions on NNB Reserved Matters, reviewing the progress of each NNB Project, approving the pre-development and construction budgets for each NNB Project, approving the material contracts to be entered into by NNB Holding Company for the construction of each NNB Project, approving the accounts for each NNB Project, approving the issue of the FIDD Notice for each NNB Project, resolving matters which may give rise to timetable delays or budget overruns, taking decisions referred to it by the Technical Committee and NNB Gen Company Board and supervising the overall performance of the NNB Projects (once operational).

EDF Energy will be entitled to appoint four times the number of directors of GB Gas Holdings. GB Gas Holdings will initially be entitled to appoint two directors. Decisions of NNB Holding Company Board will be made by simple majority, subject to the EDF Energy directors always having four times as many votes as GB Gas Holdings directors present at the meeting, other than in relation to NNB Reserved Matters, as defined and described in paragraph 3.3.7 below.

3.3.2 Disagreements at NNB Holding Company Board

If the directors of GB Gas Holdings on NNB Holding Company Board do not agree with certain decisions (the **"HoldCo Board Relevant Decision"**) made by the NNB Gen Company Board, which results in or is reasonably expected to result in:

(i) a payment or commitment equal to or greater than £50 million not included in or in excess of the relevant line item in the then current construction budget for an NNB Project; or

(ii) a delay of in excess of three months to the construction timetable contemplated in a FIDD Notice or the revised construction timetable approved from time to time for the NNB Project,

GB Gas Holdings will be entitled to deliver a written memorandum to the Relevant Management stating its understanding of the nature of the disagreement and justification for its belief that the HoldCo Board Relevant Decision was not made in the interests of the NNB Project.

If the Relevant Management do not resolve the matter, GB Gas Holdings may refer the matter to a panel of experts for resolution. If the experts determine that the decision was not in the interests of the NNB Joint Venture, the EDF Group entity holding shares in NNB Holding Company will be required to pay an amount to GB Gas Holdings to put GB Gas Holdings in the position it would have been in had the decision not been taken.

3.3.3 NNB Gen Company Board

NNB Gen Company will establish a board which will be responsible for the control, design, construction, operation and decommissioning of the NNB Projects. The NNB Gen Company Board will consist only of EDF Energy directors but the NNB Holding Company Board (on which Centrica will be represented) will be entitled to receive board papers and presentations produced to and minutes of the meetings of the NNB Gen Company Board.

3.3.4 Technical Committee

The Technical Committee will be a sub-committee of the NNB Holding Company Board responsible for technical issues during the construction phase of each NNB Project. The Technical Committee will make recommendations to the NNB Holding Company Board as to the construction and development of the NNB Projects.

The Technical Committee will meet once every eight weeks and also on the reasonable request of any of the NNB Shareholders' Representatives. EDF Energy will be entitled to appoint four times the number of appointees of GB Gas Holdings. Decisions of the Technical Committee will be made by simple majority.

3.3.5 Disagreements at the Technical Committee

There is a similar mechanism to govern disagreements at the Technical Committee as that described at paragraph 3.3.2 above, although the mechanism only relates to decisions which have an impact of greater than £10 million and less than £50 million.

3.3.6 Management and Financial Information

In addition to the information which will be received by the directors appointed to the board of NNB Holding Company and NNB Shareholders' Representatives, EDF Group and Centrica have agreed the content, form and procedures in respect of the management and financial information to be provided by NNB Holding Company to each of EDF Group and Centrica. Such information will include budgets of the NNB Companies, budget re-forecasts, historical management information and performance and other information which EDF Group and Centrica require to protect their interests as a shareholder in NNB Holding Company in respect of such information rights and for financial communications with their respective shareholders.

3.3.7 NNB Reserved Matters

There is an agreed list of reserved matters which neither NNB Holding Company nor NNB Gen Company will be entitled to implement without the unanimous approval of EDF Energy and GB Gas Holdings (the **"NNB Reserved Matters"**). The NNB Reserved Matters are:

(i) the creation of any encumbrance over interests in NNB Holding Company or NNB Gen Company;

(ii) the creation of any new shares, save for shares in NNB Holding Company which are issued in respect of a cash call;

(iii) incurring of any debt which would result in an NNB Company incurring the higher of £200 million (indexed) and an amount equal to 20 per cent. of all investments made by shareholders in NNB Holding Company;

(iv) any acquisition which would result in an NNB Project acquiring assets, other than acquisitions contemplated by the Sites Transfer Agreement, which were not included in the pre-development budget or construction budget and any assets which were not included in the Annual Operating Budget and which have an individual value in excess of £15 million (indexed);

(v) proposing any scheme of arrangement;

(vi) reducing the share capital of NNB Holding Company or NNB Gen Company;

(vii) any cessation or abandonment or material change to the business of the NNB Joint Venture;

(viii) any disposal of assets (save for spare parts) necessary in the ordinary course of the NNB Joint Venture or, in relation to any other assets, any disposal of assets which is not on arm's length terms;

(ix) any grant of rights in respect of the land to be used for NNB activities other than (i) to NNB Holding Company or NNB Gen Company or (ii) which is in on arm's length terms and not prejudicial to the business of the NNB Joint Venture;

(x) the creation of any encumbrance over any property or asset of NNB Holding Company or NNB Gen Company other than in the ordinary course of the business of the NNB Joint Venture;

(xi) the giving of any guarantee of any obligation owed by NNB Holding Company or NNB Gen Company other than in the ordinary course of the business of the NNB Joint Venture;

(xii) the winding-up or any member of NNB Holding Company or NNB Gen Company; and

(xiii) any change to the constitutional documents of NNB Holding Company or NNB Gen Company which would adversely affect the rights, the enjoyment of rights or the value of GB Gas Holdings' investment in NNB Holding Company.

In certain circumstances, and subject to certain exceptions, GB Gas Holdings will lose its right to veto certain of these actions. These circumstances and the basis on which the rights are lost are described in paragraphs 3.8, 3.12 and 3.13.

The agreed scope of the ordinary course exception to certain reserved matters includes exceptional or unforeseen circumstances or actions arising from, or incidental to, the business of the NNB Companies.

3.3.8 Deadlock

If GB Gas Holdings and EDF Energy disagree in relation to any NNB Reserved Matter, there is an escalation procedure to senior management. If, ultimately, the disagreement is not resolved, the relevant transaction in dispute may not be carried out by NNB Holding Company.

3.4 Related Party Transactions

NNB Holding Company will enter into contracts with third parties and with members of the EDF Group for the design, construction etc. of each NNB Project. In the same manner as for related party transactions under the Lake Shareholders' Agreement, where these contracts are with a member of the EDF Group, and except as noted in paragraph 3.5 below in relation to the Architect Engineer, they will be on cost plus a minimum margin basis (other than contracts for nuclear fuel supply which are to be provided on a "most favoured nation basis" and commodity trading contracts which will be on arm's length terms).

Related party transactions are split into three categories, (i) UK shared services agreements, (ii) non-UK shared services agreements and (iii) technical related party transactions. When deciding whether to enter into a related party transaction, NNB Holding Company and NNB Gen Company will have regard to the overarching principles set out in the NNB Shareholders' Agreement which enshrine the principles of no value leakage and ensure that the NNB Joint Venture benefits from synergies and fleet efficiencies. GB Gas Holdings will be entitled to require an independent expert to review any such related party transactions to ensure that they are on 'Agreed Terms'. If the expert determines that such contracts are not on the Agreed Terms, EDF Energy undertakes to procure that the NNB Gen Company and the counterparty to the relevant related party transaction will amend the terms of the contract so that it is on Agreed Terms.

Following Completion, Centrica will be entitled to verify whether related party transactions entered into with the EDF Group have been entered into on Agreed Terms. GB Gas Holdings will have an ongoing audit right exercisable in respect of any significant arrangements that the NNB Joint Venture enters into.

There is an escalation procedure for any dispute between GB Gas Holdings and EDF Energy as to whether a transaction is on Agreed Terms, which ultimately results in reference to and determination by an independent expert.

If it is determined that such transactions have not been entered into on Agreed Terms, EDF Group will be obliged to amend the relevant agreements such that they are on Agreed Terms going forward.

EDF Group also will be obliged to pay an amount of money to the NNB Joint Venture such that it is put in the financial position that it would have been in had the transactions been entered into on Agreed Terms.

3.5 Architect Engineer

EDF Group and Centrica have agreed that a service agreement (the **"Architect Engineer Services Agreement"**) will be entered into in respect of NNB between NNB Gen Company and the Nuclear Engineering Division of EDF Group (the **"Architect Engineer"**). Centrica expects that the Architect Engineer will be responsible for concept design, contracting strategy, cost optimisation, overall project management including managing contract interfaces, site supervision and oversight of commissioning. The terms of the Architect Engineer Services Agreement are yet to be agreed and, assuming that the Architect Engineer Services Agreement is entered into following Completion, the NNB Holding Company Board and the Technical Committee will negotiate and approve the contract.

The Architect Engineer Services Agreement will either be on a cost plus minimal margin or fixed fee basis. If the Architect Engineer Services Agreement is entered into prior to Completion on a fixed fee basis, GB Gas Holdings will have the right to participate in discussions relating to the contract, subject to executing appropriate confidentiality undertakings.

3.6 Final Investment Decision, Opt Out and Dilution

Subject to the right of opt out described below, GB Gas Holdings has agreed to provide 20 per cent. of the costs of the First NNB Project as provided in the agreed budgets.

GB Gas Holdings has the right to opt out of the First NNB Project at any time prior to FIDD for that project. If GB Gas Holdings exercises this right, EDF Energy will purchase GB Gas Holdings' shares in NNB Holding Company at a price equal to: the contributions made by GB Gas Holdings prior to the date that GB Gas Holdings exercises its right to opt out less GB Gas Holdings' contribution to (i) the generic development costs and (ii) the pre-development costs of the First NNB Project (subject to a maximum deduction of £200 million). Centrica would then have no further right to participate in the NNB Projects in the UK and the NNB Shareholders' Agreement would terminate.

For the NNB Projects other than the First NNB Project, at specified points during the pre-development phase and at FIDD for each NNB Project, GB Gas Holdings will have an option to elect to participate in that NNB Project by selecting a percentage between zero and 20 per cent. (in multiples of 5 per cent.), provided that such percentage is not higher than its proportionate ownership of NNB Holding Company at that time. Assuming that GB Gas Holdings elects for a percentage higher than zero, GB Gas Holdings will be contractually committed for that percentage of the total costs attributable to that NNB Project in the agreed budgets. If GB Gas Holdings elects for a lower percentage, its overall ownership of NNB Holding Company will be diluted, but, as all the NNB Projects will be owned by one entity, GB Gas Holdings will retain an indirect ownership in each NNB Project.

3.7 Funding

Following Completion, NNB Holding Company will make cash calls in respect of amounts included in approved budgets for the NNB Joint Venture on a semi-annual basis to each of EDF Energy and GB Gas Holdings in proportion to their respective participating interests in each NNB Project. Cash calls may also be made by NNB Holding Company at any time if funding is essential to ensure compliance with regulatory conditions or to avoid an event of insolvency.

During the operational phase of NNB Projects, EDF Energy and GB Gas Holdings will contribute their proportionate share of the operating expenses under the power purchase agreements except if funding is Required Funding or necessary for major capital expenditure.

Centrica and EDF Group have agreed that capital costs will be allocated to the NNB Project in relation to which they are incurred, taking into account common procurement synergies and that company-wide costs and liabilities will be allocated on a unit-by-unit basis.

3.8 Dilution

3.8.1 Events of Dilution

As noted at paragraph 3.6, GB Gas Holdings will have the option to elect to fund NNB Projects at a lower percentage than its initial investment. If GB Gas Holdings exercises this option, its overall investment in NNB Holding Company will be diluted.

In addition, if a budget is amended during the construction phase of an NNB Project, GB Gas Holdings will have the choice as to whether to fund (in the relevant proportion) the increased budget or to accept dilution. If GB Gas Holdings accepts dilution, EDF Energy will meet the additional costs of the revised budget and GB Gas Holdings' investment in NNB Holding Company will be diluted proportionately.

3.8.2 Consequences of Dilution in NNB Holding Company

If GB Gas Holdings is diluted below a 12.5 per cent. shareholding in NNB Holding Company, it will cease to be entitled to the benefit of certain provisions and rights under the NNB Shareholders' Agreement, including:

(i) the right of veto over certain NNB Reserved Matters, save that GB Gas Holdings' right of veto shall be retained over: (a) the creation of share capital in NNB Holding Company if on a non pre-emptive basis; (b) a scheme of arrangement, material change to the business of the NNB Joint Venture or reduction of capital to the extent any such matter would materially prejudice GB Gas Holdings' rights under the NNB Shareholders' Agreement; (c) amendments to the constitutional documents of the NNB Companies; and (d) a winding-up, where the winding-up is voluntary;

(ii) the right to nominate directors to the board of NNB Holding Company, to nominate NNB Shareholders' Representatives to the Technical Committee and to receive board papers and minutes of board meetings of NNB Gen Company;

(iii) the right to require EDF Energy to offer GB Gas Holdings the same rights as EDF Energy offers to its transferees (as described in paragraph 3.11.3 below); and

(iv) the right to information relating to the NNB Companies (save for information which is reasonably required by Centrica to satisfy its legal, regulatory and accounting requirements, to protect its remaining rights under the NNB Shareholders' Agreement or to calculate the tax payable on any disposal of its shares in NNB Holding Company);

If GB Gas Holdings is diluted below a five per cent. shareholding in NNB Holding Company, the quantum of dividend undertaken to be paid as further described in paragraph 3.10 below will also be halved and GB Gas Holdings will no longer be entitled to its right of veto in respect of the NNB Reserved Matter set out at paragraph 3.3.7(ix) above.

3.9 Power Offtake

Once NNB Projects become operational, the Centrica Group will be entitled to offtake power from the NNB Projects calculated by reference to the investment it has made in the NNB Projects that are operational as a proportion of the total investments that have been made by the NNB Joint Venture in those NNB Projects. As a result, even if GB Gas Holdings elects not to fund an NNB Project through the construction phase for that NNB Project, the Centrica Group will be entitled to offtake from all NNB Projects once operational, albeit on a diluted basis reflecting its overall investment. The Centrica Group and EDF Group will purchase power from NNB Gen Company on a cost plus minimum margin basis.

3.10 Distributions

NNB Holding Company will consider in relation to each financial year whether it is prudent and appropriate for NNB Holding Company to pay an interim or final dividend in respect of such financial year and if the NNB Holding Company Board decides that it is prudent and appropriate then it will use its reasonable endeavours to pay such dividend.

3.11 Transfers of NNB Holding Company Shares

3.11.1 General Principles

Prior to Completion, EDF Energy may not transfer any of its shares in NNB Holding Company. Following Completion, EDF Energy may only transfer some of its shares unless:

(i) following such transfer, EDF Energy retains an interest in NNB Holding Company in excess of 50 per cent.;

(ii) the transferee is of "sufficient financial standing"; and

(iii) the proportion of its shares in NNB Holding Company which it intends to sell constitutes more than 5 per cent. of the share capital of NNB Holding Company.

GB Gas Holdings may not transfer any of its shares in NNB Holding Company:

(i) unless such transfer is to a person who is located in a Listed Territory (or such person is approved by EDF);

(ii) any time prior to the go-live date of the First NNB Project;

(iii) the transferee is of "sufficient financial standing"; and

(iv) if transferring any part of its Shares, unless following such transfer there are no more than three Shareholders that own shares originally held by GB Gas Holdings.

Intra-group transfers are permitted so long as the transferor demonstrates to the reasonable satisfaction of the other shareholders of NNB Holding Company that the transferee is of "sufficient financial standing".

3.11.2 Transfers by GB Gas Holdings

If GB Gas Holdings intends to transfer any of its shares in NNB Holding Company to a third party, it must send a notice to EDF Energy of this intention prior to signing a legally binding commitment to sell the interests. The notice to be provided by GB Gas Holdings must provide details of the proposed consideration to be paid, the material terms and the proposed transfer and set out a period of not less than 50 business days for EDF Energy to respond to the notice. EDF Energy may either: (i) respond that it wishes to acquire the interest in NNB Holding Company on the same terms; or (ii) notify GB Gas Holdings that the transfer to the third party may proceed. If EDF Energy does not reply within the specified period, EDF is deemed to have consented to the transfer by GB Gas Holdings.

3.11.3 Transfers by EDF Energy

EDF Energy is entitled to transfer part of its interest in NNB Holding Company, provided that it retains an interest in NNB Holding Company in excess of 50 per cent. If EDF Energy proposes to make such a transfer, and proposes to grant to the transferee superior rights and obligations (taken as a whole) to those of GB Gas Holdings, GB Gas Holdings will have the right to require that its rights and obligations in relation to NNB Holding Company are amended by EDF Energy to ensure that the new investor does not have superior rights and obligations when taken as a whole.

If EDF Energy intends to sell all of its interests in NNB Holding Company, it must provide written notice to GB Gas Holdings setting out the proposed transferee and the proposed terms of the transfer. EDF may also notify GB Gas Holdings in that notice that GB Gas Holdings must transfer all of its interests in NNB Holding Company to the proposed transferee on the same terms as specified in the notice. The proposed transferee may then, within a specified timeframe, give notice to GB Gas Holdings and EDF Energy to transfer all of their interests in NNB Holding Company to the proposed transferee. If EDF does not give notice to GB Gas Holdings that it must transfer all of its interests in NNB Holding Company to the proposed transferee, GB Gas Holdings, on receipt of the notice, may notify EDF Energy that it wishes to transfer its interests in NNB Holding Company on the same terms as specified in the notice to the proposed transferee. If GB Gas Holdings exercises this right, EDF Energy must procure that the proposed transferee acquires GB Gas Holdings' interests on the relevant terms. EDF Energy may, in satisfaction of this obligation, acquire GB Gas Holdings' interests in NNB Holding Company itself. If GB Gas Holdings does not reply within the period specified in the notice, it will be deemed to have elected not to sell its interests, in which case EDF Energy may sell its interests in NNB Holding Company to the proposed transferee and GB Gas Holdings will retain its rights under the NNB Shareholders' Agreement to which the proposed transferee must accede.

3.12 Centrica Change of Control

3.12.1 Consequences of any Change of Control

If there is a change of control of Centrica, GB Gas Holdings will lose its rights to appoint directors to the NNB Holding Company Board and the Technical Committee.

3.12.2 Consequences of an Unlisted Change of Control

If there is a change of control of Centrica by a third party which is not located in a Listed Territory, GB Gas Holdings will only have rights in relation to the NNB Joint Venture as if it had been diluted to less than 12.5 per cent. as described in paragraph 3.8 above. EDF would also have a right to exercise a call option (at a 16 per cent. discount to the fair value of the shares as determined by an independent expert as described in paragraph 2.7 above) in respect of GB Gas Holdings' shares in NNB Holding Company.

3.13 Default

3.13.1 Events of Default

The following constitute events of default under the NNB Shareholders' Agreement:

(i) insolvency;

(ii) an administrator or receiver is appointed;

(iii) breach of an obligation to fund a cash call which is not remedied within five business days;

(iv) breach of an obligation to fund or maintain security in relation to decommissioning liabilities and such breach is not remedied within five business days; and

(v) breach of the non-compete and IP protection provisions.

3.13.2 Consequences of an Event of Default

If an event of default occurs, the non-defaulting NNB Shareholder will have the option to require that:

(i) the defaulting NNB Shareholder shall not exercise its rights to appoint Directors to attend and vote at meetings of the NNB Holding Company Board and the Technical Committee;

(ii) any Director of the NNB Holding Company Board or the Technical Committee appointed by the defaulting NNB Shareholder shall be suspended; and

(iii) acquire the interests of the defaulting NNB Shareholder at a market price determined by independent experts (on the same basis as described in paragraph 2.7 above, but less a discount of 40 per cent. if the breach occurs during the pre-development phase of any NNB Project or 10 per cent. if the breach occurs following the operations phase of the fourth NNB Project, provided that the maximum discount shall be £600 million).

3.14 Intellectual Property

EDF Group has agreed to grant a licence of certain EDF intellectual property to the NNB Joint Venture. It has been agreed that a licence fee of £40 million will be paid by the NNB Joint Venture for the First NNB Project, and a fee of £20 million will be paid for each subsequent NNB Project. In addition, any intellectual property created by the NNB Joint Venture will be owned by EDF, but will be irrevocably licensed back (on a fee and royalty-free basis) to the NNB Joint Venture for the period that it is carrying out the business of the NNB Joint Venture.

3.15 Non-compete

For so long as EDF Group and Centrica have interests in the NNB Joint Venture, EDF Group and Centrica have agreed that they will not participate in any Competing Business in the UK. In addition, Centrica has agreed not to participate in any Competing Business in the UK for a period of 24 months following the date that it ceases to have an interest in the NNB Joint Venture. These provisions do not prevent EDF Group or the Centrica Group owning less than 5 per cent. of shares of listed companies nor shares in companies where any UK nuclear activities of that company or that company or its group in the UK constitute less than 20 per cent. of the UK revenue of that company or its group. The restrictions also do not prevent Centrica or EDF Group from entering into any power purchase agreements, whether or not the counter party is carrying on or economically interested in a Competing Business.

4 NNB Exclusivity Agreement

4.1 The NNB Shareholders' Agreement establishes exclusivity between Centrica and EDF Group in relation to the development through NNB Gen Company of four new EPRs in the UK.

4.2 The NNB Exclusivity Agreement dated 10 May 2009 between Centrica and EDF extends this exclusive relationship between the parties to future reactors involving nuclear technology (**"Future Reactors"**) to be built in the UK.

4.3 For as long as Centrica and EDF Group have an interest in the NNB Joint Venture, unless Centrica and EDF Group agree otherwise in writing, both Centrica and EDF Group have agreed, on their own behalf and on behalf of the members of their respective Groups, that their respective Group's participation in the development, construction, ownership, operation and decommissioning of the Future Reactors shall be exclusively through NNB Gen Company.

4.4 If Centrica or EDF Group wish to develop, construct, own, operate and decommission any Future Reactors in a different structure to NNB Gen Company, they have agreed to negotiate in good faith, with a view to agreeing an alternative structure.

4.5 If Centrica and EDF Group agree to develop Future Reactors in a different structure, the EDF Group NNB Shareholder may invite other investors to participate in any different structure provided that the EDF Group NNB Shareholder must retain a participation of more than 50 per cent. Centrica will also be entitled to rights in the different structure which are no less favourable than the rights it had under the NNB Shareholders' Agreement or those granted to any other investor.

4.6 EDF Group and Centrica have agreed that the exclusions set out above in paragraph 3.15 shall apply to the exclusivity arrangements in the NNB Exclusivity Agreement.

5 Option Deed

The Option Deed dated 10 May 2009 between EDF Group and Centrica grants Centrica the option to purchase a number of trade marks, logos and domain names owned by British Energy at any time from the date falling two years after the date of the Completion to the date falling five years after the date of Completion. The option has been granted at no cost to Centrica. If Centrica chooses to exercise the option, EDF Group will transfer the relevant trade marks, logos and domain names to Centrica (at a value either to be agreed by

Centrica and EDF Group at the time of such transfer or, failing agreement, for fair value to be determined by independent experts).

6 Sites Transfer Agreement

The Sites Transfer Agreement dated 10 May 2009 between EDF International, EDF Energy, Centrica, GB Gas Holdings and Lake Acquisitions (the **"Sites Transfer Agreement"**) provides for the transfer of the land owned by members of the British Energy Group and EDF Group required for the first four reactors to be built and operated under NNB Joint Venture, in particular in relation to the sites at Hinkley Point, Sizewell and Bradwell.

The Sites Transfer Agreement sets out the various conditions which must be satisfied in relation to each of the sites before the relevant land can be leased to NNB Gen Company and then transferred where appropriate to LandCo for the NNB Joint Venture. The conditions relate principally to title issues on the sites, agreement of terms with third parties to lift restrictions, satisfaction of any restrictions in the Restructuring Agreements and the Umbrella Agreement where relevant for each site and to dealing with any existing nuclear site licences. There is a set of agreed lease terms annexed to the agreement and, subject to specific exemptions, each lease granted must be consistent with these.

The Bradwell Site is included in the agreement, but a lease of this site and any transfer will only occur where the conditions in the Sites Undertaking are not met (or are not capable of being met). The agreement also provides for the transfer of grid connection agreements and the grant of access to the sites in advance of the leases and transfers to enable site surveys and preliminary works to be carried out.

7 Segebel SPA

7.1 Agreement to transfer shares in Segebel

Pursuant to the Segebel SPA, EDF International, a subsidiary of EDF, has agreed to acquire, and Centrica Overseas, a subsidiary of Centrica, has agreed to sell, the 100 per cent. shareholding in Segebel currently held by the Centrica Group. Segebel is the legal owner of 51 per cent. of the shares and 51 per cent. of the profit sharing certificates of SPE.

7.2 Consideration

7.2.1 Initial Consideration

Segebel is being transferred to EDF International for €1,325 million in cash, plus an amount equal to the time value of money at 5.5 per cent. per annum accruing daily on such amount from the Initial Longstop Date (as defined in paragraph 1.6 above) until the date on which all of the conditions precedent to the Subscription and Investment Agreement described in paragraphs 1.3.1, 1.3.3 and 1.3.4 above have been satisfied or waived.

7.2.2 Deferred Consideration

SPE entered into a framework agreement with Electrabel on 12 June 2008 in relation to the provision of nuclear capacity by Electrabel to SPE. Among other things, the framework agreement provided that, subject to the satisfaction of certain conditions, SPE would be entitled to receive further nuclear electricity capacity under the terms of an Electricity Sale Agreement.

Under the terms of the GDF SPA, Centrica Overseas is obliged to pay deferred consideration to GDF if the Electricity Sale Agreement, which is conditional on certain regulatory approvals being obtained, comes into force and is not terminated by Electrabel.

If Centrica Overseas pays such deferred consideration to GDF under the GDF SPA in respect of the Electricity Sale Agreement, EDF International is obliged to pay the same amounts to Centrica Overseas under the Segebel SPA.

7.3 Conditions

Completion of the Segebel Disposal is conditional on EDF International obtaining any applicable competition approvals and is interconditional on completion of the Subscription and Investment Agreement and the NNB Shareholders' Agreement.

7.4 Pre-Completion Obligations

Centrica Overseas has undertaken to procure that, during the period prior to Completion, the business of Segebel and SPE is carried on in the ordinary course and that Segebel and SPE will refrain from doing certain acts without EDF International's prior written consent, including, without limitation, in respect of Segebel not entering into, amending or terminating any material agreement, not creating any material security interest, not engaging in a merger or a winding-up and not amending its articles of association; and, in respect of SPE and its wholly-owned subsidiary, SPE Power Company SA, not changing the nature of their business in any material respect, not making any material capital commitments in relation to the Navagne project (other than development costs up to €5,000,000 in excess of costs payable pursuant to the terms of certain existing contracts) or any other material capital commitments involving an aggregate commitment of more than €3 million over and above the amount of any capital commitments and investments included in the annual budget, not issuing, redeeming or repurchasing shares, not acquiring, transferring or disposing of any undertaking, asset, business, company or securities having a book or market value of greater than €10 million, not creating any security interests over any of their material assets otherwise than in the ordinary course of business or arising by operation of applicable law, or assuming indebtedness in excess of €20 million over and above any indebtedness existing as at 31 December 2008, not entering into or amending agreements with senior management.

A committee of EDF Group, SPE and Centrica is to meet once a month in the period before Completion and it has been agreed that Centrica shall deliver certain financial information periodically to EDF Group.

7.5 Warranties

Centrica Overseas has provided warranties in respect of Segebel, SPE and SPE Power Company SA which are common for a transaction of this nature and are similar in nature to the warranties that were provided to Centrica Overseas in the GDF SPA. The warranties include, without limitation, warranties in relation to their constitution, shares and share capital, regulatory matters, the ownership of assets, intellectual property matters, contracts, employees, accounts and financial matters, litigation, taxation, compliance with applicable laws and real estate matters.

7.6 Limitations

EDF International will not be entitled to recover any amount under the warranties given by Centrica Overseas unless and until the claims under the warranties exceed €1 million in aggregate (in which case, Centrica Overseas will be liable for the aggregate amount of such claims as agreed or determined only to the extent of the excess over €1 million). In addition, EDF International will not be entitled to claim for any individual claim (or series of individual claims arising from substantially identical facts or circumstances) if a liability agreed or determined in relation to such claim or series of claims does not exceed €500,000. These limitations do not apply to any claim for a breach of a warranty relating to share capital.

The aggregate amount which may be recovered by EDF International from Centrica Overseas under the warranties given by Centrica Overseas is limited to 30 per cent. of the aggregate consideration for the Segebel Disposal, save that there is no cap in relation to a claim for breach of the warranty as to Centrica Overseas' title to 100 per cent. of the share capital of Segebel.

Furthermore, all warranty claims are subject to certain time limitations.

7.7 Break Fees

EDF International has agreed to pay a break fee of €25 million to Centrica Overseas if EDF International does not obtain applicable competition approvals on or before the first anniversary of the Segebel SPA as a consequence of EDF International not accepting conditions or obligations that a competent competition authority may require or issue in order to give competition approval.

8 Power Purchase Agreements

8.1 Background, Parties and Structure

8.1.1 Currently, the British Energy Group has three sources of generation: (i) the nuclear plants owned by BEG (the output therefrom, the **"Nuclear Volumes"**), (ii) the gas-fired plant owned by DEL (the output from (ii), the **"Non-Nuclear Volumes"**) and (iii) the coal-fired plant owned by EPL (the nuclear, gas-fired and coal-fired plants being the **"British Energy Group Generating Assets"**). The output from (iii) is ring-fenced and traded separately. Eggborough will be sold off as part of the Commitments.

8.1.2 BETS offtakes all the output from the British Energy Group Generating Assets under an energy services agreement with BEG, a tolling agreement with EPL and an energy services agreement with DEL.

8.1.3 BETS sells a portion of this output to BED for the purposes of its direct sales business. BETS also has its own trading book with third parties.

8.1.4 On 24 March 2009, EDF Plc entered into the State Aid Power Purchase Agreement with BETS to purchase all of the Nuclear and Non-Nuclear Volume which are not sold under the arrangements described in paragraph 8.1.3 above.

8.1.5 EDF Plc intends to seek the consent of the Secretary of State to modify the Restructuring Agreements (the **"Relevant Amendment"**) so that as soon as possible EDF Plc and, following Completion, Centrica Trading can offtake Nuclear Volumes under the Phase 3 Equity Power Purchase Agreements directly from BEG (on an MVRN basis) rather than indirectly through BETS (on an ECVN basis). Both EDF Group and Centrica wish to make this modification to the Restructuring Agreements to alleviate the administrative burden of having a structure where BETS is an ECVNA.

8.1.6 EDF Group may at its discretion and without the consent of Centrica (subject to the restrictions in the Contribution Agreement) terminate the State Aid Power Purchase Agreement at any time after the entry into the Subscription and Investment Agreement by the parties thereto and subject to obtaining all necessary statutory and regulatory approvals (including any necessary approval of HSE, HM Government and the European Commission) enter into a metered volume reallocation power purchase agreement with BEG (the **"MVR Power Purchase Agreement"**) and an agreement to trade certain outstanding trades resulting from the State Aid Power Purchase Agreement with BETS (the **"100% Residual Volume Agreement"**). The MVR Power Purchase Agreement and the 100% Residual Volume Agreement must be in substantially the same form as the Phase 3 Equity Power Purchase Agreement Principles and the Residual Power Purchase Agreement Principles and Centrica has the right to refer the matter to an expert to decide whether the terms of the MVR Power Purchase Agreement and/or the 100% Residual Volume Agreement (i) are substantially consistent with the Phase 3 Equity Power Purchase Agreement Principles or the Residual Power Purchase Agreement Principles (and are likely to receive the necessary statutory and regulatory approvals (including any necessary approval of HSE, HM Government and the European Commission)) and (ii) put Centrica in a materially disadvantageous position when compared to the Phase 3 Equity Power Purchase Agreement Principles or the Residual Power Purchase Agreement Principles.

8.1.7 On Completion:

(i) if the Relevant Amendment has not been made by Completion, (a) EDF Plc will amend its State Aid Power Purchase Agreement to reflect pre-agreed Phase 2 Equity Power Purchase Agreements terms (with those terms being subject to the approval of the Secretary of State) and (b) Centrica Trading will enter into a Phase 2 Equity Power Purchase Agreement with BETS on the same terms as EDF Plc's amended State Aid Power Purchase Agreement (the details of which are described in paragraph 8.3 below); or

(ii) if the Relevant Amendment has been made by Completion, (a) EDF Plc will either terminate the State Aid Power Purchase Agreement and enter into a Phase 3 Equity Power Purchase Agreement with BEG or, if it has already entered into a MVR Power Purchase Agreement, EDF Plc will amend such MVR Power Purchase Agreement to reflect the change in the percentage of volume it offtakes and (b) Centrica Trading will enter into a Phase 3 Equity Power Purchase Agreement with BEG (the details of which are described in paragraph 8.3 below).

8.1.8 If the Relevant Amendment is made following Completion, the Phase 2 Equity Power Purchase Agreements will terminate and EDF Plc and Centrica Trading will enter into the Phase 3 Equity Power Purchase Agreements with BEG.

8.1.9 Following the "go live" date for the Phase 3 Equity Power Purchase Agreements, BETS will no longer receive supplies of electricity from BEG because all BEG volumes will be subject to a MVRN in favour of EDF Plc and Centrica Trading. Therefore, to the extent BETS still buys or sells electricity under the arrangements with DEL or through direct sales, or through its trading book, EDF Plc and Centrica Trading will either sell or purchase the amount of electricity BETS requires to remain neutral with respect to electricity, under the Residual Power Purchase Agreements with BETS, in each case in proportion to their respective shareholdings in Lake Acquisitions.

8.1.10 On Completion, Centrica Trading and EDF Plc will enter into the Commercial Power Purchase Agreement, the details of which are described in paragraph 8.5 below.

8.2 State Aid Power Purchase Agreement

The State Aid Power Purchase Agreement was entered into by EDF Plc and BETS on 24 March 2009 and is the agreement pursuant to which EDF Plc purchases from BETS 100 per cent. of the uncontracted Nuclear Volumes and Non-Nuclear Volumes.

8.2.1 Volume

The aggregate offtake of EDF Plc is an amount in MW equal to the aggregate of all power purchased or forecast to be purchased by BETS in respect of Nuclear Volumes and Non-Nuclear Volumes and pursuant to its trading book less the aggregate of all power sold by BETS pursuant to its direct sales or trading book (the "**State aid PPA Volume**").

8.2.2 Trading

Trading for an EFA season will take place three full EFA seasons ahead based on best estimates of generated volumes provided by BETS (such estimates to be made in accordance with BETS' reasonable risk and management trading policy). On a daily basis, BETS will provide an update of the estimated volumes for the following five EFA seasons and the parties will enter into additional trades to reflect aggregate changes of over 10 MW to the tradable volumes, for the relevant tradable product period. Tradable products are divided into EFA seasons, EFA quarters, EFA months and EFA weeks. The basic trading strategy of British Energy is to maximise the volume traded by British Energy at the earliest opportunity.

8.2.3 Price

The price for each trade shall be calculated by reference to market prices.

8.2.4 Credit Support

BETS is not required to provide or pay for any credit support in respect of any of the transactions entered into under the State Aid Power Purchase Agreement.

8.2.5 Exclusivity

BETS is not permitted to enter into any trades in respect of the State aid PPA Volume with third parties, other than EDF Plc, other than with respect to prompt trading of limited, short-term volumes which are not required to be traded under the State Aid Power Purchase Agreement or otherwise with the consent of EDF Plc.

8.3 Equity Power Purchase Agreements

The Equity Power Purchase Agreements are the agreements pursuant to which Centrica Trading and EDF Plc will purchase an amount, in proportion to GB Gas Holdings' and EDF Energy's respective percentage shareholdings in Lake Acquisitions after Completion, of the uncontracted Nuclear Volumes and Non-Nuclear Volumes.

Phase 2 Equity Power Purchase Agreements

8.3.1 Volume

The aggregate offtake of EDF Plc and Centrica Trading will be an amount in MW equal to the aggregate of all power purchased or forecast to be purchased by BETS in respect of Nuclear Volumes and Non-Nuclear Volumes and pursuant to its trading book less the aggregate of all power sold on by BETS. EDF Plc and Centrica Trading will be entitled to offtake such amount in proportion to their respective shareholdings in Lake Acquisitions.

8.3.2 Trading

Trading for an EFA season will take place three full EFA seasons ahead based on best estimates of generated volumes provided by BETS (such estimates to be made in accordance with BETS' reasonable risk and management trading policy). On a daily basis, BETS will provide an update of the estimated volumes for the following five EFA seasons and the parties will enter into additional trades to reflect aggregate changes of over

10 MW to the tradable volumes, for the relevant tradable product period. Tradable products are divided into EFA seasons, EFA quarters, EFA months and EFA weeks. The basic trading strategy of British Energy is to maximise the volume traded by British Energy at the earliest opportunity.

8.3.3 Price

The price for each trade shall be calculated by reference to market prices.

8.3.4 Physical Imbalance Risk

Physical imbalance risk resides with BETS.

8.3.5 Termination

Centrica Trading or EDF Plc (as buyer) or BETS may only terminate the Phase 2 Equity Power Purchase Agreements for: (i) material non-payment of an undisputed sum subject to a five business day cure period; or (ii) insolvency of the counterparty.

BETS may terminate the Phase 2 Equity Power Purchase Agreements for failure by Centrica Trading or EDF Plc (as buyer) to provide and maintain collateral.

8.3.6 Collateral

BETS is not permitted and will not be required to provide collateral at any time.

If Centrica Trading or EDF Plc (as buyer) has a credit rating from Standard & Poor's Rating Group of less than "BBB" or from Moody's Investors Service Inc of less than "Baa2" or if it is subject to cross default above a certain threshold, it will be required to provide collateral.

If Centrica Trading or EDF Plc (as buyer) is required to post collateral, it shall be in the form of a parent company guarantee guaranteeing all amounts payable by the relevant buyer under the Phase 2 Equity Power Purchase Agreement. If such parent company (at the time of providing the parent company guarantee or at any time in the future) has a credit rating from Standard & Poor's Rating Group of less than "BBB" or from Moody's Investors Service Inc of less than "Baa2", then the party required to post collateral shall, in addition to the parent company guarantee provide collateral in the form of either (i) cash or (ii) a letter of credit (or an equivalent form acceptable to BETS, acting reasonably), which shall be issued by a bank or financial institution that has a credit rating of not less than Standard & Poor's "A" or from Moody's Investors Service Inc of not less than "A2" in each case for an amount equal to BETS' best good faith estimate of the amount payable by the defaulting buyer to BETS under the Phase 2 Equity Power Purchase Agreement for the immediately following four months. If the credit rating of the bank or financial institution falls below the required level, the defaulting party must procure collateral from a substitute provider with the requisite credit rating. All collateral must be provided within five business days of the event triggering the requirement for collateral to be posted.

If a termination payment owed to BETS remains outstanding after five business days, the affiliate of the non-defaulting buyer which holds shares in Lake Acquisitions may elect to pay the termination payment to BETS, in return for the cash free transfer of shares in Lake Acquisitions from the affiliate of the defaulting party which holds shares in Lake Acquisitions.

Phase 3 Equity Power Purchase Agreements

8.3.7 Structure

The Phase 3 Equity Power Purchase Agreement will either be in the form of two contracts, one between BEG and EDF Plc and one between BEG and Centrica Trading or a tripartite agreement between BEG, EDF Plc and Centrica Trading.

8.3.8 Meter Allocation

Under the Phase 3 Equity Power Purchase Agreement, EDF Plc will be the MVRNA and will issue a MVRN for all nuclear generating units to allocate output in proportion to GB Gas Holdings' and EDF Energy's respective shareholdings in Lake Acquisitions.

8.3.9 Volume

An amount in MW equal to the aggregate of all power generated and exported from all nuclear generating units owned by BEG will be supplied to EDF Plc and Centrica Trading in proportion to their respective shareholdings in Lake Acquisitions.

8.3.10 Price

The price mechanism will replicate that used under the Phase 2 Equity Power Purchase Agreements (unless the parties agree, subject to the approval of the Secretary of State, a different mechanism to achieve a market price). The price derived from the chosen mechanism will be expressed as a price per MWh for the power delivered under the Phase 3 Equity Power Purchase Agreements.

8.3.11 Imbalance Risk

BEG shall pay the buyers' cost of imbalance based on the difference between the last notification of expected metered output and the actual metered output on a commercially reasonable basis.

8.3.12 Termination

The termination provisions in the existing energy services agreement between BEG and BETS will apply. These include termination rights for a failure to pay undisputed amounts, insolvency and a failure to perform a material obligation.

BEG may terminate the Phase 3 Equity Power Purchase Agreement for failure by Centrica Trading or EDF Plc (as buyer) to provide and maintain collateral.

8.3.13 Collateral

The same principles will apply as in respect of the Phase 2 Equity Power Purchase Agreements as described in paragraph 8.3.6 above (except that they will apply in relation to BEG rather than BETS).

8.4 Residual Power Purchase Agreements

Following the "go live" date for the Phase 3 Equity Power Purchase Agreements, BETS will no longer receive supplies of electricity from BEG because all BEG volumes will be subject to an MVRN in favour of EDF Plc and Centrica Trading. Therefore, to the extent BETS still buys or sells electricity under the arrangements with DEL, through direct sales, or through its trading book, EDF Plc and Centrica Trading will either sell or purchase the amount of electricity BETS requires to remain neutral with respect to electricity, under the Residual Power Purchase Agreements, in each case in proportion to their respective shareholdings in Lake Acquisitions.

8.4.1 Residual Volume

An amount in MW equal to the aggregate of all power required by BETS to meet its power and delivery obligations under (i) BETS' trading book and (ii) the terms of any executed trade entered into by BETS for the supply of electricity to BED, in relation to any executed agreement entered into by BED for the supply of electricity to any premises.

8.4.2 Trading

No later than the "go live" date under the Phase 3 Equity Power Purchase Agreements, EDF Plc and Centrica Trading will enter into confirmations under their respective Residual Power Purchase Agreement for residual volume fixed price trades, reflecting a percentage corresponding to EDF Energy's and GB Gas Holdings' respective shareholdings in Lake Acquisitions after Completion.

On the date on which the price under those floating price sales within the residual volume is fixed, EDF Plc and Centrica Trading will enter into confirmations under their respective Residual Power Purchase Agreement for residual volume fixed price trades, reflecting a percentage corresponding to EDF Energy's and GB Gas Holdings' respective shareholdings in Lake Acquisitions after Completion.

8.4.3 Price

The price for each residual volume trade shall be the price paid by the counterparty to BETS in relation to the corresponding trade within the residual volume.

8.4.4 Termination

Either Centrica Trading or EDF Plc (as seller) or BETS may only terminate the Residual Power Purchase Agreement for (i) material non-payment of an undisputed sum subject to a five business day cure period; or (ii) insolvency of the counterparty.

BETS may terminate the Residual Power Purchase Agreement for failure by Centrica Trading or EDF Plc (as Seller) to provide and maintain collateral.

8.4.5 Collateral

The same principles will apply as in respect of the Phase 2 Equity Power Purchase Agreements as described in paragraph 8.3.6 above except that the value of collateral to be posted is equal to BETS' best good faith estimate of the termination payment that would be payable by the defaulting party at that time based on the volume of power to be delivered over the immediately following four months.

8.5 Commercial Power Purchase Agreement

The Commercial Power Purchase Agreement is the agreement that will be entered into on Completion between EDF Plc and Centrica Trading pursuant to which Centrica Trading will purchase from EDF Plc 18 TWh of power over a specified period of time.

8.5.1 Background, Parties and Structure

The Commercial Power Purchase Agreement will be structured as a standard form ECVN grid trade master agreement between EDF Plc and Centrica Trading.

Supply under the Commercial Power Purchase Agreement is firm supply.

8.5.2 Start Date

The "go live" date of the Commercial Power Purchase Agreement will be the business day prior to the first full day of the 2011 EFA summer season (unless Completion has not occurred by such date).

8.5.3 Term

The Commercial Power Purchase Agreement will terminate once all obligated volume flow under the Commercial Power Purchase Agreement has been completed.

8.5.4 Volume

The amount to be supplied by EDF Plc to Centrica Trading under the Commercial Power Purchase Agreement is 18 TWh in aggregate from the start of the 2011 EFA summer season until the end of the 2015 EFA winter season with a profile for delivery as agreed by EDF Plc and Centrica Trading.

8.5.5 Price

The price for the Commercial Power Purchase Agreement volumes shall be calculated by reference to market prices.

8.5.6 Termination

Standard grid trade master agreement termination provisions shall apply which include termination for non-payment, insolvency and failure to provide collateral when required to do so.

8.5.7 Collateral

If Centrica Trading or EDF Plc has a credit rating from Standard & Poor's Rating Group of less than "BBB" or from Moody's Investors Service Inc of less than "Baa2" it will be required to provide collateral. If a party falls below the required threshold or is subject to a cross default above a threshold amount, it is required to put in place collateral by way of parent company guarantee from a parent company which has a credit rating of not less than the above thresholds guaranteeing the payment of all amounts payable under the Commercial Power Purchase Agreement. If the credit rating of the parent (at the time providing the guarantee or at any time in the future whilst the guarantee is in place) falls below either of the above thresholds, the defaulting party shall, in addition to the parent company guarantee, provide collateral in the form of either cash or letter of credit for an amount determined by the non-defaulting party according to a calculation methodology adopted by the non-defaulting party, acting reasonably.

PART VI

ADDITIONAL INFORMATION

1 Responsibility

The Company and the Directors, whose names are set out in paragraph 3 below, accept responsibility for the information contained in this Circular. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 Incorporation and Registered Office

2.1 Centrica plc is incorporated in England and Wales with registered number 3033654 and was formed following a demerger from British Gas plc in February 1997.

2.2 The Company is domiciled in the UK. Its registered office and corporate headquarters is at Centrica plc, Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD (Tel. No. 01753 494000, or, if dialling from outside the UK, +44 1753 494000).

3 Directors

The Directors and their principal functions are as follows:

Roger Carr	Chairman
Sam Laidlaw	Chief Executive
Helen Alexander CBE	Non-Executive Director
Phil Bentley	Managing Director, British Gas
Mary Francis CBE	Senior Independent Director
Mark Hanafin	Managing Director, Centrica Energy and Europe
Nick Luff	Group Finance Director
Andrew Mackenzie	Non-Executive Director
Paul Rayner	Non-Executive Director

Each of the Directors can be contacted through the registered address of the Company.

4 Directors' Interests

Save as set out in paragraphs 4.1 and 4.2 below, no Director has any interests (beneficial or non-beneficial) in the share capital of the Company or any of its subsidiaries.

4.1 Directors' Shareholdings

As at 12 May 2009 (being the latest practicable date prior to publication of this Circular), the interests (all of which are beneficial unless otherwise stated) of the Directors (as well as their immediate families) in the share capital of Centrica or (so far as is known or could with reasonable due diligence be ascertained by the relevant Director) interests of a person connected (within the meaning of section 252 of the Companies Act) with a Director and the existence of which was known to or could, with reasonable diligence, be ascertained by the Directors as at 12 May 2009 are as follows:

	Number of Shares	Percentage of issued share capital
Executive Directors		
Sam Laidlaw	348,127	0.00680%
Nick Luff	206,449	0.00404%
Phil Bentley	1,062,973	0.02078%
Mark Hanafin	55,536	0.00109%
Non-Executive Directors		
Roger Carr	26,441	0.00052%
Mary Francis CBE	3,500	0.00007%
Helen Alexander CBE	3,465	0.00007%
Andrew Mackenzie	28,875	0.00056%
Paul Rayner	6,875	0.00013%

4.2 *Directors' Options and Awards*

As at 12 May 2009 (being the latest practicable date prior to the publication of this Circular), the Directors held options and awards to subscribe for Shares, or were allocated Shares under the Centrica Employee Share Plans which may be satisfied by a subscription for Shares, as follows:

4.2.1 Sam Laidlaw

Executive Share Plans	Date of award	No. of Shares vested	No. of Shares unvested	Market price at date of award (p)	End of performance period
DMSS Deferred Shares	4 April 2007	—	21,470	348.53	3 April 2010
DMSS Deferred Matching Shares	4 April 2007	—	44,294	348.53	3 April 2010
DMSS Investment Shares	4 April 2007	—	94,510	348.53	3 April 2010
DMSS Investment Matching Shares	4 April 2007	—	261,727	348.53	3 April 2010
DMSS Deferred Shares	13 October 2008	—	74,925	255.50	2 April 2011
DMSS Deferred Matching Shares	13 October 2008	—	154,572	255.50	2 April 2011
DMSS Investment Shares	13 October 2008	—	107,284	255.50	2 April 2011
DMSS Investment Matching Shares	13 October 2008	—	297,102	255.50	2 April 2011
DMSS Deferred Shares	3 April 2009	—	184,367	221.75	2 April 2012
DMSS Deferred Matching Shares	3 April 2009	—	368,734	221.75	2 April 2012
Long-Term Incentive Scheme EPS	4 September 2006	—	242,540	269.30	3 September 2009
Long-Term Incentive Scheme TSR	4 September 2006	—	242,542	269.30	3 September 2009
Long-Term Incentive Scheme EPS	4 April 2007	—	258,068	348.53	3 April 2010
Long-Term Incentive Scheme TSR	4 April 2007	—	258,069	348.53	3 April 2010
Long-Term Incentive Scheme EPS	3 April 2008	—	339,887	269.21	2 April 2011
Long-Term Incentive Scheme TSR	3 April 2008	—	339,887	269.21	2 April 2011
Long-Term Incentive Scheme EPS	3 April 2009	—	403,350	226.85	2 April 2012
Long-Term Incentive Scheme TSR	3 April 2009	—	403,350	226.85	2 April 2012
Overall Total			4,096,678		

All Employee Share Plans	Date of grant	Option granted	Option price (p)	Option Maturity Date
SAYE	4 April 2007	3,643	259.32	1 June 2010

SIP	No. of Shares
Partnership Shares	1,226
Matching Shares	578
Dividend Shares	58

4.2.2 Phil Bentley

Executive Share Plans	Date of award	No. of Shares vested	No. of Shares unvested	Market price at date of award (p)	End of performance period
DMSS Deferred Shares	4 April 2007	—	31,599	348.53	3 April 2010
DMSS Deferred Matching Shares	4 April 2007	—	65,191	348.53	3 April 2010
DMSS Investment Shares	4 April 2007	—	39,735	348.53	3 April 2010
DMSS Investment Matching Shares	4 April 2007	—	138,942	348.53	3 April 2010
DMSS Deferred Shares	13 October 2008	—	51,312	255.50	2 April 2011
DMSS Deferred Matching Shares	13 October 2008	—	105,859	255.50	2 April 2011
DMSS Deferred Shares	3 April 2009	—	86,099	221.75	2 April 2012
DMSS Deferred Matching Shares	3 April 2009	—	172,198	221.75	2 April 2012
Long-Term Incentive Scheme EPS	4 April 2007	—	166,164	348.53	3 April 2010
Long-Term Incentive Scheme TSR	4 April 2007	—	166,165	348.53	3 April 2010
Long-Term Incentive Scheme EPS	3 April 2008	—	218,047	269.21	2 April 2011
Long-Term Incentive Scheme TSR	3 April 2008	—	218,048	269.21	2 April 2011
Long-Term Incentive Scheme EPS	3 April 2009	—	271,104	226.85	2 April 2012
Long-Term Incentive Scheme TSR	3 April 2009	—	271,104	226.85	2 April 2012
Overall Total			2,001,567		

	Date of grant	No. of Shares vested	No. of Shares unvested	Exercise price (p)	Market price at date of grant (p)	End of performance period/ exercise period
Executive Share Option Scheme Approved	31 May 2001	14,037	—	213.70	216.006	June 2004- May 2011
Executive Share Option Scheme Unapproved	31 May 2001	332,240	—	213.70	216.006	June 2004- May 2011
Executive Share Option Scheme Unapproved	2 April 2002	409,744	—	200.12	200.751	April 2005- April 2012
Executive Share Option Scheme Unapproved	24 March 2003	628,312	—	130.50	129.559	March 2006- March 2013
Executive Share Option Scheme Unapproved	18 March 2004	451,426	—	199.36	203.183	March 2007- March 2014
Executive Share Option Scheme Unapproved	1 April 2005	496,187	—	203.55	202.973	April 2008- March 2015
Executive Share Option Scheme Unapproved	3 April 2006	417,642	—	253.80	252.826	April 2009- April 2016
		2,749,588				

All Employee Share Plans	Date of grant	Options granted	Option price (p)	Option Maturity Date
SAYE	4 April 2007	3,643	259.32	1 June 2010

SIP	No. of Shares
Partnership Shares	4,037
Matching Shares	1,587
Dividend Shares	876

4.2.3 Mark Hanafin

Executive Share Plans	Date of award	No. of Shares vested	No. of Shares unvested	Market price at date of award (p)	End of performance period
DMSS Deferred Shares	3 April 2009	—	37,821	221.75	2 April 2012
DMSS Deferred Matching Shares	3 April 2009	—	75,642	221.75	2 April 2012
Long-Term Incentive Scheme EPS	1 September 2008	—	186,191	284.65	31 August 2011
Long-Term Incentive Scheme TSR	1 September 2008	—	186,191	284.65	31 August 2011
Special Long-Term Incentive Scheme	26 September 2008	—	94,130	290.88	28 February 2010
Long-Term Incentive Scheme EPS	3 April 2009	—	233,634	226.85	2 April 2012
Long-Term Incentive Scheme TSR	3 April 2009	—	233,634	226.85	2 April 2012
Overall Total			1,047,243		

	Date of grant	No. of Shares vested	No. of Shares unvested	Exercise price (p)	Market price at date of grant (p)	End of performance period/ exercise period
Special Executive Share Option Scheme	26 September 2008	336,012	—	255.94	326.75	September 2008-September 2018
Overall Total		336,012				

All Employee Share Plans	Date of grant	Options granted	Option price (p)	Option Maturity Date
SAYE	3 April 2009	4,727	193.54	1 June 2012

4.2.4 Nick Luff

Executive Share Plans	Date of award	No. of Shares vested	No. of Shares unvested	Market price at date of grant (p)	End of performance period
DMSS Investment Shares	4 April 2007	—	68,904	348.53	3 April 2010
DMSS Investment Matching Shares	4 April 2007	—	190,816	348.53	3 April 2010
DMSS Deferred Shares	13 October 2008	—	39,694	255.50	2 April 2011
DMSS Deferred Matching Shares	13 October 2008	—	81,890	255.50	2 April 2011
DMSS Investment Shares	13 October 2008	—	52,232	255.50	2 April 2011
DMSS Investment Matching Shares	13 October 2008	—	144,646	255.50	2 April 2011
DMSS Deferred Shares	3 April 2009	—	85,609	221.75	2 April 2012
DMSS Deferred Matching Shares	3 April 2009	—	171,218	221.75	2 April 2012
Long-Term Incentive Scheme EPS	4 April 2007	—	155,321	348.53	3 April 2010
Long-Term Incentive Scheme TSR	4 April 2007	—	155,322	348.53	3 April 2010
Long-Term Incentive Scheme EPS	3 April 2008	—	208,018	269.21	2 April 2011
Long-Term Incentive Scheme TSR	3 April 2008	—	208,018	269.21	2 April 2011
Long-Term Incentive Scheme EPS	3 April 2009	—	246,859	226.85	2 April 2012

Executive Share Plans	Date of award	No. of Shares vested	No. of Shares unvested	Market price at date of grant (p)	End of performance period
Long-Term Incentive Scheme TSR	3 April 2009	—	246,859	226.85	2 April 2012
Overall Total			2,055,406		

All Employee Share Plans	Date of grant	Options granted	Option price (p)	Option Maturity Date
SAYE	3 April 2008	7,392	227.24	1 June 2013

	No. of Shares
SIP	
Partnership Shares	923
Matching Shares	430
Dividend Shares	26

4.3 Directors' Interests in Transactions

No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Company and which was effected by any member of the Centrica Group in the current or immediately preceding financial year or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

There are no guarantees provided by any member of the Centrica Group for the benefit of the Directors. In accordance with the articles of association of the Company, the Company granted a deed of indemnity, to the extent permitted by law, to each of the Directors and the General Counsel & Company Secretary.

5 Directors' Service Contracts and Terms of Appointment

Your attention is drawn to the details of the significant terms of the service agreements and letters of appointment between Centrica and the Directors set out on pages 170 and 171 of the Prospectus, such pages being incorporated by reference into this Circular.

Save for the service contracts described in the Prospectus, there are no existing or proposed service contracts between any Director or proposed Director of Centrica and its subsidiary undertakings.

A copy of the Prospectus referred to in this paragraph 5 is available for inspection as set out in paragraph 15 below.

6 Key Individuals

6.1 Lake Acquisitions

6.1.1 The following individuals are the directors of Lake Acquisitions as at the date of this Circular:

Daniel Camus

Marianne Laigneau

Gerard Wolf

Anne Le Lorier

Vincent de Rivaz

Humphrey Cadoux-Hudson

6.1.2 The following individuals will be appointed by Centrica to the board of Lake Acquisitions:

Nick Luff

Mark Hanafin

6.2 The British Energy Group

6.2.1 The following individuals are important to the business of the British Energy Group and will continue in their existing roles within the British Energy Group until July 2009. Thereafter Dr Andrew Spurr, currently Chief Technical Officer of BEG, will become Managing Director of Existing Nuclear:

Bill Coley	Managing Director of Existing Nuclear (and Chairman of BEG)
Dr Andrew Spurr[1]	Chief Technical Officer

Note:

(1) EDF Energy announced on 28 April 2009 that it was putting into effect transition arrangements for Bill Coley to be replaced as Chief Executive of British Energy by Dr Andrew Spurr.

6.2.2 Mark Hanafin will be appointed by Centrica to the board of British Energy.

6.3 NNB Holding Company

Humphrey Cadoux-Hudson will be Managing Director of NNB Holding Company

7 Significant Shareholdings

7.1 As at 12 May 2009 (being the latest practicable date prior to the publication of this Circular), the Company had been notified of or was otherwise aware of the following persons who were directly or indirectly interested in 3 per cent. or more of the Company's issued ordinary share capital:

	Number of Shares	As at 12 May 2009 % of share capital	Nature of holding
AXA	93,269,991	1.82	Direct
AXA	495,242,809	9.68	Indirect
Legal & General Group	245,386,280	4.80	Direct
Legal & General Group	31,257,603	0.61	Indirect
Petronas	199,375,000	3.90	Direct

7.2 Save as disclosed in paragraph 7.1, Centrica is not aware of any person who as at 12 May 2009 (being the latest practicable date prior to the publication of this Circular), directly or indirectly, has a holding which exceeds the threshold of 3 per cent. or more of the total voting rights attaching to its issued share capital.

7.3 None of the Shareholders referred to in this paragraph 7 has different voting rights from any other holder of Shares in respect of any Shares held by them.

8 Related Party Transactions

Other than as disclosed in the financial information incorporated by reference into this Circular for the financial years ended 31 December 2008, 2007 and 2006, there are no related party transactions between the Company and members of the Centrica Group that were entered into during the financial years ended 31 December 2008, 2007 and 2006 and during the period between 1 January 2009 and 12 May 2009.

9 Material Contracts

9.1 The Centrica Group

9.1.1 The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Centrica Group (i) within the two years immediately preceding the date of this Circular and are, or may be, material to the Centrica Group or (ii) which at any time contain any provision under which any member of the Centrica Group has any obligation or entitlement which is, or may be, material to the Centrica Group as at the date of this Circular:

(i) **Material Contracts in the Prospectus**

Your attention is drawn to the details of the following material contracts set out in pages 180-182 of the Prospectus, such pages being incorporated by reference into this Circular as further set out in Part VII (*"Documentation Incorporated by Reference"*) of this Circular.

(a) Rights Issue underwriting agreement

Centrica entered into an underwriting agreement with Goldman Sachs International, Credit Suisse Securities (Europe) Limited, UBS Limited, Barclays, BNP Paribas, HSBC Bank plc and RBS Hoare Govett Limited in connection with the Rights Issue. Your attention is drawn to the details of the agreement set out on pages 180-181 of the Prospectus.

(b) Acquisition of a 50 per cent. stake in Segebel

Centrica Overseas completed its acquisition of a 50 per cent. stake in Segebel from GDF on 20 January 2009, bringing Centrica Overseas' total ownership interest in Segebel to 100 per cent. Your attention is drawn to the details of the acquisition set out on page 181 of the Prospectus.

(c) Subscription and transfer agreements

Centrica, Centrica CB Limited (a wholly-owned subsidiary of Centrica) and Goldman Sachs International entered into agreements dated 30 October 2008 in respect of the subscription and transfer of ordinary shares and redeemable preference shares in Centrica CB Limited and in connection with the Rights Issue. Your attention is drawn to the details of the agreements set out on pages 181-182 of the Prospectus.

(ii) **The Transaction Agreements**

Details of the Subscription and Investment Agreement, Lake Shareholders' Agreement, NNB Shareholders' Agreement, Option Deed, Sites Transfer Agreement, Power Purchase Agreements and Segebel SPA are set out in Part V (*"Further Information on the Transaction Agreements"*) of this Circular.

(iii) **Sponsor's Agreement**

Pursuant to a sponsor's agreement entered into on 19 May 2009 between Centrica and Goldman Sachs International (the **"Sponsor's Agreement"**), Goldman Sachs International has agreed to act as sponsor to Centrica in connection with the approval of the Circular.

Centrica has agreed to indemnify Goldman Sachs International against any losses it may suffer in connection with its role as sponsor.

(iv) **Acquisition of a Significant Interest in Venture Production plc ("Venture")**

Pursuant to the following agreements, on 23 March 2009, Centrica's wholly-owned indirect subsidiary, Centrica Resources (UK) Limited (**"Centrica Resources"**), completed its acquisition of 33,016,611 shares in Venture at 725 pence each for a total cash consideration of £239,370,429.75, representing approximately a 22.3 per cent. stake in Venture:

(a) a letter agreement between Centrica Resources and Aberdeen Asset Managers Limited dated 18 March 2009 for the sale and purchase of 16,899,316 ordinary shares of 0.4 pence each in Venture for the total consideration of £122,520,041 in cash; and

(b) a letter agreement between Centrica Resources and Schroder Investment Management Limited dated 18 March 2009 for the sale and purchase of 16,117,295 ordinary shares of 0.4 pence each in Venture for the total consideration of £116,850,388.75 in cash.

Centrica Resources currently holds approximately a 23.6 per cent. stake in Venture, the remainder of its shareholding comprised of market purchases.

9.1.2 Save as disclosed in paragraph 9.1.1 above, there are no contracts (other than contracts entered into in the ordinary course of business) which have been entered into by members of the Centrica Group (i) within the two years immediately preceding the date of this Circular which are, or may be, material or (ii) which contain any provision under which any member of the Centrica Group has any obligation or entitlement which is, or may be, material to the Centrica Group as at the date of this Circular.

9.1.3 A copy of the Prospectus referred to in this paragraph 9.1 is available for inspection as set out in paragraph 15 below.

9.2 The British Energy Group

9.2.1 The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the British Energy Group (i) within the two years immediately preceding the date of this Circular and are, or may be, material to the British Energy Group or (ii) which contain any provision under which any member of the British Energy Group has any obligation or entitlement which is, or may be, material to the British Energy Group as at the date of this Circular:

(i) **The Transaction Agreements**

Details of the Power Purchase Agreements to which British Energy is party are set out in Part V (*"Further Information on the Transaction Agreements"*) of this Circular.

(ii) **Agreements in Connection with the Offers**

(a) **Implementation Agreement**

British Energy, EDF and Lake Acquisitions entered into an implementation agreement dated 24 September 2008 (the **"Implementation Agreement"**), which contained mutual undertakings and assurances in relation to the parties' commitment to implement, and satisfy the conditions to, the Offers and related matters, including provisions governing the conduct of business of the British Energy Group in the ordinary course and other transaction protection measures.

There are no rights, liabilities or obligations of British Energy, EDF Group or Lake Acquisitions continuing under the Implementation Agreement.

(b) **Restructuring Agreements and the State Aid Deed**

Under the Umbrella Agreement (see paragraph 9.3.1(ii)(b) below), the Secretary of State, the NLF, EDF Group and Lake Acquisitions agreed to amend the Restructuring Agreements and the State Aid Deed to restrict the rights and obligations they imposed on the British Energy Group, including restricting the existing ultimate parent company obligations to British Energy, effective from 5 January 2009.

(I) **Contribution Agreement**

Contributions: BEG must make the following ongoing contributions to the NLF:

(i) Decommissioning Payments which commenced at £20 million per annum and are due to taper off as Power Stations are scheduled to close (in March 2003 values and indexed to RPI), the last scheduled payment being on 31 March 2037; and

(ii) £150,000 (in March 2003 values and indexed to RPI) for every tonne of uranium in PWR fuel loaded into the Sizewell B Power Station.

Decommissioning Payments: A Decommissioning Default Payment will be immediately due and payable on various insolvency events relating to a British Energy Party, any other member of the British Energy Group which is a restricted subsidiary and/or a guarantor in respect of all or any of the New Bonds (where all of the New Bonds have not been redeemed or repaid), or (where all of the New Bonds have been redeemed or repaid) any Guarantor. The Decommissioning Default Payment is guaranteed by the Guarantors and secured by the DDP Debenture.

Cash Reserves: Cash Reserves constitute certain cash up to a Target Amount of £290 million.

The Target Amount may be reduced to zero if the British Energy Group achieves an Investment Grade Rating, or reduced to the extent that Committed Facilities are available, and are intended and expected to be used for the purposes for which the Cash Reserves would have been applied (and, for so long as the New Bonds are in issue, only if the availability of, or drawdown under, any such Committed Facilities would not breach certain covenants under the terms of the New Bonds). If the British Energy Group ceases to have an Investment Grade Rating, the Target Amount will automatically be increased by the amount by which it was formerly reduced (up to a maximum of £290 million). Similarly, if Committed Facilities cease to be available, are repaid or cancelled, unable to be drawn down or, where the Committed Facility has been provided or guaranteed by a member of the Wider Group which has an Investment Grade Rating, that lender or guarantor ceases to have an Investment Grade Rating, the Target Amount will be increased on a pound for pound basis (up to a maximum of £290 million).

If at any time the Target Amount is reduced in reliance on the British Energy Group having achieved an Investment Grade Rating, British Energy may not (nor may it allow any member of the British Energy Group to) declare or pay any cash distribution, make any capital distribution or make any legally binding commitment to make any acquisition of any undertaking, if it (or any member of the British Energy Group) knows or has reasonable grounds to believe (whether as a result of the relevant rating agency's guidance and conditions to grant of the Investment Grade Rating or otherwise) that doing so would or would be likely to result in the loss of such Investment Grade Rating, save to the extent that such distribution or acquisition would not reduce the aggregate of the Cash Reserves and any Committed Facilities (which are available for, and intended and expected by the board to be used or maintained for, the same purposes) below the Target Amount. If required to do so by the NLF, British Energy must seek, or must procure that the Wider Group Ultimate Parent Company seeks, from the relevant rating agency/ies, appropriate guidance as to whether or not the announcement or payment of any such distribution or acquisition would, or would be likely to, result in the loss of the Investment Grade Rating.

BEG, British Energy and BEBF must inform the Secretary of State as soon as reasonably practicable upon becoming aware from a credit rating agency that it can reasonably expect that the lender or guarantor of any Committed Facility may lose its Investment Grade Rating.

Covenants: For as long as any member of the British Energy Group owns and operates any Power Station, members of the British Energy Group will not be entitled to:

(A) incur any expenditure for any purpose other than:

(i) covering lost revenue and costs from outages of generating stations;

(ii) meeting:

(a) working capital requirements (including the provision of collateral for such purposes);

(b) payments or repayments of principal and interest due in respect of outstanding British Energy Group borrowings, including, for the avoidance of doubt, any amounts to be paid under a mandatory repurchase offer (as described in the terms of the New Bonds); and

(c) operating costs and expenses of the British Energy Group; and

(iii) funding expenditure in respect of any or all of the Power Stations and/or the Eggborough power station, the primary purpose of which is any of the following:

(a) maintenance of the Power Stations and/or the Eggborough power station;

(b) non-recurring maintenance of the Power Stations and/or the Eggborough power station;

(c) repair of a capital nature to the Power Stations and/or the Eggborough power station;

(d) enabling aggregate annual output of the Power Stations at a level which is around the highest annual output of the Power Stations in any one of the immediately preceding five financial periods (subject to a minimum of 68 TWh), such annual output calculation to be appropriately adjusted as Power Stations are closed, provided that, without prejudice to the foregoing paragraphs of this covenant, this paragraph (d) does not permit capital investment in excess of £20 million per annum (or such higher amount as the Secretary of State may, in his absolute discretion, agree from time to time) where the principal purpose of such capital investment is to enable the extension of the scheduled closure date of one or more of the Power Stations; and/or

(e) enabling output at the Eggborough power station at a level which is consistent with historical performance levels; or

(B) declare (in any case of any cash distribution recommended by the board of the relevant member of the British Energy Group) or pay (in the case of any interim cash distribution declared by the board of the relevant member of the British Energy Group) any cash distribution or declare any capital distribution or make or enter or allow any member of the British Energy Group to make or enter into a legally binding commitment to make any acquisition of any undertaking or participating interest in an undertaking unless:

(a) in the event of declaring or paying (as appropriate) any cash distributions or to the extent that the consideration for any acquisition (or legally binding commitment to make such acquisitions) is paid in cash, the amount of cash (as disclosed in the relevant accounts) equals or exceeds the aggregate of:

(i) the aggregate amount of such cash distributions or the aggregate amount of cash consideration for such acquisitions (or legally binding commitment to make such acquisitions) paid or committed to be paid since the date of the last relevant accounts; and

(ii) the Target Amount as at the date of doing any of the actions listed in this paragraph above (this being the relevant date for the purposes of this paragraph); and

(b) in the event of declaring any capital distributions or to the extent that the consideration for any acquisition (or legally binding commitment to make such acquisitions) is paid other than in cash, the amount of cash (as disclosed in the relevant accounts) equals or exceeds the Target Amount as at the relevant date; and

(C) as at the end of the then current financial period the amount of cash (as to be disclosed in the accounts for that financial period) would or would be likely to equal or exceed the Target Amount as at the end of that financial period assuming that the expenditure on cash distributions, capital distribution or acquisition of an undertaking or participating interest in an undertaking, as the case may be, proposed to be made in the then current financial period had been so made.

However, no member of the British Energy Group shall be restricted under these provisions from:

(i) incurring expenditure, up to a maximum amount of £1 million for each financial period, on the development of renewable energy projects that were identified and agreed by British Energy and the Secretary of State on 15 January 2005, and which would qualify for renewables obligations certificates, including costs incurred in the sale of such projects but excluding any costs of construction;

(ii) exercising one or more options, that were identified and agreed by British Energy and the Secretary of State on 14 January 2005, to purchase wind farm developments pursuant to the "Option to Purchase and Development Services in Relation to Wind Farm Sites" dated

20 November 2001 between BERL and Amec Services Ltd, subject to the aggregate exercise fees paid since 29 November 2002 not exceeding £10 million; or

(iii) complying with its obligations under the agreed forms of each of the following:

(a) the New CTA;

(b) the Eggborough Credit Agreement;

(c) the Eggborough Share Option Agreement; and

(d) the Eggborough Asset Option Agreement.

Similarly, no member of the British Energy Group shall be restricted:

(i) from incurring financial indebtedness in any amount; and/or

(ii) if the British Energy board decides that to do so would not result in a breach of these covenants, from using the proceeds of such financial indebtedness in any amount in any manner and for any purpose. For these purposes, the requirement for cash to equal or exceed the aggregate of the amount described in paragraphs (B)(a)(i) and (ii) above in this sub-paragraph relating to covenants, shall be calculated on the basis that:

(a) the amount by which the proposed cash distribution or any consideration for the acquisition of any undertaking or participating interest in any undertaking which is paid in cash, as the case may be, exceeds the aggregate financial indebtedness incurred or to be incurred for such purpose (which may be zero); and

(b) the accrued but unpaid interest in respect of such financial indebtedness on the date on which the cash distribution is declared or acquisition for cash (or legally binding commitment to make such acquisition) is made.

In addition, none of these covenants shall prevent any member of the British Energy Group from complying with its obligations under the Liabilities Documents.

(II) **NLFA**

Secretary of State and NLF payment obligations: The NLF must make payments to BEG (as holder of the relevant nuclear site licences) or to Approved Persons to meet the Costs of Discharging Liabilities. Before the NLF will make any payment to an Approved Person, the NDA is required to confirm that the liabilities to be funded are qualifying liabilities (i.e. any works undertaken are in accordance with approved plans, the sum applied for has been accounted for in the liabilities budget, and the application is not in respect of Excluded Liabilities or Disqualified Liabilities).

To the extent that the NLF's assets are insufficient to meet a qualifying funding request, the Secretary of State will fund the shortfall. If the NLF no longer has any assets (and no further British Energy Group contributions are due under the Contribution Agreement) or if certain NLF insolvency events occur, the Secretary of State will permanently assume the payment obligations of the NLF.

Minimum performance standard, Operational Changes, Excluded Liabilities and Disqualified Liabilities and reporting requirements: BEG must operate the Power Stations in accordance with practices, methods and procedures which are in good faith and in compliance with applicable law and Accepted Standards.

Operational Changes which are expected to give rise to an increase in the NPV of Costs of Discharging Liabilities of £1 million or more must be notified to the NDA, whose pre-approval will be required if the proposed change is a Key Operational Change. Changes required to meet current or reasonably anticipated legal or regulatory requirements or to comply with the Accepted Standards will be permitted provided that, if the proposed change has an economic benefit for BEG, BEG would still have implemented the change even if there was no economic benefit. Otherwise, approval will be given by the NDA upon reaching agreement as to the compensation to be paid to the NLF for any incremental liabilities generated by the relevant change.

BEG remains responsible for funding, and must compensate or indemnify the NLF and the Secretary of State in relation to Excluded Liabilities and Disqualified Liabilities. The full list of Excluded Liabilities includes:

(i) liabilities, costs or expenses arising under or pursuant to the BNFL Historic Contracts, except where a BNFL Historic Contract terminates, in which case the reasonable costs of any activity in respect of historic fuel carried out by BNFL following such termination and the costs of any claim by BNFL against BEG in consequence of such termination shall be deemed to constitute a Cost of Discharging Liabilities;

(ii) liabilities, costs or expenses in relation to new spent fuel;

(iii) liabilities, costs or expenses in relation to termination of employment (including redundancy) of any director, officer or employee of any member of the British Energy Group;

(iv) liabilities, costs or expenses in relation to any environmental works required by law or regulatory authority to be carried out other than where the works are required as part of decommissioning;

(v) liabilities, costs or expenses in relation to any environmental works carried out in relation to land outside a Power Station boundary other than where the works are required as part of decommissioning;

(vi) fines imposed in relation to environmental matters other than where related to decommissioning;

(vii) liabilities, costs or expenses arising in relation to any breach of duty under the NIA to secure that no occurrence involving nuclear material or ionising radiation causes personal injury or damage to property of a person other than the licensee;

(viii) liabilities, costs or expenses in relation to Nirex, unless there is a material increase in the level of costs;

(ix) internal costs of any licensee except overheads attributable to decommissioning or the discharge of uncontracted nuclear liabilities;

(x) liabilities, costs or expenses of any generic research relating to decommissioning a Power Station or discharging an uncontracted nuclear liability;

(xi) liabilities, costs or expenses arising from any activity at a licensed site that is not connected with the existing Power Station, including the construction, operation and decommissioning of any new power station; and

(xii) costs incurred in relation to the administration, breach or dispute under any Liabilities Document.

Also excluded are costs arising from:

(i) activities as part of day-to-day operation of a Power Station;

(ii) activities undertaken before 14 January 2005; and

(iii) activities that would result in an economic benefit to any licensee (to the extent that an operator of the Power Station, who did not have the benefit of the Liabilities Documents but bore responsibility for and the costs of the discharge of liabilities, would not have undertaken such activity).

The Secretary of State or NDA is entitled to require BEG to implement a change, subject to payment of compensation. There are no limitations on the nature of such a change but BEG cannot be required to implement a required change if: (i) it cannot reasonably be expected to result in a reduction in the NPV of Costs of Discharging Liabilities of £10 million or more; (ii) a reasonable and prudent operator responsible for implementing the proposed change and bearing the relevant Costs of Discharging Liabilities, taking into account any compensation or other amounts receivable, would not make the change; or (iii) a regulator objects to the proposed change. If BEG fails to implement a required change other than on these grounds, the liabilities that would otherwise have been saved will become Disqualified Liabilities and be for BEG's account.

The Secretary of State may not require BEG to postpone a Power Station's scheduled closure date or continue maintaining, examining, testing or operating at a Power Station after its scheduled closure date for longer than 12 months. BEG may propose to the NDA to make an Operational Change that results in a reduction in the Costs of Discharging Liabilities but which results in a net cost to BEG. If implemented, compensation will be payable by the NLF to BEG.

BEG is liable to reimburse the NLF, NDA and the Secretary of State for certain administration costs incurred in relation to the NLFA, up to £1 million per annum in aggregate. This cap does not apply where such costs arise as a result of a breach by BEG of the Liabilities Documents or an event of default under the NLFA.

BEG must produce an annual report for the NLF, NDA and Secretary of State detailing events which occurred during the previous year that have resulted in an increase in Costs of Discharging Liabilities and assessing whether or not such increases represent Excluded Liabilities or Disqualified Liabilities. The report will also include a budget describing the anticipated scope and expenditure for the discharge of qualifying liabilities for a rolling three-year period.

Strategy approval process: BEG is required to give notice to the NDA of changes in the scheduled closure dates of any of its Power Stations and to obtain NDA consent to Power Station life extensions if this could result in an increase in the cost of decommissioning or discharging uncontracted nuclear liabilities. NDA consent must be given if BEG can demonstrate that any economic benefits that are reasonably likely to accrue to the NLF or Secretary of State deriving from the extension are reasonably likely to exceed the reasonably likely corresponding increase in such costs. In other circumstances, the NDA in giving such consent will take into account any such economic benefits and, in the case of a proposal to stagger the closure dates of individual reactors of a Power Station, the NDA will consider whether this is consistent with maximising the efficiency of the process. BEG must also obtain the NDA's approval to decommissioning plans, contracting strategy and other relevant plans, assessments and documents produced by BEG in respect of the management of qualifying liabilities. In reviewing and approving these documents, the NDA will consult with the relevant regulators with the aim of adopting a common approach. The entry into contracts which are likely to incur Costs of Discharging Liabilities above specified thresholds will also require the NDA's approval.

Representations, warranties and covenants: BEG has provided customary representations and warranties to the NLF and Secretary of State and British Energy has given certain customary covenants in relation to the provision of financial information, including the provision of information reasonably required to monitor the financial robustness of the business. Each of the parties to the NLFA has accepted restrictions in relation to transactions with affiliates and the creation of security interests.

Events of default: The NLFA provides that, if an event of default occurs in relation to BEG or a Guarantor, the obligations of the NLF and the Secretary of State (as the case may be) to meet the Costs of Discharging Liabilities will continue. However, BEG's right to receive any other payments due to it may be suspended, BEG will not be entitled to exercise its rights under the NLFA and the Secretary of State may, by notice in writing to BEG and the NLF, specify that it or the NLF will discharge certain specified Excluded Liabilities and in such circumstances BEG will indemnify the Secretary of State and the

NLF. In addition, on certain insolvency events of default, the Secretary of State may, among other things, require the acceleration of payments which have accrued but not yet become due and payable from BEG under the NLFA. Each party waives any rights it may have to terminate the NLFA.

(III) **HLFA**

Secretary of State payments: The Secretary of State must make payments in respect of Historic Liabilities, including meeting fixed monthly payments due to BNFL and certain incremental liabilities arising under the BNFL Historic Contracts.

Exercise of rights under the BNFL Historic Contracts and HLFA Excluded Liabilities: Certain Exercise of Rights must be approved by the Secretary of State including those relating to the long-term strategic management of historic spent fuel. In relation to any other Exercise of Rights that are reasonably expected to give rise to incremental liabilities above a threshold of:

(i) £15,000 (on an undiscounted basis) or more; or

(ii) when the increase in Historic Liabilities arising as a result of the Exercise of Rights is aggregated with all other increases in Historic Liabilities arising from Exercise of Rights in the relevant year, £50,000 or more and, in addition, any exercises of rights which are not related to the long-term strategic management of historic spent fuel,

BEG has the option of either applying for pre-approval of such Exercise of Rights or of carrying them out and paying BNFL itself, then subsequently seeking reimbursement from the Secretary of State.

The Secretary of State can require BEG to exercise rights under the BNFL Historic Contracts if this would lead to a reduction in Historic Liabilities of £10 million (in NPV terms) or more. If a required Exercise of Rights does not result in such a reduction, or if any Exercise of Rights results in a net cost to BEG, BEG may be entitled to the payment of compensation by the Secretary of State.

Amendments to BNFL Historic Contracts: BEG may not amend any term of a BNFL Historic Contract without the Secretary of State's written consent, which must not be unreasonably withheld if the amendment will result in either: (i) no increase in the Historic Liabilities and Costs of Discharging Liabilities; (ii) an increase which (taken together with all previous amendments, variations, modifications or alterations) does not exceed £50,000; or (iii) an increase which (taken together with all previous amendments, variations, modifications or alterations) does exceed £50,000 and the Secretary of State is satisfied that BEG complied with the Minimum Contracting Standard in respect of the relevant amendment. No amendment may be made to the terms of any other agreement with BNFL without the prior written consent of the Secretary of State if to do so would reasonably be expected to result in an increase in the amount of Historic Liabilities.

Title to fuel at Sellafield: The Secretary of State has the option to require that BEG transfers to the Secretary of State (or a nominee) the title rights to all of its historic spent fuel and spent fuel products at Sellafield.

Termination of the BNFL Historic Contracts: In the event that any of the BNFL Historic Contracts terminate as a result of an insolvency event affecting BEG, BEG (UK), British Energy or BEL, the Secretary of State will pay amounts accrued under the BNFL Historic Contracts but not paid at the date of termination. In those circumstances, as well as upon expiry of the services provided under the BNFL Historic Contracts, the provision of future spent fuel management services in relation to historic spent fuel will be covered under the NLFA, as an uncontracted liability.

(IV) **Option Agreement**

Options: BEG has granted the Station Options to the Secretary of State upon exercise of which the Secretary of State is entitled to acquire, or nominate a Station Purchaser to acquire, the relevant Power Station (together with the relevant Station Site) for the purposes of continued operation or decommissioning. The consideration to be paid for each Power Station (and the relevant Station Site) so transferred will be a nominal £1.

BEG has also granted to the Secretary of State a separate Partial Closure Option (other than in respect of Sizewell B), requiring BEG to enter into a contract for the continued operation of the closed reactor with effect from its partial closure date exercisable where one, but not both, reactors at a Power Station is closed either before its scheduled closure date or the scheduled/actual closure date of the other reactor at the relevant Power Station. If a Partial Closure Option is exercised, the Secretary of State may not exercise a Station Option in respect of such Power Station.

An Option to Decommission is exercisable at any time, whether before or after the relevant Power Station's scheduled closure date. Where a Power Station's closure date is that Station's scheduled closure date, an Option to Operate may be exercised at any time up to and including the date which is two years before the relevant Power Station's scheduled closure date. Where BEG has given notice that it will close a Power Station early, the time period within which the Secretary of State may exercise an Option to Operate varies depending on the length of notice of the early closure which BEG has been able to give the Secretary of State.

Cost allocation: If the Secretary of State exercises a Station Option, then with effect from the Option Effective Date, BEG will bear all costs and expenses incurred as a result of operating the relevant Power Station and receive any payments and other benefits in relation to the operation of such Power Station in the period up to (but excluding) the Option Effective Date. The Station Purchaser will bear all costs and expenses (and pay to BEG a reasonable margin as agreed on those costs and expenses) which are incurred, and receive any payments and other benefits in relation to the operation of the relevant Power Station, in the period on and after the Option Effective Date.

The Secretary of State is required to reimburse BEG's costs incurred solely as a result of the Secretary of State's exercise of a Station Option if he then terminates the acquisition of a Power Station. In addition, the obligation to reimburse does not apply where the acquisition is terminated because of breach of warranty or completion obligation by BEG or where the sale completion conditions cannot be fulfilled. Where a Station Option is not exercised in respect of a Power Station or part of a Power Station, BEG shall bear all the costs relating to such Power Station up to and including its closure date, and thereafter the costs and expenses relating to that Power Station will be borne by the Secretary of State or the NLF in accordance with and to the extent contemplated by the NLFA.

Completion of a transfer of a Power Station following exercise of an option: The date of completion of the sale or transfer of the relevant Power Station (and the relevant Station Site) following the exercise of a Station Option will be (unless otherwise agreed): (i) on the exercise of an Option to Decommission, the later of (a) 36 months after the exercise of the Station Option and (b) the scheduled closure date or early closure date (as the case may be) of the relevant Power Station; and (ii) on the exercise of an Option to Operate (a) on the scheduled closure date or (b) on the early closure date of the relevant Power Station (where the same is more than 30 months after notice by BEG of the early closure date) and (c) in all other circumstances, no later than 36 months after the exercise of such an option.

The completion of the sale or transfer of a Power Station following exercise of a Station Option is conditional, primarily upon the licensing of the Station Purchaser to carry out the decommissioning or operation of the relevant Power Station, and other matters including the Station Purchaser obtaining all required consents and authorisations.

Station and station assets: The following assets will be transferred to the Station Purchaser upon completion of the sale of an optioned Power Station: (i) plant and machinery; (ii) the benefit and burden of contracts relating to the operation of the relevant Power Station current at the date of completion (certain contracts are excluded); (iii) intellectual property that is exclusively used, acquired for use, held for use or developed for use in connection with the relevant Power Station at the date of completion; (iv) certain nuclear fuel located and loaded into a reactor at the relevant Power Station; (v) stocks of consumable materials; (vi) certain large items of spare plant and machinery, such as turbines, transformers, generators and pump and gas circular components located at the relevant Power Station; (vii) all allowances allocated to the relevant Power Station under any emissions trading scheme from time to time; and (viii) all other property, assets and rights of members of the British Energy Group used solely in connection with the operation of the relevant Power Station as at the completion date, excluding cash in hand or at bank, certain amounts recoverable for taxation, and intellectual property not exclusively used at the relevant Power Station. Risk in the assets to be transferred to the Station Purchaser following the exercise of a Station Option passes on the Option Effective Date.

Except in the case of intellectual property transferring upon completion, BEG will grant a non-exclusive, royalty-free and irrevocable licence under all intellectual property relating to the relevant Power Station for the duration of the operation of that Power Station.

Certain assets are excluded from the sale, including: (i) nuclear fuel located at the relevant Power Station which has not been loaded into a reactor, which may be separately purchased by the Station Purchaser; and (ii) any item of plant and machinery the non-availability of which would potentially involve a loss of electricity generation at a Power Station over a certain threshold, and which is retained by BEG in relation to the Existing British Energy Nuclear Fleet, which may also be separately requested by the Station Purchaser, provided that the Station Purchaser must promptly replace such equipment and, in certain circumstances, pay to BEG any net loss of revenue incurred by it in the period before the equipment was replaced.

Upon the commencement of the decommissioning of a Power Station which has transferred to the Station Purchaser, BEG is entitled to remove certain equipment if required for use in its retained Power Stations. If such equipment is later sold or loaned to a third party, BEG must pay the amount of consideration it receives to the Secretary of State.

The Option Agreement also provides for a Site Transfer to the Station Purchaser. Additional Nuclear Site Licence Land may be transferred as part of a Site Transfer but will be subject to an option granted to BEG, pursuant to which BEG will have the right to repurchase it for £1 during a period of 12 months following the date on which the Station Purchaser gives notice that the land is no longer subject to the relevant nuclear site licence.

If the land within the relevant Station Site is not sufficient or appropriate for the purposes of decommissioning, the Station Purchaser will also be entitled to acquire Relevant Land. However, instead of transferring Relevant Land, BEG may, in consultation with the NDA:

(i) add Alternative Land to the Site Transfer where provision of such Alternative Land (as opposed to Relevant Land) would not increase the cost of decommissioning that Station Site;

(ii) add to the relevant Site Transfer such Alternative Land, but in addition pay to NLF an amount equivalent to the increase in cost of decommissioning the Station Site as a result of the Relevant Land not being included in the Site Transfer and the Alternative Land being transferred instead; or

(iii) pay to NLF an amount equivalent to the increase in cost of decommissioning the relevant Station Site as a result of such Relevant Land not being included in the relevant Site Transfer and no Alternative Land being provided.

BEG and the NDA may agree that, rather than Relevant Land or Alternative Land being transferred or compensation being paid as described above, alternative arrangements (such as a lease, licence or other agreement involving the grant of rights over such land) may be entered into so as to give the Station Purchaser the ability to carry out decommissioning.

Any transfer of land following the exercise of a Station Option shall exclude any land that is, in relation to an:

(i) Option to Decommission, not required for decommissioning; or

(ii) Option to Operate, not included in the relevant nuclear site licence and is not shown as being required for decommissioning in the most recent decommissioning plans approved by the NDA,

even if such land forms part of the relevant Station Site (unless it is shown as within the existing security fence boundary on the plans contained in the property schedules to the Option Agreement).

The Station Site and any Additional Nuclear Site Licence Land, Relevant Land and Alternative Land comprised in the relevant Site Transfer are to be transferred subject to and with the benefit of matters affecting it at the date of the Option Agreement, save for subsequent matters arising otherwise than by reason of the voluntary act of BEG or its successors in title to which the Secretary of State has not given his approval, as well as matters affecting it at completion. The agreement provides for certain rights (principally of access and provision of services) to be granted at the time of transfer of the land to the Secretary of State (or his nominated purchaser) over land owned by BEG.

There are restrictions to protect those rights and the Secretary of State's consent is required to any new, varied or supplemented property documents affecting the land which may be transferred as a result of the agreement.

Where no decommissioning plans in respect of a Power Station have been approved by the NDA, BEG must (other than in relation to the Hinkley Point B and Sizewell B Power Stations) provide the NDA with decommissioning plans at least 18 months prior to the making of any IPC Consent Application in respect of land adjacent to that Station Site. BEG will be prohibited from including within any such application land already shown as required for decommissioning in the most recent decommissioning plans approved by the NDA.

BEG or the Station Purchaser may, within six months following the relevant Site Transfer, apply to BEG or the Station Purchaser (as the case may be) to use a Facility, the use of which is required by more than one party for the purposes of operating or decommissioning. The terms of the use of the Facility will be agreed between the parties and must include certain matters set out in the Option Agreement. Use of the Facility will automatically terminate on the loss of the nuclear site licence relating to the Relevant Land.

Post-completion contracts: On exercising a Station Option, the Secretary of State may also require any of the British Energy Parties to enter into a contract for: (i) the provision of ancillary services; (ii) the management and operation of the Power Station; or (iii) the defuelling of that Power Station. The terms and conditions of these contracts are to be negotiated and agreed on an arm's length basis guided by general principles set out in the Option Agreement, and agreement on the terms of these contracts, if to be entered into, is a precondition to completion of the sale or transfer of a Power Station.

The Option Agreement contemplates the application of the TUPE Regulations in relation to the employees located at an optioned Power Station. Where these apply, the Station Purchaser will take responsibility for all employment costs which arise after the date of transfer, and the relevant British Energy Party remains liable for all pre-transfer costs and liabilities. Bonus payments will be apportioned on a pro rata basis. If the TUPE Regulations trigger the transfer of any employee who is essential (e.g. for regulatory or safety reasons) for the continued operation of a Power Station which remains with a British Energy Party, the Station Purchaser, if requested by a British Energy Party, is required to provide the services of that essential employee back to the relevant British Energy Party on terms to be negotiated in good faith. The Option Agreement provides for the arrangements in respect of the pensions of employees transferring to the Station Purchaser following the exercise of a Station Option to be addressed at a date closer to the relevant Power Station's scheduled closure date.

Excluded Liabilities: The provisions of the Option Agreement are without prejudice to BEG's right to extend or defer the scheduled or early closure date of a Power Station pursuant to the NLFA. Further, except in respect of the redundancy costs of Power Station employees and certain environmental liabilities relating to an optioned Power Station, the rights of the Secretary of State or Station Purchaser in respect of BEG's obligations to discharge, and indemnities given in respect of, the Excluded Liabilities or the HLFA Excluded Liabilities are not affected by the Option Agreement. However, the Secretary of State is required to discharge, and indemnify the British Energy Parties in respect of, any incremental increases to the Excluded Liabilities which are caused by it.

The British Energy Environmental Indemnification (which does not apply to environmental works carried out as part of the decommissioning of a Power Station) does not generally apply to certain environmental matters in relation to an optioned Power Station which are first caused, arise or come into existence after the British Energy Environmental Indemnification Effective Date.

In relation to the redundancy costs of employees who transfer with an optioned Power Station, but are later dismissed by the Station Purchaser, the Option Agreement sets out the apportionment of redundancy costs to be borne by the Station Purchaser and the British Energy Parties, based upon the periods of employment of the relevant employee by the Station Purchaser and by the relevant British Energy Party.

Indemnities: The Secretary of State agrees to provide indemnification to the British Energy Parties in respect of transferring employees, redundancy costs, failures to comply with the TUPE Regulations (in each of these situations, from the date on which the employment of such transferring employees transfers under the TUPE Regulations), and for any losses arising from the waiver of any condition to completion, increased Excluded Liabilities, and in respect of those environmental matters which are not subject to the British Energy Environmental Indemnification.

The Station Purchaser must indemnify the British Energy Parties for losses arising as a consequence of its communication with employees of a relevant Power Station in respect of the sale or transfer of a Power Station or proposed changes to such employees' terms and conditions of employment.

The British Energy Parties agree to jointly and severally indemnify the Secretary of State or Station Purchaser for losses arising from debts, liabilities or obligations which are not expressly the responsibility of the Secretary of State or the Station Purchaser under the Option Agreement or other Liabilities Documents, Excluded Liabilities, the employment (or termination) of any transferring employee prior to the specified transfer time, any failure of those parties to comply with their obligations to consult with employees under the TUPE Regulations, any breach of the parties' obligations to bear costs relating to the transferring employees prior to the specified transfer time and any other act or omission done by those parties in relation to any transferring employee on or before the specified transfer time.

Certain warranties and representations are provided by the British Energy Parties in respect of the Power Stations and assets to be transferred under the Option Agreement. The bringing of claims against the British Energy Parties by the Secretary of State or the Station Purchaser in respect of these is restricted, unless written notice is provided to the relevant British Energy Party within two years of the sale or transfer of the relevant Power Station.

Restrictions: Certain restrictions are imposed on the British Energy Group from the date falling two years prior to the scheduled closure date of a Power Station (or, in the case of a Power Station due to close on an earlier date, the date on which notice of early closure is given to the Secretary of State or, if later, the date falling two years prior to the early closure date or, if an Option to Decommission is exercised after the scheduled or early closure dates, the date of exercise of that Option to Decommission) until the Secretary of State gives notification that he does not want to exercise a Station Option in respect of the relevant Power Station, or the sale of the relevant Power Station has been completed or terminated. These include an obligation on BEG to use all reasonable endeavours to operate the station in the ordinary course of its business and to comply with the minimum performance standards required by the NLFA. BEG is also prohibited from, among other things, entering into certain contracts or commitments for capital expenditure (except where approved under the Contribution Agreement or the NLFA), granting security over the Power Stations without Secretary of State approval, or undertaking certain other actions which may affect the Power Stations following transfer under the agreement without the Station Purchaser's prior written consent.

(V) **Guarantee and Indemnity**

The Guarantors have guaranteed to the NLF, the Secretary of State and any assignee or nominee of the Secretary of State (including, without limitation, any Station Purchaser and the Nirex Purchaser) each British Energy Party's obligations under or pursuant to each of the Liabilities Documents. The Secretary of State may require that any member of the British Energy Group that is a Material Subsidiary become an additional Guarantor.

While the New Bonds are in issue, or any senior unsecured debt resulting from a contemporaneous refinancing of the New Bonds is, British Energy must procure that the gross assets, turnover and profits of all the Guarantors will at all times constitute in aggregate at least 90 per cent. of the consolidated gross assets, turnover and profits of the British Energy Group (excluding: (i) all assets relating to amounts receivable under the Liabilities Documents; (ii) EPL and EPHL; and (iii) BETSL). In order to comply with this provision British Energy may elect, without the consent of the Secretary of State or the NLF, to procure that any British Energy subsidiary accedes to be bound by the Guarantee and Indemnity as an additional Guarantor.

British Energy may request that an entity ceases to be a Guarantor. If the relevant entity is a Material Subsidiary, the Secretary of State may, in his sole and absolute discretion, accept or reject such request and, if the relevant entity is no longer a Material Subsidiary, the Secretary of State shall accept such request. The Secretary of State has agreed to give his consent (provided that certain conditions are satisfied) in connection with the transfer of certain British Energy businesses (see paragraph 9.3.1(ii)(b) below).

Each Guarantor undertakes, among other things, that it shall not enter into certain types of transactions or create certain security interests. In addition, each Guarantor undertakes that it shall not and, until the equivalent Bond condition ceases to have effect, agrees to procure that no restricted subsidiary (as defined under the Trust Deed) (and after the equivalent Bond conditions ceases to have effect, no member of the British Energy Group which is a Guarantor) shall, directly or indirectly, enter into any material transaction or series of related transactions with or for the benefit of any of its affiliates excluding:

(i) BNFL;

(ii)

(a) British Energy (if it is a Guarantor at the time of the relevant transaction(s));

(b) any affiliate which is a Guarantor at the time of the relevant transaction(s); and

(c) any affiliate which becomes an additional Guarantor immediately after the relevant transaction(s),

provided in each case that the relevant Guarantor or restricted subsidiary at the time of such transaction(s) being entered into is a Guarantor; and

(iii) any restricted subsidiary which is not a Material Subsidiary immediately prior to the relevant transaction(s) and which would not become a material subsidiary as a result of having entered into such transaction(s),

unless such transaction(s) is/are entered into on terms no less favourable to the relevant Guarantor, or restricted subsidiary, than those terms which would be available in a comparable transaction in arm's length dealings with an unrelated party, save for certain exempted transactions (for example, those entered into on an arm's length basis in the ordinary course of business between members of the British Energy Group or in relation to employees).

(VI) **DDP Debenture**

In order to secure the Decommissioning Default Payment and costs and expenses related thereto, the Debenture Obligors have given certain security over their assets in favour of the NLF.

This security consists of a first legal mortgage over the Key Properties, a first fixed charge over each Debenture Obligor's Charged Securities and a pledge and transfer of each Debenture Obligor's rights and interest in and to the Scottish Charged Securities. Furthermore, each Debenture Obligor has given security by way of a first floating charge over all of its present and future assets, property, business, undertakings and uncalled capital, including all rights under and in respect of these.

The floating charge is deemed to rank second in priority to: (i) a charge created in favour of Barclays Bank plc pursuant to the Receivables Deed of Charge; and (ii) the BACS Facility Collateral to the extent that such BACS Facility Collateral is subject to a charge created by BEG (UK) in favour of Citibank N.A.

The following assets have been excluded from the floating charge:

(i) each obligor's rights and benefits under the NLFA and the HLFA;

(ii) cash collateral, letters of credit or other forms of credit support which are subject to a security interest used to secure obligations of either BEG, BEG (UK), BETS, EPL, BETSL or the Electricity Supply Subsidiary under certain trading, procurement and supply arrangements (subject to certain restrictions); and

(iii) cash collateral provided to HSBC Bank plc by British Energy to secure the British Energy Group's liabilities pursuant to the British Energy Group's credit card facilities agreement (subject to certain restrictions).

The DDP Debenture contains further assurance provisions as well as a power of attorney to ensure that all future acquired property will fall within the scope of the security created noted above. The NLF must seek the instruction of the Secretary of State before exercising any right or performing any obligation, must take any such action as the Secretary of State instructs, may only act in accordance with the instructions of the Secretary of State, and will rely on the instructions of the Secretary of State. The Secretary of State has agreed to give consent (provided that certain conditions are satisfied) to the release of assets from the fixed security under the DDP Debenture in connection with the transfer of certain British Energy businesses (see paragraph 9.3.1(ii)(b) below).

(VII) **State Aid Deed**

British Energy has undertaken to HM Government to comply with restrictions relating to those imposed on HM Government by the State Aid Decision (see Part II (*"Risk Factors"*) of this Circular at *"Certain conditions must be complied with in respect of state aid in favour of British Energy"*).

Positive undertakings: The State Aid Deed required British Energy to restructure its DSB and its existing nuclear generation and trading businesses so that the British Energy Group's existing nuclear generation business was ring-fenced from its fossil fuel, supply and trading businesses. This aimed to ensure that the state aid granted to the British Energy nuclear business was not used to cross-subsidise any other business of the British Energy Group. The restructuring was completed on 14 January 2005 and the relevant measures remain in place and will last indefinitely.

The restructuring was implemented by British Energy by:

(i) transferring BEG's DSB to a separate wholly-owned subsidiary of British Energy; if that subsidiary carries out any business other than DSB, British Energy will be obliged to identify separately its DSB activities in the accounts of that business;

(ii) consolidating the nuclear generation activities that were conducted by BEG and BEG (UK) at the time into a separate wholly-owned subsidiary of British Energy which may only conduct such nuclear generation activities;

(iii) procuring that its electricity trading business, which at the time was conducted by BPET, is maintained in, and conducted by, a separate British Energy subsidiary; and

(iv) using all reasonable endeavours to procure that its licences provide that: (i) its nuclear and non-nuclear generation businesses are to be treated as separate businesses for regulatory purposes; and (ii) its existing nuclear generation business shall be prohibited from giving any cross-subsidy to any other business of the British Energy Group.

At the expiry of each financial period, British Energy must calculate the relevant payments made for its decommissioning, uncontracted and incremental nuclear liabilities and must notify the Secretary of State of such payments (accompanied by all necessary supporting information) before it publishes its audited accounts. British Energy is obliged to notify and promptly provide the Secretary of State with all information, documentation, explanations and assistance required to meet his Enhanced Reporting obligations under the State Aid Decision. British Energy must indemnify the Secretary of State for all costs and expenses of any auditors engaged by the Secretary of State for the purposes of conducting the Enhanced Reporting.

If the European Commission decides that HM Government must recover any aid given to any member of the British Energy Group in relation to the restructuring which took place from 2005 and the CFI (or the ECJ) has not annulled in whole or in part the decision ordering recovery, then British Energy must repay (with interest at the applicable rate) any aid so ordered to be recovered.

Negative undertakings: British Energy shall not, until 23 September 2010, own or acquire rights of control over:

(i) additional operational, registered nuclear generation capacity in the EEA (which do not include rights to operation and maintenance contracts which do not give British Energy the right to electricity output), without obtaining the prior written consent of the Competition Commission; or

(ii) registered, operational, fossil-fuelled electricity generating capacity (as defined in the Renewables Obligations Order 2002) in the EEA or the capacity of any large hydro-electric generating station in the UK which, in aggregate, exceeds 2020 MWh (subject to certain exceptions which provide for the capacity of the Eggborough Power Station to be replaced in circumstances where generating capacity at the Eggborough Power Station becomes unavailable to the British Energy Group following the exercise of one of the Eggborough Options or the enforcement of security over the shares in, or assets of, EPL or otherwise).

British Energy is prohibited from disposing of (in whole or in part) the nuclear generation, electrical supply, electrical trading or non-nuclear generation business or carrying out any corporate restructuring of the British Energy Group without the Secretary of State's prior approval (not to be unreasonably withheld) that if such disposal or restructuring will not cause the Secretary of State to be in breach of his obligations under the State Aid Decision.

Prior to any person assuming the conduct of any of its nuclear generation, electrical supply, electrical trading or non-nuclear generation businesses, or becoming the ultimate parent company of the British Energy Group pursuant to an intra-group restructuring, that person must accede to the State Aid Deed unless consent to the relevant disposal or restructuring has been given by the Secretary of State.

British Energy must not price the energy element of its DSB contracts to non-domestic end-users below the prevailing wholesale market price, taking into account electricity volumes, load factors/predictability, interruptibility, duration and credit/payment terms, unless there are exceptional market circumstances which need to be established by an independent expert on the basis of certain objective tests. The term of this restriction is for six years from the appointment of the independent expert who was appointed on 3 March 2005.

(VIII) **Deed of Undertaking**

Details of the Deed of Undertaking are set out in paragraph 9.3.1(ii)(c) below.

9.2.2 Save as disclosed in paragraph 9.2.1 above, there are no contracts (other than contracts entered into in the ordinary course of business) which have been entered into by members of the British Energy Group (i) within the two years immediately preceding the date of this Circular which are, or may be, material or (ii) which contain any provision under which any member of the British Energy Group has any obligation or entitlement which is, or may be, material to the British Energy Group as at the date of this Circular.

9.3 Lake Acquisitions

9.3.1 The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by Lake Acquisitions: (i) within the two years immediately preceding the date of this Circular which are, or may be, material or (ii) which contain any provision under which Lake Acquisitions has any obligation or entitlement which is, or may be, material to Lake Acquisitions as at the date of this Circular:

(i) **The Transaction Agreements**

Details of the Subscription and Investment Agreement, Lake Shareholders' Agreement, Shareholder Loan Agreements and Power Purchase Agreements are set out in Part V (*"Further Information on the Transaction Agreements"*) of this Circular.

(ii) **Agreements in Connection with the Offers**

(a) **Implementation Agreement**

A summary of the Implementation Agreement entered into between British Energy, EDF and Lake Acquisitions in connection with the Offers is set out in paragraph 9.2.1(ii)(a) above.

(b) **Umbrella Agreement**

The parties to the Umbrella Agreement agreed to amend the Restructuring Agreements to restrict the rights and obligations they imposed upon the British Energy Group, including restricting the existing ultimate parent company obligations to British Energy, such amendments were signed and became effective on 5 January 2009 (see paragraph 9.2.1(ii)(b) above).

The Secretary of State and the NLF (as appropriate) have agreed not to unreasonably withhold their consent to the transfer from the relevant member of the British Energy Group to any person nominated by Lake Acquisitions (whether by way of transfer of the shares in the relevant company, transfer of the business or otherwise), any of the Eggborough Power Station, British Energy's district power business, direct supply business, trading business and renewables business. Provided that certain conditions are satisfied, the Secretary of State and the NLF have also agreed to give all consents and approvals required under the Restructuring Agreements to such transfers (including releasing fixed security under the DDP Debenture and releasing a party under the Guarantee and Indemnity) (see paragraphs 9.2.1(ii)(b)(V) and (VI) above). The Secretary of State and the NLF have also agreed to release NNB land and the proceeds of any sale of such land from the fixed security granted under the DDP Debenture and the equivalent Scottish law governed security over the Hunterston B and Torness Power Stations (see paragraph 9.2.1(ii)(b)(VI) above). The Secretary of State and the NLF will also give all consents and approvals to the transfer of NNB land from the relevant member of the British Energy Group to such person as Lake Acquisitions may decide and agree to execute all such documents and so all such things to effect that release and/or transfer provided that certain conditions are satisfied.

A GTMA Amendment Agreement was entered into on 24 March 2009 pursuant to which EDF Plc will take 100 per cent. of BETS's uncontracted power on an evergreen basis (save for power sold by BETS to existing counterparties, pursuant to bespoke trades and such other trades as EDF Group may approve) at market prices determined in accordance with independent and visible pricing indices. If an amendment agreement to the GTMA is executed in a form other than that of the GTMA Amendment Agreement provided in the Umbrella Agreement, then the Secretary of State must first approve that other form in writing (such approval not to be unreasonably withheld or delayed if the proposed amendment fulfils certain conditions to the satisfaction of the Secretary of State). Therefore, in order to implement the Phase 2 Equity Power Purchase Agreement and ultimately the Phase 3 Equity Power Purchase Agreement, further consent of the Secretary of State will be required (see Section 5 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular).

As the GTMA is has been amended, additional amendments have been made to the Contribution Agreement (see paragraph 9.2.1(ii)(b)(I) above).

The Secretary of State and NLF have irrevocably consented to a reduction of British Energy's share capital, and acknowledge that the intended reduction will be in the form of a cancellation of the share premium arising as a consequence of any exercise of the NLF's right to convert all or part of its entitlement to the NLF cash sweep payment into convertible shares in British Energy pursuant to the Contribution Agreement or any undistributable reserve arising upon a waiver or cancellation of the NLF cash sweep payment under the Contribution Agreement. It is Lake Acquisitions' intention to carry out such a reduction only after British Energy has been converted to a private limited company.

The Secretary of State has undertaken to EDF Group and Lake Acquisitions that other than pursuant to the Simultaneous Marketing Agreement and Deed of Undertaking (see paragraph 9.3.1(ii)(c) below), it shall not require, in connection with the Offers, Lake Acquisitions or any member of the EDF Group to (or offer to) sell, dispose of or encumber any land which it owns, any land required for NNB or any interest in such land.

(c) **Deed of Undertaking**

British Energy, NPL and EDF DCL (who all acceded to the Deed of Undertaking on 4 March 2009) and EDF Group are required, at various stages, to dispose of certain land under their ownership.

EDF Wylfa Land: The Relevant Owner must dispose of the EDF Wylfa Land to the extent that it is not required to do so under the Simultaneous Marketing Agreement (pursuant to which the NDA will offer for sale by auction its lands at Bradwell, Oldbury and Wylfa and EDF DCL will offer for sale certain land it owns at Wylfa) if:

(i) the SSA concludes that the Sizewell Land, Hinkley Point Land and Bradwell Land are each potentially suitable for NNB, the Nuclear NPS does not state that these have failed the criteria to be sites which are potentially suitable for NNB and neither the SSA nor the Nuclear NPS makes a specific statement to preclude the construction of two EPRs at each of the Sizewell Land and Hinkley Point Land and one EPR on the Bradwell Land;

(ii) no planning consent for a wind farm on or adjacent to the Hinkley Point Land has been granted which could materially affect the construction and operation of nuclear generation facilities on the Hinkley Point Land or EDF Group has otherwise been given reasonable satisfaction that the prospect of a wind farm has ceased to be an impediment to the construction and operation of two EPRs on the Hinkley Point Land; and

(iii) at the expiry of the period of 100 days from issue of the Nuclear NPS, no legal proceedings have been commenced in relation to the Nuclear NPS' reference to the SSA's conclusions as to the potential suitability of the Sizewell Land, Hinkley Point Land or Bradwell Land for NNB (or, if commenced, have been dismissed or settled by the Wylfa Long Stop Date without revision to the Nuclear NPS or SSA affecting sub-paragraphs (i) and (ii) above, any revised Nuclear NPS or SSA to be published by the Ultimate Wylfa Long Stop Date).

Bradwell Land: The Relevant Owner must commence the process for sale of the Bradwell Land within six months of disposal of the NDA Bradwell Land under the Simultaneous Marketing Agreement, or within 12 months from the date on which the parties to the Simultaneous Marketing Agreement are released from its terms. Disposal of the Bradwell Land will be conditional upon: (a) satisfaction of the conditions detailed above in respect of the Sizewell Land and Hinkley Point Land (save that references in sub-paragraph (iii) above to the Wylfa Long Stop Date and Ultimate Wylfa Long Stop Date must be read as the Bradwell Long Stop Date and Ultimate Bradwell Long Stop Date); and (b) EDF Group or the Relevant Owner receiving planning consent for the construction of two EPRs on the Sizewell Land.

Sale process: All disposals pursuant to the Deed of Undertaking must be to independent third-party Credible Nuclear Operators and the proceeds of any disposal will be for the benefit of the Relevant Owner. If, within 12 months of satisfaction of the relevant conditions, legally binding contracts for the sale of any land referred to above have not been entered into, the Secretary of State (or his nominee) may act as agent for the Relevant Owner and itself conduct a sale process for a further 12 months, in which case the Relevant Owner must enter into a cooperation agreement with the relevant purchaser to enable the relevant purchaser to develop it for NNB purposes amongst other things. The Relevant Owner must assign to any purchaser any title or interest as it may have in studies, investigations and surveys relating to the land being sold, enter into an agreement for shared utility and other services with the purchaser and must transfer to the purchaser any applicable grid connections it or its affiliates hold.

EDF Group has undertaken on behalf of itself and its affiliates, not to make any planning consent application for a wind farm on or adjacent to the Hinkley Point Land which could materially affect the construction and operation of new nuclear generation facilities. The Relevant Owners are restricted from disposing of interests in and creation of encumbrances over the Bradwell Land until the sale process is complete or any relevant sale obligations have expired. Credible Nuclear Operators must also be granted access to and provided with information on the Bradwell Land and EDF Wylfa Land (including for the purposes of carrying out site surveys and investigations).

EDF Group and its affiliates may not make any offer for the NDA Wylfa Land or the Oldbury Land before 30 June 2015.

(d) **Intra-Group Loan Facility**

The Intra-Group Loan Facility, for a principal amount of up to £13.2 billion, is made up of three tranches: tranche A1 and tranche A2 for a total of approximately £7.75 billion with a maturity of 364 days (extendable for another 364 days at Lake Acquisitions' request) and tranche B for approximately £5.55 billion with a maturity of three years.

The Intra-Group Loan Facility was made available by EDF Group to Lake Acquisitions in connection with the Offers including, for the purposes of payment of the consideration payable by Lake Acquisitions, refinancing existing British Energy indebtedness and paying fees, costs and expenses associated with the Offers.

Pursuant to amendment and restatement agreements dated 14 January 2009 and 15 February 2009, respectively, between EDF Group and Lake Acquisitions, the Intra-Group Loan Facility was amended to allow each of tranche A1, A2 or B to be used for refinancing existing indebtedness of the British Energy Group up to an aggregate amount of £700 million rather than £500 million as previously contemplated and to subordinate all amounts due and payable under the Intra-Group Loan Facility to all pension scheme contributions that become due pursuant to a schedule of contribution under certain British Energy pension schemes.

The amounts outstanding under this facility will be partially waived by EDF Energy prior to Completion and partially repaid by Lake Acquisitions on Completion, the remaining amount outstanding will be assigned to GB Gas Holdings proportionate to its shareholding in Lake Acquisitions and then proportionately repaid to EDF Energy and GB Gas Holdings as soon as reasonably practicable after Completion (see paragraph 1.2 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular.

(iii) **Agreements in connection with the CVRs**

(a) **Barclays Implementation Agreement**

EDF plc, Lake Acquisitions and Barclays entered into an implementation agreement dated 24 September 2008 (and amended on 5 November 2008) (the **"Barclays Implementation Agreement"**), which contained mutual undertakings and assurances in relation to the issue of the CVRs by Lake Acquisitions (and their guarantee by EDF plc) and the issue of the NPNs by Barclays.

Most of the rights, liabilities and obligations of the parties came to an end on termination of the Barclays Implementation Agreement on 5 January 2009. Lake Acquisitions and EDF plc continue to remain under an obligation to provide to Barclays the information on the EDF Group that would be required to satisfy Barclays' continuing obligations as issuer of the NPNs for so long as they are admitted to trading. Lake Acquisitions and EDF plc must repeat the warranty that the arrangements set out in the Barclays Implementation Agreement are not being entered into for UK tax avoidance purposes on each yearly CVR payment date.

Lake Acquisitions and EDF plc continue to be responsible under the Barclays Implementation Agreement for the payment of the fees and expenses of the parties and they have also given a continuing indemnity to Barclays pursuant to which they will indemnify Barclays and its associates for any liabilities they incur in connection with any of, their engagement as NPN issuer, the CVRs, the NPNs, the NPN prospectus (or any related supplementary prospectus) and any other matter related to the Barclays Implementation Agreement in respect of: (i) tax liabilities; (ii) any breach of a representation, warranty or undertaking; (iii) untrue or misleading statements in, or omissions from, the NPN prospectus (or any related supplementary prospectus), the Offer Document, the Rule 2.5 announcement or any other public announcement made by Lake Acquisitions or EDF Group in connection with the acquisition of British Energy; (iv) any payment of the one penny per NPN final principal payment; (v) any substitution of the CVR issuer or guarantor; or (vi) any UK value added tax arising in relation to the CVRs.

(b) **CVR Trust Deed**

EDF plc, Lake Acquisitions, Barclays and LDTC entered into the CVR Trust Deed constituting the covenant to pay which LDTC holds on trust on behalf of the CVR holders and setting out the related arrangements with LDTC on 19 January 2009.

Lake Acquisitions covenants under the CVR Trust Deed to make a yearly payment (if such is due) to or to the order of LDTC in connection with the CVRs as well as any other payment that becomes due under their terms and to comply with the conditions of the CVRs.

Lake Acquisitions, or EDF plc as guarantor of the CVRs, will pay all taxes, fees and any enforcement expenses arising from the CVR Trust Deed and the CVRs. Lake Acquisitions and EDF plc agree that as long as the CVRs remain outstanding (or liable to prescription) they will provide LDTC with the documents it requires for the discharge of its duties as trustee (e.g. an annual certificate stating that there has been no failure to pay and all obligations have been complied with), maintain a paying agent and registrar and comply with the obligations of the CVR Agency Agreement.

For so long as the NPNs remain outstanding:

(i) Lake Acquisitions covenants with LDTC that it will provide the CVR holders with price sensitive information to the standard of a listing on the Official List and admission to trading on the London Stock Exchange and relevant authorities with any information they require;

(ii) Lake Acquisitions and EDF plc covenant with LDTC that Lake Acquisitions will assist Barclays in maintaining the admission to trading for the NPNs and provide any further information required by Barclays in connection with its continuing obligations in that regard, except where it becomes impossible or unduly onerous to do so; and

(iii) for so long as Lake Acquisitions retains its role as CVR issuer, it agrees to pay all reasonable costs of Barclays in connection with the issuing of notices to the NPN holders.

For so long as the CVRs remain outstanding, Lake Acquisitions shall ensure that each payment calculation notice and all quarterly information are made available on a regulatory information service, posted to CVR holders and delivered to LDTC.

Lake Acquisitions and EDF plc jointly and severally indemnify LDTC, any other appointee to the role of trustee and the CVR holders in respect of liabilities arising as a result of non-payment and/or liquidation deficiency resulting from exchange rate variation. Lake Acquisitions will remunerate LDTC as set out in a separate fee letter.

(c) **CVR Agency Agreement**

EDF plc, Lake Acquisitions, the LDTC and BNP Paribas entered the CVR Agency Agreement setting out the paying agent and registrar arrangements for the CVRs on 19 January 2009.

Lake Acquisitions (guaranteed by EDF plc) undertakes that it will procure the transfer of sufficient funds to BNP Paribas prior to each CVR payment date. It also undertakes to deliver definitive CVR certificates to BNP Paribas if the global CVR certificate is exchanged in accordance with its terms for definitive CVR certificates or if the CVR issuer is required to deliver definitive CVR certificates pursuant to the terms of the global CVR certificate.

Lake Acquisitions (guaranteed by EDF plc) will indemnify BNP Paribas in respect of all liabilities it incurs as a result of the CVR Agency Agreement.

EDF Group will pay BNP Paribas commissions to be agreed separately for the services it agrees to provide under the CVR Agency Agreement.

9.3.2 Save as disclosed in paragraph 9.3.1 above, there are no contracts (other than contracts entered into in the ordinary course of business) which have been entered into by Lake Acquisitions (i) within the two years immediately preceding the date of this Circular which are, or may be, material or (ii) which contain any provision under which Lake Acquisitions has any obligation or entitlement which is, or may be, material to Lake Acquisitions as at the date of this Circular.

10 Litigation

10.1 The Centrica Group

No member of the Centrica Group is or has been involved in any governmental, legal or arbitration proceedings nor, so far as the Company is aware, are any such proceedings pending or threatened by or against any member of the Centrica Group which may have, or have had during the 12 months preceding the date of this Circular, a significant effect on the Centrica Group's financial position or profitability, save for the following:

Centrica commenced proceedings against Accenture (UK) Limited and others in April 2008 claiming damages of approximately £180m for breach of contract relating to the design, programming, implementation and specification of the Jupiter IT system. The claim is being defended and is unlikely to be tried until 2010.

10.2 The British Energy Group

No member of the British Energy Group is or has been involved in any governmental, legal or arbitration proceedings nor, so far as the Company is aware, are any such proceedings pending or threatened by or against any member of the British Energy Group which may have, or have had during the 12 months preceding the date of this Circular, a significant effect on the British Energy Group's financial position or profitability, save for the following:

10.2.1 On 12 February 2004 British Energy Limited and British Energy International Holdings Limited received a notice of warranty claims from the consortium which purchased British Energy's 82.4 per cent. interest in Bruce Power (the "**Consortium**") alleging breach of certain warranties and representations relating to the condition of certain plant at the Bruce Power Station, Ontario, Canada.

The claim is based upon alleged erosion of certain parts of the steam generators, including the support plates, through which boiler tubes pass, which it is alleged resulted in an extended outage of one unit at the plant to carry out repair works and loss of revenues and costs of approximately C$64.5 million. On 27 April 2009, the Consortium served a statement of claim seeking an increased amount of C$276.4 million. The respective British Energy companies expect to defend the claim. Further information on the claim is set out in note 36 to the financial statements of the British Energy Group set out in Section III of Part III *("Financial Information")* of this Circular.

10.3 Lake Acquisitions

Lake Acquisitions is not, nor has been, involved in any governmental, legal or arbitration proceedings nor, so far as the Company is aware, are any such proceedings pending or threatened by or against Lake Acquisitions which may have, or have had during the 12 months preceding the date of this Circular, a significant effect on Lake Acquisitions' financial position or profitability.

11 Working Capital

The Company is of the opinion that, following completion of the Transactions and taking into account the facilities available to the Enlarged Group, the Enlarged Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of publication of this Circular.

12 Significant Changes

12.1 The Centrica Group

There has been no significant change in the financial or trading position of the Centrica Group since 31 December 2008, the date to which the last published audited financial statements were prepared.

12.2 The British Energy Group

There has been no significant change in the financial or trading position of the British Energy Group since 28 September 2008, the date to which the last published interim financial statements were prepared.

13 Incorporation by Reference

The following documents (or parts of documents) are incorporated by reference in, and form part of, this Circular:

(a) the Prospectus; and

(b) the Annual Report and Accounts of the Company for the years ended 31 December 2008, 2007 and 2006.

Part VII (*"Documentation Incorporated by Reference"*) of this Circular sets out the location of references to the above documents within this Circular.

14 Consents

(a) Goldman Sachs International has given and not withdrawn its written consent to the inclusion of its name in this Circular in the form and context in which it is included.

(b) PricewaterhouseCoopers LLP has given and has not withdrawn its written consent to the inclusion of its report on the pro forma net assets statement set out in Part IV (*"Pro Forma Statement Showing the Effect of the Transactions and the Segebel Disposal"*) of this Circular in the form and context in which it appears.

15 Documents Available for Inspection

Copies of the following documents may be inspected during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Company at Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD and at the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ up to and including the date of the General Meeting:

(a) the Memorandum and Articles of Association of the Company;

(b) the consent letters referred to in paragraph 14 above;

(c) the report of PricewaterhouseCoopers LLP set out in Part IV (*"Pro Forma Statement Showing the Effect of the Transactions"*) of this Circular;

(d) the Prospectus;

(e) the Transaction Agreements;

(f) the consolidated audited accounts of the Centrica Group for each of the three financial years ended 31 December 2008, 2007 and 2006; and

(g) this Circular.

PART VII

DOCUMENTATION INCORPORATED BY REFERENCE

The Annual Report and Accounts of Centrica for each of the financial years ended 31 December 2008, 2007 and 2006 are available for inspection in accordance with paragraph 15 of Part VI (*"Additional Information"*) of this Circular and contain information which is relevant to the Transactions. These documents are also available on Centrica's website at http://www.centrica.com.

The table below sets out the various sections of such documents which are incorporated by reference into this Circular so as to provide the information required under the Listing Rules and to ensure that Shareholders and others are aware of all information which, according to the particular nature of Centrica, is necessary to enable Shareholders and others to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of Centrica.

Information incorporated by reference	**Document reference**	**Page number in Circular**
Directors' service contracts and letters of appointment	Prospectus pages 170-171	143
Material contracts:		
Underwriting Agreement	Prospectus pages 180-181	145
Acquisition of SPE	Prospectus page 181	145
Subscription and Transfer Agreements	Prospectus pages 181-182	145
Centrica Employee Share Plans	Prospectus pages 175-179	140
Group Financial Statements	Annual Report and Accounts 2008 pages 58-61	110
Notes to the Financial Statements	Annual Report and Accounts 2008 pages 62-134	110
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Audited Company Balance Sheet	Annual Report and Accounts 2008 page 136	110

PART VIII

CVR YEARLY PAYMENT FORMULA, NPV ILLUSTRATION AND TERMS OF THE CVRS AND NPNS

Section I

Formula for Calculating the Yearly Payments on the CVRs

Each CVR entitles the relevant holder to a Yearly Payment on each CVR payment date calculated in accordance with the formula below, except that no Yearly Payment shall be due on a relevant CVR payment date if the formula produces zero or a negative figure. The "Yearly Payment amount per CVR" shall be set out in a payment calculation notice and shall be calculated in an amount in pence in accordance with the following formula:

Yearly Payment amount per CVR $\dfrac{0.62 \times A \times B \times 100}{C}$

Where:

A	means the lesser of (**Revenue 1**) and (**Revenue 2**).
B	means 1 — Applicable Corporate Tax Rate.
C	means the Enlarged Number of British Energy Shares outstanding at the date of the Offers.
Revenue 1	means Capped Relevant Revenue — Base Revenue.
Revenue 2	means Cumulative Relevant Revenue — Cumulative Base Revenue.

No Yearly Payment shall be due under the CVRs in the event that the Cumulative Relevant Revenue does not exceed the Cumulative Base Revenue in the preceding calendar year.

The formula includes a multiplication factor of 100 to ensure that the Yearly Payment amount per CVR is represented in pence.

For the purposes of the calculations required pursuant to this Section I, all figures represented in TWh shall be converted to MWh.

For the purposes of any Yearly Payment required and any other amounts that fall due and payable pursuant to the conditions of the CVRs (unless otherwise specified) each Yearly Payment amount or any other relevant amount shall be rounded up to the nearest whole penny as calculated by Lake Acquisitions on an aggregated basis of holdings of CVRs and such rounding shall only be made, if applicable, following such aggregation. For so long as the CVRs are held in the form of a global CVR certificate all payments shall be made in accordance with the rules and operating procedures of Euroclear and/or Clearstream. No other rounding shall be made for the purposes of the calculations made pursuant to the terms and conditions of the CVRs.

Lake Acquisitions shall calculate each Yearly Payment (including performing all calculations and making all determinations set out in the terms and conditions of the CVRs) and issue each payment calculation notice in each case acting in good faith and in a commercially reasonable manner. In accordance with the terms of condition 5 to the CVRs, where Lake Acquisitions: (i) fails to make a Yearly Payment in such manner, or (ii) fails to issue a payment calculation notice in such manner, EDF Plc shall make such Yearly Payment in such manner and shall issue such payment calculation notice in such manner and in each case in accordance with the provisions of this Section I and all references in this section to Lake Acquisitions shall be deemed to be references to EDF Plc.

Part 2: Definitions

Applicable Corporate Tax Rate means, the UK corporation tax rate, or any successor tax rate, for the relevant calendar year expressed as a number and not a percentage (being 28 per cent. as at 24 September 2008, which would be expressed as 0.28 for the purposes of any calculations). In the event that the UK corporation tax rate does not remain constant for the full twelve month relevant period, a time weighted average shall be applied. For example, if the relevant calendar year was 2008 the corporation tax rate would be calculated on the basis of a time weighted average of 30 per cent. for the three months prior to the change in UK corporate tax rate from 30 per cent. to 28 per cent. and 28 per cent. for the remaining nine months, assuming no further changes are made to the UK corporation tax rate in 2008. The Applicable Corporate Tax Rate for 2008 based on a time weighted average would be 28.5 per cent.

Base Nuclear Output means, in respect of the Year shown in the first column of Part 3 hereto the amount in TWh in the third column of Part 3 hereto.

Base Power Price means, 80 GBP/MWh in 31 December 2008 terms inflated at 2.5 per cent. per annum to 31 December for the years 2009, 2010 and 2011, and 51.1 GBP/MWh in 31 December 2008 terms inflated at 2.5 per cent. per annum for the years 2012 to 2018. For the avoidance of doubt, the rounded figures shown in the fourth column of Part 3 hereto are for indicative purposes only and all calculations will be performed on an unrounded basis.

Base Revenue means, the amount in GBP determined by:

Base Nuclear Output x Base Power Price

Capped Power Price means, the price in GBP/MWh determined by the following formula, for the Year:

2010: (PMR1 x 90 GBP/MWh in 31 December 2008 terms inflated by 2.5 per cent. per annum) + ((1 − PMR1) x 80 GBP/MWh in 31 December 2008 terms inflated by 2.5 per cent. per annum);

2011: (PMR2 x 90 GBP/MWh in 31 December 2008 terms inflated by 2.5 per cent. per annum) + ((1 − PMR2) x 80 GBP/MWh in 31 December 2008 terms inflated by 2.5 per cent. per annum).

Capped Relevant Power Price means, for the following Years:

2009: 80 GBP/MWh in 31 December 2008 terms inflated at 2.5 per cent. per annum;

2010: the lower of the Relevant Power Price and the Capped Power Price;

2011: the lower of the Relevant Power Price and the Capped Power Price;

2012 to 2018: the lower of the Relevant Power Price and the figure obtained using 90.0 GBP/MWh, in 31 December 2008 terms, inflated at a rate of 2.5 per cent. per annum.

For the avoidance of doubt, the rounded figures shown in the fifth column of Part 3 hereto are for indicative purposes only and all calculations will be performed on an unrounded basis.

Capped Relevant Revenue means, for a Year, the amount in GBP determined as:

(Eligible Nuclear Output x Capped Relevant Power Price) — Windfall Tax payable in that Year (if any).

Cumulative Base Revenue means, for a Year, the amount in GBP determined by the formula or calculation shown in the sixth column of Part 3 hereto.

Cumulative Relevant Revenue means, in respect of a Year, the amount in GBP determined by the formula or calculation shown in the seventh column of Part 3 hereto.

Cumulative Revenue Inflator means, 8.5 per cent. per annum.

Eligible Nuclear Output means, for a Year, the sum of the total actual net metered output, in TWh, at each station gate, of the Existing British Energy Nuclear Fleet in respect of that calendar year, subject to a maximum of 65 TWh which shall be certified as correct and accurate by an Authorised Signatory, in accordance with condition 6.2 to the CVRs.

Enlarged Number of British Energy Shares outstanding at the Date of the Offers means, 1,611,519,535.

Existing British Energy Nuclear Fleet means, the following:

1) Dungeness B, being the two advanced gas cooled reactors known as reactor 21 and reactor 22 and associated physical plant, together known as Dungeness B nuclear power station whose address is Romney Marsh, Kent TN29 9PX;

2) Hartlepool, being the two advanced gas cooled reactors known as reactor 1 and reactor 2 and associated physical plant, together known as Hartlepool nuclear power station whose address is Tees Road, Hartlepool TS25 2BZ;

3) Heysham 1, being the two advanced gas cooled reactors known as reactor 1 and reactor 2 and associated physical plant, together known as Heysham 1 nuclear power station whose address is Morecambe, Lancashire LA3 2XQ;

4) Heysham 2, being the two advanced gas cooled reactors known as reactor 7 and reactor 8 and associated physical plant. together known as Heysham 2 nuclear power station whose address is Morecambe, Lancashire LA3 2XN;

5) Hinkley Point B, being the two advanced gas cooled reactors known as reactor 3 and reactor 4 and associated physical plant, together known as Hinkley Point B nuclear power station whose address is Nr Bridgwater, Somerset TA5 1UD;

6) Hunterston B, being the two advanced gas cooled reactors known as reactor 3 and reactor 4 and associated physical plant, together known as Hunterston B nuclear power station whose address is West Kilbride, Ayrshire KA23 9QJ;

7) Sizewell B, a pressurised water reactor and associated physical plant known as Sizewell B nuclear power station whose address is Nr Leiston, Suffolk IP16 4UR; and

8) Torness, being the two advanced gas cooled reactors known as reactor 1 and reactor 2 and associated physical plant, together known as Torness nuclear power station whose address is Torness, Dunbar, East Lothian EH42 1QS,

(owned by BEG on the date of the Offers), except where any reactor(s) and associated physical plant of such a power station are subject to (i) the exercise and completion (which means, in the case of a partial closure option, the transfer of the economic benefit of output) of any option granted to the Secretary of State pursuant to the Option Agreement or (ii) an implemented operational change requested by the Secretary of State or the NDA to postpone the scheduled closure date or to require the operation of such reactor(s) and associated physical plant after the relevant scheduled closure date or early closure date pursuant to

	section 8.7 of the NLFA, whereupon in respect of each of (i) and (ii) the relevant reactor(s) and associated physical plant shall be excluded from this definition (although, for the avoidance of doubt, the net metered output of such reactor(s) and associated physical plant until such date shall be included in the Eligible Nuclear Output for the calendar year in which such date falls),
	(each a **Power Station**).
Market Power Price	shall have the meaning given to it in Part 4 hereto.
MWh	means, megawatt hours, being a measure of electricity.
PMR1	means, (Eligible Nuclear Output — 35.0 TWh)/Eligible Nuclear Output, subject to a minimum of zero. For the purposes of this definition Eligible Nuclear Output is for the Year 2010.
PMR2	means, (Eligible Nuclear Output — 25.0 TWh)/Eligible Nuclear Output, subject to a minimum of zero. For the purposes of this definition Eligible Nuclear Output is for the Year 2011.
Price Month	means, each month in the full calendar year.
Relevant Power Price	means, for the following Years:
	2009: 80 GBP/MWh in 31 December 2008 terms inflated at 2.5 per cent. per annum;
	2010: (PMR1 x Market Power Price) + ((1 − PMR1) x 2010 Base Power Price;
	2011: (PMR2 x Market Power Price) + ((1 − PMR2) x 2011 Base Power Price;
	2012 to 2018: the Market Power Price.
	For the avoidance of doubt figures shown in the eighth column of Part 3 hereto are for indicative purposes only and all calculations will be performed on an unrounded basis.
Relevant Revenue	means, for a Year, the amount in GBP determined by:
	(Eligible Nuclear Output x Relevant Power Price) — Windfall Tax payable in that Year.
TWh	means, terawatt hours, a measure of electricity where 1 TWh is equal to 1,000,000 MWh.
Windfall Tax	means, taxes, levies, duties, imposts or other charges in the nature of taxation imposed on or by reference to power generation activities or imposed on companies carrying on power generation activities and introduced or increased after 24 September 2008 which are payable by British Energy or any subsidiary of British Energy (such subsidiary being a subsidiary as at the date of issue of the CVRs) (excluding any increase to climate change levy if, and to the extent that, the cost thereof is borne by a person other than (a) British Energy, (b) any subsidiary of British Energy or (c) any member of the EDF Group (on behalf of British Energy or a subsidiary of British Energy or otherwise where the liability is attributable to British Energy or a subsidiary of British Energy)) and provided that any amount payable as a result of HM Government's Home Energy Saving Programme, announced on 11 September 2008 shall not be Windfall Tax.
	To the extent any payment of Windfall Tax is not deductible for UK corporation tax purposes, the amount taken into consideration shall be the relevant cash amount of Windfall Tax payable divided by (1 — Applicable Corporate Tax Rate).

Part 3:

1st column	2nd column	3rd column	4th column	5th column	6th column	7th column	8th column
Year	Payment Date	Base Nuclear Output	Base Power Price[1]	Capped Relevant Power Price[1]	Cumulative Base Revenue	Cumulative Relevant Revenue	Relevant Power Price[1]
2009	31 January 2010	50.0 TWh	82.0 GBP/ MWh	82.0 GBP/ MWh	Base Revenue in 2009	Relevant Revenue in 2009	82.0 GBP/MWh.
2010	31 January 2011	50.0 TWh	84.1 GBP/ MWh	the lower of the Relevant Power Price and the Capped Power Price	Cumulative Base Revenue in 2009 x (1 + Cumulative Revenue Inflator) + Base Revenue in 2010	Cumulative Relevant Revenue in 2009 x (1 + Cumulative Revenue Inflator) + Relevant Revenue in 2010	(PMR1 x Market Power Price) + ((1-PMR1) x 84.1 GBP/MWh)
2011	31 January 2012	50.0 TWh	86.2 GBP/ MWh	the lower of the Relevant Power Price and the Capped Power Price	Cumulative Base Revenue in 2010 x (1 + Cumulative Revenue Inflator) + Base Revenue in 2011	Cumulative Relevant Revenue in 2010 x (1 + Cumulative Revenue Inflator) + Relevant Revenue in 2011	(PMR2 x Market Power Price) + ((1-PMR2) x 86.2 GBP/MWh)
2012	31 January 2013	50.0 TWh	56.4 GBP/ MWh	the lower of the Relevant Power Price and 99.3 GBP/MWh	Cumulative Base Revenue in 2011 x (1 + Cumulative Revenue Inflator) + Base Revenue in 2012	Cumulative Relevant Revenue in 2011 x (1 + Cumulative Revenue Inflator) + Relevant Revenue in 2012	Market Power Price
2013	31 January 2014	50.0 TWh	57.8 GBP/ MWh	the lower of the Relevant Power Price and 101.8 GBP/MWh	Cumulative Base Revenue in 2012 x (1 + Cumulative Revenue Inflator) + Base Revenue in 2013	Cumulative Relevant Revenue in 2012 x (1 + Cumulative Revenue Inflator) + Relevant Revenue in 2013	Market Power Price
2014	31 January 2015	50.0 TWh	59.3 GBP/ MWh	the lower of the Relevant Power Price and 104.4 GBP/MWh	Cumulative Base Revenue in 2013 x (1 + Cumulative Revenue Inflator) + Base Revenue in 2014	Cumulative Relevant Revenue in 2013 x (1 + Cumulative Revenue Inflator) + Relevant Revenue in 2014	Market Power Price
2015	31 January 2016	40.0 TWh	60.7 GBP/ MWh	the lower of the Relevant Power Price and 107.0 GBP/MWh	Cumulative Base Revenue in 2014 x (1 + Cumulative Revenue Inflator) + Base Revenue in 2015	Cumulative Relevant Revenue in 2014 x (1 + Cumulative Revenue Inflator) + Relevant Revenue in 2015	Market Power Price
2016	31 January 2017	40.0 TWh	62.3 GBP/ MWh	the lower of the Relevant Power Price and 109.7 GBP/MWh	Cumulative Base Revenue in 2015 x (1 + Cumulative Revenue Inflator) + Base Revenue in 2016	Cumulative Relevant Revenue in 2015 x (1 + Cumulative Revenue Inflator) + Relevant Revenue in 2016	Market Power Price
2017	31 January 2018	31.5 TWh	63.8 GBP/ MWh	the lower of the Relevant Power Price and 112.4 GBP/MWh	Cumulative Base Revenue in 2016 x (1 + Cumulative Revenue Inflator) + Base Revenue in 2017	Cumulative Relevant Revenue in 2016 x (1 + Cumulative Revenue Inflator) + Relevant Revenue in 2017	Market Power Price
2018	31 January 2019	31.5 TWh	65.4 GBP/ MWh	the lower of the Relevant Power Price and 115.2 GBP/MWh	Cumulative Base Revenue in 2017 x (1 + Cumulative Revenue Inflator) + Base Revenue in 2018	Cumulative Relevant Revenue in 2017 x (1 + Cumulative Revenue Inflator) + Relevant Revenue in 2018	Market Power Price

1 All stated figures included in the fourth, fifth and eighth columns are rounded for indicative purposes only. Actual numbers for the purposes of the calculations will not be rounded.

Part 4: Market Power Price

1. Market Power Price

The **"Market Power Price"** means for a CVR payment date the simple average of the twelve Month Ahead Prices for each calendar month in the preceding calendar year.

For these purposes, the **"Month Ahead Price"** means for a calendar month, the price in GBP/MWh for United Kingdom baseload electricity to be delivered during the relevant EFA Month as transacted during the preceding EFA month, and determined in accordance with the relevant Calculation Methodology applied in accordance with this Part 4.

2. Calculation Methodology

"Calculation Methodology" means the methodology used to determine a Month Ahead Price which shall be applied in the following order:

(i) **"Calculation Methodology 1"** means Lake Acquisitions shall determine the Month Ahead Price on the date on which the Price Provider 1 publishes the "Month Ahead Heren UK Index" price for such EFA Month, and the Month Ahead Price shall be the price published on that date. The Month Ahead Price shall be the "Month Ahead Heren UK Index" price for the relevant EFA Month. For so long as a Disruption Event exists or occurs or such price is not published or is otherwise unavailable, then Calculation Methodology 2 shall apply.

(ii) **"Calculation Methodology 2"** means Lake Acquisitions shall determine the Month Ahead Price as the simple average of all the "month ahead prices" determined using the mid-price, unless the bid and offer prices are published separately, in which case, the price shall be the median of such bid and offer prices (in each case the **Relevant Price**) for each Trading Day for the preceding EFA Month as published by the Relevant Price Provider. For so long as a Relevant Price is not published in any of the Relevant Price Providers for each such Trading Day, or a Disruption Event exists or occurs, then Calculation Methodology 3 shall apply.

(iii) **"Calculation Methodology 3"** means Lake Acquisitions shall determine the Month Ahead Price as the simple average of three quotes for the Month Ahead Price, expressed on the same basis, obtained from three Reference Price Dealers. Where Calculation Methodology 3 data is incomplete, unavailable or impossible to determine for the purposes of calculating a Month Ahead Price, then Calculation Methodology 4 shall apply.

(iv) **"Calculation Methodology 4"** means Lake Acquisitions shall determine the Month Ahead Price acting in good faith and in a commercially reasonable manner by reference to such sources as it may consider appropriate.

3. Definitions

"Disruption Event" means the occurrence since the date of issue of the CVRs of a material change in the method of calculation, content, composition or constitution of the Relevant Price or the relevant "Month Ahead Heren UK Index" price, as applicable, as determined by Lake Acquisitions acting in good faith and in a commercially reasonable manner.

"EFA Month" has the meaning commonly understood in the United Kingdom electricity market. For any year EFA Month January begins on the Monday of the week which contains the first Thursday of the calendar year. The EFA Months then follow a 4-4-5 week convention except where a sixth week is required in December in order to satisfy the initial rule.

"Price Provider 1" means the ICIS Heren European Daily Electricity Markets (or any successor publication).[1]

"Reference Price Dealer" means a leading independent dealer in transactions for United Kingdom electricity, selected by Lake Acquisitions and whose fees and expenses shall be borne by Lake Acquisitions.

"Relevant Price Provider" means the relevant price provider for the purposes of Calculation Methodology 2, applied in the following order:

1 The relevant price for which is available at www.heren.com for a fee.

(i) **"Price Provider 1"** where a Relevant Price is not published in Price Provider 1 for each Trading Day as required for Calculation Methodology 2, or a Disruption Event exists or occurs, the Relevant Price Provider will be deemed to be Price Provider 2.

(ii) **"Price Provider 2":** shall mean Platts European Power Daily (or any successor publication)[2]. Where a Relevant Price is not published in Price Provider 2 for each Trading Day as required for Calculation Methodology 2, or a Disruption Event exists or occurs, the Relevant Price Provider will be deemed to be Price Provider 3.

(iii) **"Price Provider 3":** shall mean Argus European Electricity (or any successor publication)[3].

"Trading Day" means each day on which the Relevant Price Provider is scheduled to make available a Relevant Price.

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2 The relevant price for which is available at www.platts.com for a fee.

3 The relevant price for which is available at www.argusmediagroup.com for a fee.

Section II

CVR Net Present Value Illustration

The characteristics, mechanisms and risk on the payments (if any) that could be made in respect of the NPNs and the CVRs are explained below. The illustrations and examples contained in this Section II of Part VIII are provided for illustrative purposes only and should not be regarded as providing any guarantee or indication of likely performance.

Payments under the CVRs are calculated on the basis of a formula using:

(a) actual net metered output of the Existing British Energy Nuclear Fleet in the preceding calendar year above a base level and subject to a cap; and

(b) for defined committed output of the Existing British Energy Nuclear Fleet in the first three years (approximately 82.0 GBP/MWh for the year 2009, 84.1 GBP/MWh for the year 2010 and 86.2 GBP/MWh for the year 2011); for the rest of the output of the Existing British Energy Nuclear Fleet in the first three years and for the total actual net metered output of the Existing British Energy Nuclear Fleet from 2012 onwards actual power price indices in that same preceding year subject to a cap.

The committed output is 100 per cent. of the output of the Existing British Energy Nuclear Fleet for the year ending 31 December 2009, 35.0TWh for the year ending 31 December 2010 and 25.0TWh for the year ending 31 December 2011.

The actual yearly payments paid to Barclays as holder of the CVRs will depend on the output achieved by the Existing British Energy Nuclear Fleet and prevailing power prices over the period (not power prices achieved by British Energy), and are capped at a maximum level. The minimum payment in one or more years, or over the entire period, will be zero.

There will be no involvement or interest conferred by a CVR, and consequently, the NPNs, in other economic activities of the combined entity such as profits from power trading or the proposed NNB programme.

The estimation of the value of the CVRs and NPNs entails making a number of different assumptions across a number of variables and arriving at a broad range of values for the CVRs and, consequently, the NPNs. These assumptions relate to, *inter alia,* discount rate, power price and actual net metered output for the term of the CVRs. There is a very wide range of defensible values for each of these input assumptions and hence there is potentially a very wide range for a CVR's fundamental valuation and for the value at which it might trade. Certain of the assumptions required to arrive at an estimated valuation of a CVR are examined below.

A key determinant of the estimated value of a CVR is the projected wholesale power price over the next 10 years. Power prices are very volatile and therefore difficult to forecast with any meaningful level of certainty. From January 2001 to October 2008, the average monthly baseload prices in the UK for the "Month Ahead Heren UK Index" prices, as published by ICIS Heren European Daily Markets, ranged from 12.4 GBP/MWh to 124.8 GBP/MWh. As such, there could be a wide range of views regarding likely future prices.

The CVR payment instalments and consequently the NPN payments are linked to actual net metered output from the Existing British Energy Nuclear Fleet. The Power Stations comprising the Existing British Energy Nuclear Fleet have historically incurred significant unplanned outages over their operating lives. The nature of any future possible outages may significantly impact the actual net metered output achieved from the Existing British Energy Nuclear Fleet over the term of the CVRs and consequently the NPNs.

Five of the Power Stations have a current accounting closure date that falls within the term of the CVRs and consequently the NPNs. The decision as to whether the life of a Power Station is extended beyond the current accounting closure date is primarily an economic decision, taking into account a range of factors including projected power price, investment spend requirements and ongoing running costs. In addition, in accordance with the Restructuring Agreements, there are restrictions on the early closure and extension of life of each of those Power Stations (including requiring NDA Approval). This adds to the complexity of forecasting power generation over the term of the CVRs and consequently the NPNs. For the financial years ended 31 March 2001 to 31 March 2008 inclusive, the actual net metered output of the Existing British Energy Nuclear Fleet ranged from 50.3TWh to 67.6TWh and the total level of unplanned losses in any one year ranged from 9TWh to 20TWh over the same period.

The output from one or more reactors of a Power Station may be excluded from the calculation of Eligible Nuclear Output (as defined in Section 1 of this Part VIII ("*CVR Yearly Payment Formula, NPV Illustration and Terms of the CVRs and NPNs*") of this Circular), where the Secretary of State exercises and completes an option pursuant to the Option Agreement, or where there is an implemented operational change requested by the Secretary of State or the NDA to postpone the scheduled closure date or to continue operating a Power Station past the scheduled closure date or early closure date pursuant to the NLFA (for further information, see *"The exercise of Station Options and/or implementation of Operational Changes may result in reduced output or increased costs in respect of one or more of the Power Stations"* in Part II (*"Risk Factors"*) of this Circular).

The structure of the CVRs contains certain actual net metered output and power price thresholds required to trigger payments on the CVRs and consequently payments on the NPNs. If these thresholds are not met, there will be no payment. Moreover, it also implies a maximum yearly payment. There is a deemed upper limit to the actual net metered output of the Existing British Energy Nuclear Fleet; holders of the CVRs and consequently NPN Holders will not benefit from any power generated above this level except in a catch up situation with respect to the cumulative revenue constraint. There is also a cap on the price of power above which a CVR Holder will not receive any additional payment, except in the circumstances of catching up with respect to the cumulative revenue constraint. Any estimated valuation would also be heavily influenced by the discount rate that an individual investor would apply when assessing the present value of potential future payments under the CVRs, and consequently the NPNs. In addition, given the very specific nature of the CVRs, and consequently the NPNs, and an absence of listed comparable securities, there is also significant uncertainty as to the market price of the NPNs in relation to the present value of its future cash flows which are in themselves uncertain.

Payments on the CVRs are subject to an annual cumulative revenue constraint. Any such payments will be calculated by reference to the lower of the capped excess revenue generated over the base revenue threshold in the given year and a similar test based on cumulative revenue (uncapped after 2012) and base cumulative revenue threshold in prior years of the term of the CVRs.

The tables in section 1 below show the net present value (in pence per CVR), as at 31 October 2008, of the cash flows attributable to the CVRs, under a range of illustrative long term output levels from the Existing British Energy Nuclear Fleet, power prices and discount rates. These outcomes assume that the CVRs are held for their entire 10 year term. The range of assumptions shown are for illustrative purposes only; they do not represent maximum or minimum possible values and are not expectations of future output levels, power prices or discount rates. When assessing the net present value of the potential cash flows from the CVRs, and consequently the NPNs, it is necessary to make an assumption about the appropriate discount rate to use. The discount rates used to calculate the values shown in section 1 below are for illustrative purposes only and the actual rate used may be above or below these illustrative levels. For reference, the underlying assumptions used to calculate these values and British Energy's historic output performance are detailed in sections 2 and 3 respectively.

No account has been taken of the taxation position of individual NPN Holders.

Accordingly, the values shown in the tables below do not represent amounts that an NPN Holder may realise on any future sale of an NPN nor the price at which an NPN might trade which may be subject to considerable volatility or illiquidity. The realised value of a CVR, and consequently an NPN may be materially higher or lower than the illustrative values.

1. Net present value illustration

All illustrative tables below assume:

- an inflation rate of 2.5 per cent. per annum;
- an Applicable Corporate Tax Rate of 28 per cent.; and
- no Windfall Taxes are imposed,

and each of the figures (save for column and row headings) in examples (a)-(d) below represent figures expressed in pence per CVR and are rounded to the nearest whole penny.

(a) Assuming the Power Stations in the Existing British Energy Nuclear Fleet operate for their current accounting lives (no further life extensions) and projected CVR payments discounted at an annual discount rate of 8.5 per cent.:

		Annual Output (TWh base)				
		45	**50**	**55**	**60**	**65**
	40	0	0	10	21	34
	45	0	0	10	31	67
	50	0	0	19	63	106
	55	0	0	54	98	149
	60	0	22	83	135	192
Real power price	**65**	0	54	115	175	235
(GBP/MWh base)	**70**	21	85	150	214	278
	75	49	117	185	253	321
	80	76	148	220	292	364
	85	104	180	255	331	407
	90	131	211	291	370	450
	95	140	211	291	370	450

(b) Assuming the Power Stations in the Existing British Energy Nuclear Fleet operate for their current accounting lives (no further life extensions) and projected CVR payments discounted at an annual discount rate of 10 per cent.:

		Annual Output (TWh base)				
		45	**50**	**55**	**60**	**65**
	40	0	0	10	20	33
	45	0	0	10	30	64
	50	0	0	18	59	99
	55	0	0	50	91	139
	60	0	20	77	126	179
Real power price	**65**	0	49	106	162	219
(GBP/MWh base)	**70**	19	78	138	198	258
	75	44	107	170	234	298
	80	69	136	203	270	338
	85	94	164	235	306	377
	90	120	193	268	342	417
	95	127	193	268	342	417

(c) Assuming potential additional plant life extensions for Power Stations in British Energy's existing nuclear fleet, per the assumptions outlined in paragraph 2 below, and projected CVR payments discounted at an annual discount rate of 8.5 per cent.:

		Annual Output (TWh base)				
		45	**50**	**55**	**60**	**65**
	40	0	0	10	51	85
	45	0	0	36	87	130
	50	0	13	77	127	175
	55	0	50	118	168	225
	60	24	86	154	212	275
Real power price	**65**	56	123	192	258	325
(GBP/MWh base)	**70**	88	160	232	303	375
	75	121	197	273	349	425
	80	153	234	314	394	475
	85	185	270	355	440	525
	90	218	307	396	486	575
	95	226	307	396	486	575

(d) Assuming potential additional plant life extensions for Power Stations in the Existing British Energy Nuclear Fleet, per the assumptions outlined in paragraph 2 below, and projected CVR payments discounted at an annual discount rate of 10 per cent.:

		Annual Output (TWh base)				
		45	**50**	**55**	**60**	**65**
	40	0	0	10	47	78
	45	0	0	33	80	119
	50	0	11	70	116	161
	55	0	44	107	154	207
	60	21	77	139	194	252
Real power price	**65**	49	110	174	236	298
(GBP/MWh base)	**70**	78	144	210	277	344
	75	108	177	248	319	390
	80	137	211	286	361	436
	85	166	245	324	403	481
	90	196	278	361	444	527
	95	204	278	361	444	527

2. Assumptions

(a) Illustrative nominal power price assumptions (GBP/MWh):

- For the committed actual net metered output of the Existing British Energy Nuclear Fleet from January 2009 to December 2011, base year assumptions of 80 GBP/MWh (inflated from 31 December 2008 at 2.5 per cent. per annum);
- For the uncommitted actual net metered output of the Existing British Energy Nuclear Fleet from January 2009 to December 2011 and for the total actual net metered output of the Existing British Energy Nuclear Fleet thereafter, illustrative prices, base year assumptions of 50.0 GBP/MWh to 90 GBP/MWh in increments of 5 GBP/MWh adjusted for inflation at 2.5 per cent. per annum;
- Actual reference prices will be the lower of: (i) the simple average of the 12 published Heren UK electricity baseload month ahead price indices for the relevant year; or (ii) 90 GBP/MWh (inflated from 31 December 2008 at 2.5 per cent. per annum);
- All stated figures are rounded to the nearest ten pence for illustrative purposes only; and
- Actual numbers used for calculations will not be rounded:

Year	Power Price (GBP/MWh)								
base	**50**	**55**	**60**	**65**	**70**	**75**	**80**	**85**	**90**
2009	51.3	56.4	61.5	66.6	71.8	76.9	82.0	87.1	92.3
2010	52.5	57.8	63.0	68.3	73.5	78.8	84.1	89.3	94.6
2011	53.8	59.2	64.6	70.0	75.4	80.8	86.2	91.5	96.9
2012	55.2	60.7	66.2	71.7	77.3	82.8	88.3	93.8	99.3
2013	56.6	62.2	67.9	73.5	79.2	84.9	90.5	96.2	101.8
2014	58.0	63.8	69.6	75.4	81.2	87.0	92.8	98.6	104.4
2015	59.4	65.4	71.3	77.3	83.2	89.2	95.1	101.0	107.0
2016	60.9	67.0	73.1	79.2	85.3	91.4	97.5	103.6	109.7
2017	62.4	68.7	74.9	81.2	87.4	93.7	99.9	106.2	112.4
2018	64.0	70.4	76.8	83.2	89.6	96.0	102.4	108.8	115.2

(b) Illustrative nuclear output assumptions (TWh) Power Stations in the Existing British Energy Nuclear Fleet operate for their current accounting lives (no further life extensions):

- Assumes actual net metered output of 45, 50, 55, 60 and 65 TWh per annum from the Existing British Energy Nuclear Fleet in the period 2009 to 2014 and closures of Power Stations in the Existing British Energy Nuclear Fleet consistent with their current accounting lives (Hartlepool and Heysham 1 Power Stations in 2014, Hinkley Point B and Hunterston B Power Stations in 2016 and Dungeness B in 2018);

- Actual reference nuclear output will be determined from the actual net metered output from the Existing British Energy Nuclear Fleet in the relevant preceding calendar year ending 31 December. For the purpose of calculating the yearly payment, there will be a maximum eligible nuclear output in each year. The nuclear output will be determined as the aggregate output in the relevant year from the Existing British Energy Nuclear Fleet with no adjustment for periods within the year that any or all of the plants are not operational;
- All stated figures are rounded for illustrative purposes only; and
- Actual numbers used for calculations will not be rounded:

Year			**Annual Output (TWh)**		
base	**45**	**50**	**55**	**60**	**65**
2009	45.0	50.0	55.0	60.0	65.0
2010	45.0	50.0	55.0	60.0	65.0
2011	45.0	50.0	55.0	60.0	65.0
2012	45.0	50.0	55.0	60.0	65.0
2013	45.0	50.0	55.0	60.0	65.0
2014	45.0	50.0	55.0	60.0	65.0
2015	34.8	38.7	42.6	46.5	50.3
2016	34.8	38.7	42.6	46.5	50.3
2017	26.0	28.9	31.8	34.7	37.6
2018	26.0	28.9	31.8	34.7	37.6

(c) Illustrative actual net metered output assumptions (TWh) — assuming certain further life extensions for Power Stations in the Existing British Energy Nuclear Fleet:

- Assumes nuclear output of 45, 50, 55, 60 and 65 TWh per annum in the period 2009 to 2014 and then flat thereafter (rather than declining) due to assumed life extensions to those Power Stations in the Existing British Energy Nuclear Fleet with accounting lives that end before 31 December 2018 (Hartlepool and Heysham 1 Power Stations in 2014, Hinkley Point B and Hunterston B Power Stations in 2016 and Dungeness B in 2018);
- Actual reference nuclear output will be determined from the nuclear output in the relevant preceding calendar year ending 31 December. For the purpose of calculating the yearly payment, there will be a maximum eligible nuclear output in each year. The output is determined as the aggregate output in the relevant year from Power Stations in the Existing British Energy Nuclear Fleet with no adjustment for periods within the year that any or all of the plants are not operational;
- All stated figures are rounded for illustrative purposes only; and
- Actual numbers used for calculations will not be rounded:

Year			**Annual Output (TWh)**		
base	**45**	**50**	**55**	**60**	**65**
2009	45.0	50.0	55.0	60.0	65.0
2010	45.0	50.0	55.0	60.0	65.0
2011	45.0	50.0	55.0	60.0	65.0
2012	45.0	50.0	55.0	60.0	65.0
2013	45.0	50.0	55.0	60.0	65.0
2014	45.0	50.0	55.0	60.0	65.0
2015	45.0	50.0	55.0	60.0	65.0
2016	45.0	50.0	55.0	60.0	65.0
2017	45.0	50.0	55.0	60.0	65.0
2018	45.0	50.0	55.0	60.0	65.0

3. Historical output performance of the Existing British Energy Nuclear Fleet

The table below sets out the output from the Existing British Energy Nuclear Fleet in each of the last ten financial years and rounded to one decimal place for illustrative purposes only:

Year to	Output (TWh)
March 2000	62.2
March 2001	62.5
March 2002	67.6
March 2003	63.8
March 2004	65.0
March 2005	59.8
March 2006	60.4
March 2007	51.2
March 2008	50.3
March 2009	42.9

Furthermore, the table below sets out the output from the Existing British Energy Nuclear Fleet in each of the last ten calendar years and rounded to one decimal place for illustrative purposes only:

Year to	Output (TWh)
December 1999	63.6
December 2000	61.6
December 2001	67.2
December 2002	63.2
December 2003	65.8
December 2004	59.7
December 2005	60.8
December 2006	55.5
December 2007	51.9
December 2008	40.2

When considering the historic output profile above, one should note that from 1 April 2007 Hinkley Point B and Hunterston B have been restricted to approximately 70 per cent. load, due to boiler temperature restrictions.

4. Historical Price Information

Information regarding the “Month Ahead Heren UK Index” (including historical performance) can be found at www.heren.com for a fee.

Section III

Terms of the CVRs and NPNs

Part 1: Introduction to the NPNs

Issue of the Nuclear Power Notes and Lake CVRs

Lake Acquisitions issued CVRs to Barclays on 19 January 2009. Barclays correspondingly issued NPNs to such eligible British Energy ordinary shareholders nominated by Lake Acquisitions or in the absence of such nomination, to Lake Acquisitions to transfer to eligible British Energy ordinary shareholders who validly elected for the Partial CVR Alternative.

The Nuclear Power Notes are linked to the CVRs on a one-for-one basis (although the NPNs will not be secured on the underlying CVRs). Other than in certain limited circumstances for so long as the NPNs are outstanding, the CVRs shall be held by Barclays any wholly-owned direct or indirect subsidiary of Barclays or a branch of Barclays.

Part 2: Summary of the NPNs

Certain key features, terms and conditions of the NPNs and the CVRs are set out below.

1. Nuclear Power Notes

1.1 Issuer & Status

The NPNs were issued by Barclays and are freely transferable (subject to restrictions on transfer in accordance with applicable securities laws and with ERISA).

Subject to certain limitations on payment, summarised below, the NPNs constitute direct, unsubordinated and unsecured obligations of Barclays and rank equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of Barclays (except as prescribed by law). The NPNs do not include any negative pledge, event of default or cross-default.

1.2 Payments

Each NPN Holder may be entitled to a yearly payment (which may be zero) which shall be made by Barclays to the NPN Holders following the corresponding payment of an Underlying Payment Instalment (if any) under the CVRs (see paragraph 2.2 below). Such yearly payment (if any) shall be made between the second and the fifth Business Day following the date of an Underlying Payment Instalment under the CVRs (which is scheduled to be 31 January in each year from 2010 to 2019 (both inclusive and subject to business day adjustment)).

Each yearly payment (if any) made by Barclays to the NPN Holders under the NPNs will include (in whole or in part) a redemption amount, but such payment will be limited to the amount paid in respect of the corresponding Underlying Payment Instalment (if any) by Lake Acquisitions (or EDF Plc as guarantor) in respect of the CVRs (see paragraph 2.2 below).

To the extent that the amount paid in respect of any Underlying Payment Instalment under the CVRs exceeds the amount of the relevant redemption amount under the Nuclear Power Notes, a coupon amount will be paid to each NPN Holder.

The total of the payments (if any) due on the NPNs will (subject to permitted withholding or deduction) be equal to the amount paid in respect of the corresponding Underlying Payment Instalments (if any) by Lake Acquisitions (or EDF Plc as guarantor) in respect of the CVRs.

In the event that no yearly payment has been made on the NPNs on any yearly payment date and no yearly redemption amount would otherwise be due and payable on the final yearly payment date (expected to fall in February 2019), Barclays will pay the sum of one penny as a final principal payment in respect of each Nuclear Power Note on such date.

All payments on the NPNs will be made without any withholding or deduction of any present or future taxes unless such withholding or deduction is required by law. Barclays will not pay any additional amounts to a NPN Holder to account for any such withholding or deduction. Each NPN Holder is responsible for paying all taxes and all expenses relating to payments received by him under any NPNs and in limited circumstances Barclays may deduct amounts in respect of such taxes and expenses from amounts due to NPN Holders.

1.3 Trading

The NPNs are admitted to trading on PLUS-quoted.

The NPNs were issued in uncertificated registered form and are cleared through CREST.

Barclays is not providing liquidity in the NPNs. BNP Paribas, Merrill Lynch and JPMorgan Cazenove have each given an undertaking to Barclays to use best endeavours to act as market makers in respect of the Nuclear Power Notes, subject to certain qualifications. However, there is no guarantee that a secondary market in the Nuclear Power Notes will develop.

1.4 Information Covenants

Barclays shall procure that information provided to it by Lake Acquisitions (see paragraph 2.3 below) is made available to NPN Holders.

1.5 Other

This summary of key terms and conditions of the NPNs is not exhaustive.

2. CVRs

2.1 Issuer & Status

The CVRs were issued by Lake Acquisitions. The obligations of Lake Acquisitions under the CVRs are unconditionally and irrevocably guaranteed by EDF Plc.

2.2 Payments

The date of payment of an **"Underlying Payment Instalment"** under the CVRs is scheduled to be 31 January in each year from 2010 to 2019 (both inclusive and subject to business day adjustment) (an **"Underlying Payment Date"**).

The amount of each such payment (which may be zero) will be calculated on the basis of a formula by reference to actual net metered output of the Existing British Energy Nuclear Fleet in the preceding year and certain UK wholesale power prices (referenced from third parties) in that same preceding year, subject to certain exclusions and limits, and corporate and windfall taxes. Details of the formula can be found in Section 1 of this Part VIII.

All payments on the CVRs will be made without any withholding or deduction of any present or future taxes unless such withholding or deduction is required by law. Neither Lake Acquisitions nor EDF Plc will pay any additional amounts to account for any such deduction or withholding.

2.3 Covenants

Lake Acquisitions shall provide the following information to the holders of the CVRs:

(a) quarterly statements in respect of the previous quarter's month ahead prices and the previous quarter's contribution to the relevant calendar year's actual net metered output (calculated, for the purpose of this covenant only, for that relevant quarter) and the cumulative output figures for the relevant calendar year in relation to the same;

(b) quarterly statement of the likely maximum theoretical output before unplanned losses for the Existing British Energy Nuclear Fleet from the end of the previous quarter to the end of the relevant calendar year;

(c) quarterly details of total quantum of the planned power outages for the Existing British Energy Nuclear Fleet from the date of the end of the previous quarter through to the end of the relevant calendar year (measured in aggregate and expressed as a figure in TWh); and

(d) price sensitive information to the standard of the Official List and admission to trading on the regulated market of the London Stock Exchange (even though there is no intention that either the Nuclear Power Notes or the CVRs will be so listed).

In addition, Lake Acquisitions has covenanted to: (i) issue a yearly payment calculation notice; (ii) not sell, transfer, or otherwise dispose of its direct or indirect legal or beneficial interest in the share capital of British Energy or BEG; and (iii) procure that the British Energy Group maintains ownership of the Existing British Energy Nuclear Fleet, subject to certain limited provisos.

2.4 Trading

The CVRs are unlisted and are settled through Euroclear Bank S.A./N.V. or Clearstream, Luxembourg.

2.5 Other

This summary of key terms and conditions of the CVRs is not exhaustive.

DEFINITIONS

The following definitions apply throughout this Circular, unless stated otherwise:

€	euro, the currency introduced at the start of the third stage of economic union pursuant to the treaty establishing the European Union
£ or **Sterling**	pounds Sterling, the lawful currency of the UK, and references to **"pence"**, **"penny"** or **"p"** shall be construed accordingly
100% Residual Volume Agreement	has the meaning give in paragraph 8.1.6 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Accelerated Decommissioning Payment	Accelerated Decommissioning Payments due to the NLF in an amount equal to the product of the proportion of New Bonds redeemed and the NPV of the next five years of Decommissioning Payments, indexed to RPI up to the date of early redemption, taking into account any premium payable on redemption of the New Bonds
Accepted Standards	practices and procedures both considered by and acceptable to the HSE, the Environment Agency and the Scottish Environment Protection Agency
Acquisition	the conditional subscription by GB Gas Holdings of a 20 per cent. interest in Lake Acquisitions as further described in this Circular
Additional CVR Election Facility	has the meaning given in Section I of Part III (*"Financial Information on Lake Acquisitions and British Energy"*) of this Circular
Additional Nuclear Site Licence Land	land covered by the relevant nuclear site licence at the date of actual completion of an Option to Operate and owned by BEG at the date of the Option Agreement but not comprised within the Station Site
AGR	an advanced gas-cooled reactor, a type of nuclear reactor
Agreed Collateral Purposes	has the meaning given in the Contribution Agreement
AGR Fuel Route	the plant and equipment by which: (a) new AGR fuel is received and loaded into an AGR; and (b) spent fuel is discharged from an AGR and transported away from the relevant AGR Power Station site
AGR Power Stations	Dungeness, Hartlepool, Heysham 1, Heysham 2, Hinkley Point B, Hunterston B and Torness, being those Power Stations comprising an AGR
Agreed Terms	has the meaning give in paragraph 2.2.5 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Alternative Land	land owned by BEG or another member of the British Energy Group or EDF Group and located within a two mile radius of the relevant Station Site (which may include part of the Relevant Land)
Approved Person	BEG or certain contractors approved by BEG and the NLF pursuant to the terms of the NLFA
Architect Engineer	has the meaning given in paragraph 3.5 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Architect Engineer Services Agreement	has the meaning given in paragraph 3.5 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
BACS Deposit Deed	the corporate deposit deed between Citibank N.A. and BEG (UK) originally dated 30 March 2004 (as amended, restated and/or supplemented from time to time prior to the date of this Circular)

BACS Facility Collateral	any moneys as at the date of the BACS Deposit Deed or at any time thereafter standing to the credit of the bank accounts opened by Citibank N.A. pursuant to the BACS Deposit Deed and all entitlements to interest and other rights, benefits and claims accruing to, or arising in connection with, those moneys or bank accounts at any time
Barclays	Barclays Bank plc
Barclays Implementation Agreement	the implementation agreement dated 24 September 2008 (as amended on 5 November 2008) between EDF plc, Lake Acquisitions and Barclays
Basic CVR Alternative	has the meaning given in Section I of Part III (*"Financial Information on Lake Acquisitions and British Energy"*) of this Circular
BCU	boiler closure unit
BEBF	British Energy Bond Finance plc (formerly BEH), a company incorporated under the laws of Scotland with registered number SC270186
BECG	the British Energy Combined Group pension scheme within the ESPS
BED	British Energy Direct Limited, a company incorporated under the laws of England and Wales with registered number 4935015
BEG	British Energy Generation Limited, a company incorporated under the laws of England and Wales with registered number 3076445
BEGG	the British Energy Generation Group pension scheme within the ESPS
BEG (UK)	British Energy Generation (UK) Limited, a company incorporated under the laws of Scotland with registered number SC117121
BEH	British Energy Holdings plc (now BEBF)
BEI	British Energy Investment Limited, a company incorporated under the laws of Scotland with registered number SC173730
BEIH	British Energy International Holdings Limited, a company incorporated under the laws of Scotland with registered number SC138614
BEL	British Energy Limited, a company incorporated under the laws of Scotland with registered number SC162273
BERL	British Energy Renewables Limited, a company incorporated under the laws of Scotland with registered number SC214892
BETFL	British Energy Treasury Finance Limited, a company incorporated under the laws of Scotland with registered number SC251425
BETS	British Energy Trading and Sales Limited, a company incorporated under the laws of Scotland with company number SC200887 (formerly named BPET)
BETSL	British Energy Trading Services Limited, a company incorporated under the laws of Scotland with registered number SC223960
BNFL	British Nuclear Fuels Limited (formerly British Nuclear Fuels plc), a company incorporated under the laws of England and Wales with registered number 5027024
BNFL Ancillary Agreements	(i) the 1996 agreement between BEG and BNFL for flask maintenance services;

	(ii) the 1996 agreement between BEG (UK) and BNFL for flask maintenance services; (iii) the 1997 new agreement between BEG and BNFL for flask maintenance services; (iv) the 1997 new agreement between BEG (UK) and BNFL for flask maintenance services; (v) the 1996 agreement between BEG and BNFL for oxide miscellaneous services; (vi) the 1996 agreement between BEG (UK) and BNFL for oxide miscellaneous services (vii) the 1997 agreement between BEG and BNFL for rail transport services for irradiated nuclear fuel in the UK; and (viii) the 1997 agreement between BEG (UK) and BNFL for rail transport services for irradiated nuclear fuel in the UK (all as amended, restated and/or supplemented from time to time prior to the date of this Circular)
BNFL Historic Contracts	the Historic Fuel Agreements and, to the extent that they relate to historic spent fuel, the BNFL Ancillary Agreements
BNP Paribas	BNP Paribas Securities Services, Luxembourg Branch
Board	the board comprising the Directors
Bond Trustee	The Law Debenture Trust Corporation p.l.c.
Bonds	bonds issued by British Energy Bond Finance plc (formerly British Energy Holdings plc)
BPET	British Energy Power and Energy Trading Limited (now named BETS)
Bradwell Land	all freehold and leasehold land owned by a member of the Lake Group or a member of the EDF Group at Bradwell (Essex)
Bradwell Long Stop Date	the earlier of two years from the grant of planning consent for the construction of two EPRs on the Sizewell Land and 31 December 2014
British Energy	British Energy Group plc, a company incorporated under the laws of Scotland with registered number SC270184
British Energy Bradwell Land	land at Bradwell, Essex demarcated on the plans appended to the Deed of Undertaking and owned by British Energy as at the date of the Deed of Undertaking
British Energy Environmental Indemnification	the British Energy Parties' obligation pursuant to the Option Agreement to discharge and indemnify the Secretary of State for environmental matters, including in relation to the Excluded Liabilities under the NLFA or the Option Agreement, other than environmental matters which arise after the date on which the Secretary of State or the Station Purchaser has taken control of the relevant plant (whether for the purposes of decommissioning or continued operation)
British Energy Environmental Indemnification Effective Date	in respect of the exercise of an Option to Decommission: (i) prior to the scheduled closure date or early closure date of the relevant Power Station, the scheduled closure date or the early closure date (as the case may be); and (ii) on or after the scheduled closure date or early closure date of the relevant Power Station, on completion of the sale and

	acquisition of the relevant Power Station pursuant to the exercise by the Secretary of State of the relevant Station Option; in respect of the exercise of an Option to Operate: (i) in relation to a Power Station which closes on its scheduled closure date, the earlier of the date of completion of the sale and acquisition of the relevant Power Station pursuant to the exercise by the Secretary of State of the relevant Station Option and the scheduled closure date; and (ii) in relation to a Power Station which closes on an early closure date, the later of the early closure date and 65 business days after the date on which notice of early closure is given
British Energy Facilities	the land and nuclear installations known as Dungeness B nuclear power station, Hartlepool nuclear power station, Heysham 1 nuclear power station, Heysham 2 nuclear power station, Hinkley Point B nuclear power station, Sizewell B nuclear power station, Hunterston B nuclear power station and Torness nuclear power station
British Energy Group	British Energy and its subsidiary undertakings
British Energy Group Generating Assets	has the meaning given in paragraph 8.1 Part V (*"Further Information on the Transaction Agreements"*) of this Circular
British Energy Party	each of British Energy, BEBF and BEG (together, the **"British Energy Parties"**)
British Energy Warrants	warrants entitling the holder to subscribe for shares in British Energy
British Gas Trading Limited	British Gas Trading Limited (a wholly-owned indirect subsidiary of Centrica), a company incorporated in England and Wales with registered number 03078711
Bruce Power	Bruce Power Limited Partnership
Bruce Power Station	the Power Station operated by Bruce Power
C$	Canadian dollars, the lawful currency of Canada
Cash Reserves	available cash within the British Energy Group in an amount up to the Target Amount
Cash Sweep Payment	has the meaning given in Section II of Part III (*"Financial Information on Lake Acquisitions and British Energy"*) of this Circular
Cash Sweep Percentage	has the meaning given in Section II of Part III (*"Financial Information on Lake Acquisitions and British Energy"*) of this Circular
Centrica Employee Share Plans	the Deferred and Matching Share Scheme 2006, the Executive Share Option Scheme, the Special Executive Share Option Scheme, the Long-Term Incentive Scheme, the Special Long-Term Incentive Scheme, the Sharesave Scheme, the Sharesave Scheme 2006, the Share Award Scheme 2007, the Share Incentive Plan and the Direct Energy Employee Share Purchase Plan, each as set out in pages 176 to 179 of the Prospectus, which are incorporated by reference into this Circular
Centrica Group	the Company and its subsidiary undertakings
Centrica Overseas	Centrica Overseas Holdings Limited (a wholly-owned indirect subsidiary of Centrica), a company incorporated under the laws of England and Wales with registered number 3922153

Centrica Resources	Centrica Resources Limited (a wholly-owned indirect subsidiary of Centrica), a company incorporated under the laws of England and Wales with registered number 02855151
Centrica Trading	British Gas Trading Limited (a wholly-owned indirect subsidiary of Centrica), a company incorporated in England and Wales with registered number 03078711
CFI	the European Court of First Instance
Charged Securities	(i) all issued ordinary shares in BEBF, BEG (UK), BEG, BETS, BEI, DEL, BEIH, BETFL and BERL; (ii) all shares, stock and debentures, warrants, options or similar rights and investments which may be legally or beneficially owned by a Debenture Obligor; and (iii) all dividends, warranties or covenants, rights or other property or assets of a capital nature offered, issued or paid at any time in respect of (i) and (ii) above
Commercial Power Purchase Agreement	the agreed form power purchase agreement to be entered into between Centrica and EDF, appended to the Subscription and Investment Agreement, details of which are set out in paragraph 8.5 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Commitments	the commitments dated 18 December 2008 entered into by EDF to enable the European Commission to declare the Offers compatible with the common market
Committed Facilities	facilities for borrowing (excluding facilities repayable on demand) made available to any member of the British Energy Group by third party financial institutions or any members of the Wider Group (other than members of the British Energy Group): (i) which have a remaining term of at least 18 months; (ii) which are available unconditionally to the entity in question subject only to customary conditions precedent to exercise of drawdown (which, immediately prior to such exercise, in the opinion of the relevant British Energy Party board acting reasonably, will be met and will continue to be met for at least 18 months thereafter); and (iii) provided that, in the case of a facility provided by a member of the Wider Group (other than a member of the British Energy Group), the lender has an Investment Grade Rating or its obligations under the facility are guaranteed (in a form reasonably satisfactory to the Secretary of State) by a member of the Wider Group which has an Investment Grade Rating
Companies Act	the Companies Act 2006
Company or **Centrica**	Centrica plc, a company incorporated under the laws of England and Wales with registered number 3033654
Competing Business	a business which develops, owns, constructs or operates a nuclear generating plant, other than pursuant to the NNB Shareholders' Agreement or the Lake Shareholders' Agreement (as the case may be)
Competition Commission	a body corporate known as the Competition Commission as established under section 45 of the Competition Act 1998, as amended
Completion	completion of the Subscription and Investment Agreement, the NNB Shareholders' Agreement and the Segebel SPA

Contribution Agreement	the contribution agreement dated 14 January 2005 originally between the Secretary of State, the NLF, BEG, BEG (UK), British Energy and BPET (as amended, restated and/or supplemented from time to time prior to the date of this Circular)
Costs of Discharging Liabilities	the qualifying costs of decommissioning and qualifying costs of discharging uncontracted nuclear liabilities in relation to the Existing British Energy Nuclear Fleet
CRD	Directives 2006/48/EC and 2006/49/EC (the Capital Requirements Directive)
Credible Nuclear Operator	a person who: (i) currently operates a nuclear power station anywhere in the world and either: (a) currently operates an electricity generating station subject to UK health, safety and environmental regulation; or (b) who has made a public commitment to become an operator of an electricity generating station (with a capacity in excess of 50 MW) by 2025 in a market subject to UK health, safety and environmental regulation; or (ii) any other corporate entity proposed by EDF which, subject to the approval of the Secretary of State (not to be unreasonably withheld), could reasonably be expected to become a credible nuclear operator in the UK in the future
CREST	the relevant system, as defined in the CREST Regulations (in respect of which Euroclear UK is the operator as defined in the CREST Regulations)
CREST participant	a person who is, in relation to CREST, a system-participant (as defined in the CREST Regulations)
CREST Proxy Instruction	the means by which a Shareholder who holds Shares in CREST may appoint a proxy
CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), as amended
CTA Global Bond	the £150m of 7 per cent. guaranteed bonds issued by BEBF represented by a global bond certificate
CVR	the contingent value right units issued to Barclays by Lake Acquisitions in connection with the Offers
CVR Agency Agreement	the agency agreement dated 19 January 2009 entered into among Lake Acquisitions, EDF plc, LDTC and BNP Paribas relating to the CVRs
CVR Trust Deed	the trust deed dated 19 January 2009 entered into among Lake Acquisitions, EDF plc, Barclays and LDTC relating to the CVRs
DDP Debenture	the default decommissioning payment debenture dated 14 January 2005 originally between the Secretary of State, the NLF, British Energy, BEBT, BEL, BEG, BEG (UK), BETS, BEI, DEL, BEIH, PPFL, BETFL, BERL and BED (as amended, restated and/or supplemented from time to time prior to the date of this Circular)
Debenture Obligors	British Energy, BEBF, BEL, BEG, BEG (UK), BETS, BEI, DEL, BEIH, BETFL, BERL and BED
Decommissioning Default Payment	Decommissioning Payments accelerated on an NPV basis (discounted at an agreed rate) payable on certain insolvency events pursuant to the terms of the Contribution Agreement

Decommissioning Payments	fixed payments of £20m per annum (in March 2003 values and indexed to RPI and tapering off as Power Stations are scheduled to close) which must be paid by BEG to the NLF in accordance with the provisions of the Contribution Agreement
Deed of Undertaking	the deed of undertaking dated 24 September 2008 originally between EDF, Lake Acquisitions and the Secretary of State (as amended, restated and/or supplemented from time to time prior to the date of this Circular)
DEL	District Energy Limited, a company incorporated under the laws of England and Wales with registered number 2362017
DIP	British Energy's deferred incentive plan
Directors	the directors of the Company, whose names are set out on page 136 of this Circular
Disclosure and Transparency Rules	the Disclosure and Transparency Rules made by the FSA pursuant to Part 6 of FSMA
Disqualified Liabilities	liabilities which do not qualify for funding pursuant to the terms of the NLFA, including increases in the NPV of Costs of Discharging Liabilities of £100,000 or more arising out of: (i) failure by BEG to behave in accordance with certain minimum performance standards; or (ii) the implementation of Licensee Changes. In addition, any such increases arising out of the implementation of Key Operational Changes without appropriate NDA approval will be Disqualified Liabilities. In addition, any liability deemed disqualified under the annual liabilities report required to be produced by the terms of the NLFA or so disqualified by any of the NLFA provisions will constitute a Disqualified Liability
DSB	direct supply business
Dungeness B	the two AGRs known as Reactor 21 and Reactor 22 and associated physical plant, together known as Dungeness B nuclear power station, whose address is Romney Marsh, Kent TN29 9PX
Dungeness Land	land at Dungeness, Kent demarcated on the plans appended to the Deed of Undertaking and owned by British Energy or any of its affiliates
ECJ	European Court of Justice
Economic Rights	has the meaning given in paragraph 2.4 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
ECVN	Energy Contract Volume Notification
ECVNA	Energy Contract Volume Notification Agent
EDF	Électricité de France S.A., a company incorporated under the laws of France with registered number 552 081 317
EDF DCL	EDF Development Company Limited (a wholly-owned indirect subsidiary of EDF), a company incorporated under the laws of England and Wales with registered number 6222043
EDF Energy	EDF Energy (UK) Limited (a wholly-owned indirect subsidiary of EDF), a company incorporated under the laws of England and Wales with registered number 2622406
EDF Group	EDF and its subsidiary undertakings

EDF International	EDF International S.A., a company incorporated under the laws of France with registered number 380 415 125
EDF Plc	EDF Energy Plc, a company incorporated under the laws of England and Wales with registered number 2366852
EDF Wylfa Land	the land demarcated on the plans appended to the Deed of Undertaking at Wylfa, Anglesey, which is not NDA Wylfa Land
EEA	European Economic Area
EFA	Electricity Forward Agreement
Eggborough	British Energy Group's Eggborough coal-fired power station in Yorkshire
Eggborough Asset Option Agreement	the asset option agreement dated 30 September 2004 originally between EPL, Barclays (as agent and security trustee) and BPET (as amended and restated and/or supplemented from time to time prior to the date of this Circular)
Eggborough Credit Agreement	the credit agreement dated 13 July 2000 for a £550m project finance facility between EPL, Barclays Capital and Barclays (as amended and restated and/or supplemented from time to time prior to the date of this Circular)
Eggborough Options	the option granted under the Eggborough Share Option Agreement and Eggborough Asset Option Agreement
Eggborough Share Option Agreement	the share option agreement dated 30 September 2004 originally between EPHL, Barclays (as agent and security trustee), EPL and BPET (as amended, restated and/or supplemented from time to time prior to the date of this Circular)
Electrabel	Electrabel SA, a company incorporated under the laws of Belgium with registered number 0403.170.701
Electricity Sale Agreement	the agreement entitled *"Convention-Cadre"* entered into between Electrabel and SPE on 12 June 2008
Electricity Supply Subsidiary	for the purpose of the DPP Debenture, if British Energy's electricity supply business is transferred from BEG to another directly or indirectly wholly-owned subsidiary of British Energy, that directly or indirectly wholly-owned subsidiary of British Energy
Energy Act	the Energy Act 2008
Energy Services Agreement	the energy services agreement between BEG and BETS dated 3 December 2008
Enhanced Reporting	the additional reporting and auditing requirements which HM Government has undertaken to conduct if the £1,629 million threshold for uncontracted decommissioning and incremental nuclear liabilities set by the European Commission in the State Aid Decision is exceeded
Enlarged Group	the Centrica Group as enlarged following Completion
EPL	Eggborough Power Limited, a company incorporated under the laws of England and Wales with registered number 03782700
EPHL	Eggborough Power Holdings Limited, a company incorporated under the laws of Scotland with registered number SC201083
EPR	European pressurised reactor, a type of nuclear reactor
Equiniti	Equiniti Limited, a company incorporated under the laws of England and Wales

Equity Power Purchase Agreements	the Phase 2 Equity Power Purchase Agreements and the Phase 3 Equity Power Purchase Agreements
ESPS	Electricity Supply Pension Scheme
Excluded Liabilities	liabilities which do not qualify for funding pursuant to the terms of the NLFA, including, among other things, employment and redundancy costs, certain environmental expenses and costs arising in connection with breaches of duty under the NIA in relation to occurrences involving nuclear material or ionising radiation. A full list of Excluded Liabilities is set out in paragraph 9.2.1(ii)(b)(II) of Part VI (*"Additional Information"*) of this Circular
Exercise of Rights	certain exercises of rights under the BNFL Historic Contracts
Existing British Energy Nuclear Fleet	(i) Dungeness B; (ii) Hartlepool; (iii) Heysham 1; (iv) Heysham 2; (v) Hinkley Point B; (vi) Hunterston B; (vii) Sizewell B; and (viii) Torness, (owned by BEG on the date of the Offers), except where any reactor(s) and associated physical plant of such a power station are subject to (a) the exercise and completion (which means, in the case of a partial closure option, the transfer of the economic benefit of output) of any option granted to the Secretary of State pursuant to the Option Agreement or (b) an implemented operational change requested by the Secretary of State or the NDA to postpone the scheduled closure date or to require the operation of such reactor(s) and associated physical plant after the relevant scheduled closure date or early closure date pursuant to section 8.7 of the NLFA, whereupon in respect of each of (a) and (b) the relevant reactor(s) and associated physical plant shall be excluded from this definition
Extended Longstop Date	has the meaning given in paragraph 1.6 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Extension Loan Amount	has the meaning given in paragraph 1.6 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
EU ETS	EU Emissions Trading Scheme
Facility	land and buildings within the Station Site, retained land or BEG's adjoining land (in each case as shown on the plans set out in the property schedules to the Option Agreement) which have not been transferred pursuant to a Site Transfer
FIDD	in the context of an NNB Project, the final investment decision date
FIDD Notice	the notice issued by the board of NNB Holding Company to the shareholders in NNB Holding Company and pursuant to the NNB Shareholders' Agreement confirming that the principal objectives of the pre-development phase prior to a FIDD have been met

FIDD Opt-Out Notice	a notice that can be given by GB Gas Holdings to Echo Energy pursuant to the NNB Shareholders' Agreement, electing to opt out of the First NNB Project
Final Principal Amount	has the meaning given in Section III of Part VIII (*"CVR Yearly Payment Formula, NPV Illustration and Terms of the CVRs and NPNs"*) of this Circular
First NNB Project	the first New Nuclear Build project in respect of which a FIDD notice is served pursuant to the NNB Shareholders' Agreement
First Phase Site	the Hinkley Point 1 Land, the Hinkley Point 2 Land, the Sizewell Land, the Bradwell Land, each as defined in the Sites Transfer Agreement and any other areas of land in Great Britain and Northern Ireland which EDF may propose to develop in accordance with the terms of the NNB Shareholders' Agreement
Forecast Expenditure Reserve	has the meaning given in paragraph 9 of Section III of Part III (*"Financial Information on Lake Acquisitions and British Energy"*) of this Circular
Form of Proxy	the form of proxy sent to Shareholders on 19 May 2009
FSA	the Financial Services Authority
FSMA	Financial Services and Markets Act 2000
GAAP	Generally Accepted Accounting Principles
GB Gas Holdings	GB Gas Holdings Limited, a company incorporated under the laws of England and Wales with registered number 3186121
GDF	GDF International SAS, a company incorporated under the laws of France with registered number 622 048 965
GDF SPA	the sale and purchase agreement dated 17 November 2008 between GDF as seller and Centrica Overseas Holdings Limited as purchaser, pursuant to which Centrica Overseas Holdings Limited purchased GDF's 50 per cent. shareholding in Segebel on 20 January 2009
General Meeting	the general meeting of the Company to be held at 2.00 pm on 8 June 2009 at Old Billingsgate, 1 Old Billingsgate Walk, 16 Lower Thames Street, London EC3R 6DX (or any adjournment thereof), notice of which was sent to Shareholders on 19 May 2009 and is also set out at the end of this Circular
Goldman Sachs International	Goldman Sachs International, a company incorporated in England and Wales with registered number 2263951
GTMA	the grid trade master agreement dated 23 March 2001 and originally between BETS (formerly BPET) and EDF Plc (formerly London Electricity plc), as amended and restated and/or supplemented from time to time prior to the date of this Circular
GTMA Amendment Agreement	the amendment agreement to the GTMA in the form set out in Part C of schedule 8 to the Umbrella Agreement or such other form as was approved by the Secretary of State, dated 24 March 2009 and originally entered into between the Secretary of State, the NLF, British Energy, BEBF and BEG (as amended and restated and/or supplemented from time to time prior to the date of this Circular)
Guarantee and Indemnity	the guarantee and indemnity agreement dated 14 January 2005 and originally between the Secretary of State, the NLF, British Energy, BEBF, BED, BEG (UK), BEG, BETS, BEI, DEL, BEIH, PPFL, BETFL, BERL and BED (as amended, restated and/or supplemented from time to time prior to the date of this Circular)

Guarantor	any person who is a guarantor under the Guarantee and Indemnity (see paragraph 9.2.1(ii)(b)(V) of Part VI (*"Additional Information"*) of this Circular)
GW	gigawatt, being a measure of electricity
Hartlepool	the two AGRs known as Reactor 1 and Reactor 2 and associated physical plant, together known as Hartlepool nuclear power station, whose address is Tees Road, Hartlepool TS25 2BZ
Heysham 1	the two AGRs known as Reactor 1 and Reactor 2 and associated physical plant, together known as Heysham 1 nuclear power station, whose address is Morecambe, Lancashire LA3 2XQ
Heysham 2	the two AGRs known as Reactor 7 and Reactor 8 and associated physical plant, together known as Heysham 2 nuclear power station, whose address is Morecambe, Lancashire LA3 2XN
Heysham Land	land at Heysham, Lancashire demarcated on the plans appended to the Deed of Undertaking and owned by British Energy or any of its affiliates
Hinkley Point B	the two AGRs known as Reactor 3 and Reactor 4 and associated physical plant, together known as Hinkley Point B nuclear power station, whose address is Nr Bridgwater, Somerset TA5 1UD
Hinkley Point Land	any land comprised in title number ST127567 and any adjoining land which is owned by EDF, British Energy or any of their affiliates from time to time
Historic Fuel Agreements	(i) the 1995 agreement between BEG and BNFL for the storage and reprocessing of historic fuel; (ii) the 1997 agreement between BEG and BNFL for spent fuel management services in relation to historic fuel; (iii) the 1995 agreement between BEG (UK) and BNFL for the reprocessing and storage of historic fuel; and (iv) the 1995 agreement between BEG (UK) and BNFL for the long-term storage of historic fuel and related services, (all as amended, restated and/or supplemented from time to time prior to the date of this Circular)
Historic Liabilities	the contracted liabilities for the management of historic spent fuel (being fuel loaded into BEG's and BEG (UK)'s AGRs prior to 14 January 2005)
HLFA	the historic liabilities funding agreement dated 14 January 2005 originally between the Secretary of State, BEG (UK), BEG, British Energy and BEH (as amended, restated and/or supplemented from time to time prior to the date of this Circular)
HLFA Excluded Liabilities	certain incremental liabilities under the BNFL Historic Contracts, including, *inter alia*, liabilities arising under certain BNFL Ancillary Agreements and liabilities arising out of: (i) any breach by BEG of the terms of a BNFL Historic Contract; (ii) the failure by BEG to behave in accordance with the minimum performance standard or to exercise its rights under the BNFL Historic Contracts in accordance with a Minimum Contracting Standard;

	(iii) operational changes made by BEG other than to meet current or reasonably anticipated legal or regulatory requirements or to comply with the Accepted Standards; or
	(iv) incremental liabilities arising from certain types of non-standard spent fuel
HM Government	Her Majesty's Government
HoldCo Board Relevant Decision	has the meaning given in paragraph 3.3.2 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
HSE	the Nuclear Directorate of the Health and Safety Executive of HMG and the Scottish Executive
Hunterston B	the two AGRs known as Reactor 3 and Reactor 4 and associated physical plant, together known as Hunterston B nuclear power station, whose address is West Kilbride, Ayrshire KA23 9QJ
IAS	International Accounting Standards
IAS 19	IAS 19 — Employee Benefits
IAS 24	IAS 24 Related Party Disclosures
IAS 34	IAS 34 — Interim Financial Reporting
IAS 39	IAS 39 — Financial Instruments: Recognition and Measurement
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards as adopted by the European Union
IFRS 2	IFRS 2 — Share Based Payment
IFRS 3	IFRS 3 — Business Combinations
ILW	intermediate level waste
Implementation Agreement	the implementation agreement dated 24 September 2008 originally between British Energy, EDF and Lake Acquisitions (as amended, restated and/or supplemented from time to time prior to the date of this Circular)
Incremental Collateral Amount	has the meaning given in Section II of Part III (*"Financial Information on Lake Acquisitions and British Energy"*) of this Circular
INES	the International Nuclear Event Scale devised by the International Atomic Energy Agency and managed in the UK by the Nuclear Installations Inspectorate
Initial Guarantors	the initial guarantors of the New Bonds pursuant to the Trust Deed
Initial Longstop Date	has the meaning given in paragraph 1.6 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Intra-Group Loan Facility	the intra-group loan facility agreement dated 23 September 2008 originally between EDF and Lake Acquisitions (as amended, restated and/or supplemented from time to time prior to the date of this Circular)
Investment Grade Rating	a credit rating for the long-term, unsecured, unguaranteed and unsubordinated debt of the British Energy Group of: (i) Baa3 or higher from Moody's; (ii) BBB — or higher from Standard & Poor's; (iii) BBB — or higher from Fitch; or (iv) if all of those rating agencies have ceased business, the minimum rating recognised generally in international capital markets as being an investment grade rating from another rating agency of international repute

IPC Consent Application	a planning application in respect of NNB
ISDA	International Swaps and Derivatives Association, Inc.
Issuer	the Issuer of the New Bonds pursuant to the Trust Deed
Key Operational Change	an Operational Change which will result in or is reasonably expected to result in: (i) an increase in the NPV of Costs of Discharging Liabilities of £10m or more; (ii) an increase in such costs on an undiscounted basis of £25m or more; or (iii) payments having to be made within the next five years in respect of such costs of £5m or more (on an undiscounted basis)
Key Properties	(i) Sizewell site and adjoining land, Suffolk, registered at HM Land Registry with title absolute under title numbers SK160398, SK160390, SK160388 and SK155462; (ii) Dungeness site and adjoining land, Kent, registered at HM Land Registry with title absolute under title number K761827; (iii) Hinkley Point site and adjoining land, Somerset, registered at HM Land Registry with title absolute under title numbers ST127567 and ST127518; (iv) Heysham site and adjoining land, Lancashire, registered at HM Land Registry with title absolute under title number LA779195; and (v) Hartlepool site and adjoining land, Cleveland, registered at HM Land Registry with title absolute under title number CE136369
kWh	kilowatt hours, being a measure of electricity
Lake Acquisitions	Lake Acquisitions Limited, a company incorporated under the laws of England and Wales with registered number 06612465
Lake Group	Lake Acquisitions and its subsidiary undertakings
Lake Reserved Matters	has the meaning given in paragraph 2.2.3 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Lake Shareholder	any holder of Lake Shares
Lake Shareholders' Agreement	the shareholders' agreement to be entered into on Completion between EDF, Centrica, EDF Energy, GB Gas Holdings and Lake Acquisitions, details of which are set out in paragraph 2 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Lake Shares	the ordinary shares in Lake Acquisitions
LDTC	the Law Debenture Trust Corporation
LECs	levy exemption certificates
Liabilities Documents	the NLFA, HLFA, Contribution Agreement, Option Agreement, Nirex Option Agreement and DDP Debenture
Licensee Changes	Operational Changes made by BEG for reasons other than to meet current or reasonably anticipated legal or regulatory requirements or to comply with Accepted Standards

Listed Territory	the United States of America, Canada, Australia, Japan, Switzerland, Norway or any other country which is or becomes a Member State of the European Union
Listing Rules	the Listing Rules made by the FSA under Part VI of FSMA
London Stock Exchange	London Stock Exchange plc
Magnox	Magnox North Limited and Magnox South Limited
Material Subsidiary	(i) while the New Bonds or CTA Global Bond are in issue, or any senior debt used to refinance them is in issue, each member of the British Energy Group whose gross assets, turnover or profits (before interest and taxation) is 5 per cent. or more of the consolidated assets, turnover or profits (before interest and taxation), respectively, of the British Energy Group; and (ii) thereafter, each member of the British Energy Group whose profits (before interest and taxation) are 15 per cent. or more of the consolidated profits (before interest and taxation) of the British Energy Group or whose gross assets are 15 per cent. or more of the consolidated gross assets of the British Energy Group, but in each case excluding BETSL, EPL and EPHL
Maturity Date	has the meaning given in Section III of Part VIII (*"CVR Yearly Payment Formula, NPV Illustration and Terms of the CVRs and NPNs"*) of this Circular
MiFID	Directive 2004/39/EC (the Markets in Financial Instruments Directive)
Minimum Contracting Standard	the exercise of rights under the BNFL Historic Fuel Contracts with reasonable care, in compliance with applicable law and the Accepted Standards, and in a similar manner as if BEG were bearing the relevant contracted liabilities and all other nuclear-related liabilities arising in connection with the operation of its nuclear power generating plant, such as decommissioning and uncontracted liabilities
Moody's	Moody's Investors Services
MVRN	Metered Volume Reallocation Notification
MVRNA	Metered Volume Reallocation Notification Agent
MVR Power Purchase Agreement	has the meaning given in paragraph 8.1.6 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
MW	megawatt, being a measure of electricity
MWh	megawatt hour
National Grid	the electricity transmission grid operated by National Grid plc
NDA	the Nuclear Decommissioning Authority
NDA Bradwell Land	land at Bradwell, Essex demarcated on the plans appended to the Deed of Undertaking and owned by the NDA as at the date of the Deed of Undertaking
NDA Wylfa Land	the land owned by the NDA at Wylfa, Anglesey (demarcated on the plans appended to the Deed of Undertaking)
New Bonds	7 per cent. guaranteed bonds due 2005 to 2022 issued by BEBF pursuant to the Trust Deed with a principal amount of £700m, comprising the Bonds and the CTA Global Bond

New CTA	the capacity and tolling agreement dated 30 September 2004 originally between BPET and EPL (as amended and restated and/or supplemented from time to time prior to the date of this Circular)
New Nuclear Build Option or **NNB Option**	the conditional option granted to Centrica to participate in the NNB Joint Venture as further described in this Circular
New Nuclear Build or **NNB**	the construction and operation of new nuclear power generation facilities in the UK
NIA	the Nuclear Installations Act 1965
NII	the Nuclear Installations Inspectorate
Nirex	United Kingdom Nirex Limited
Nirex Option Agreement	the option agreement dated 14 January 2005 originally between the Secretary of State, BEG, BEG (UK), British Energy and BEBF, pursuant to which BEG and BEG (UK) each granted an option to the Secretary of State to acquire their respective interests in shares of, and loans to, Nirex (as amended and restated and/or supplemented from time to time prior to the date of this Circular)
Nirex Purchaser	the purchaser of all the shares owned by BEG and BEG (UK) in Nirex pursuant to the Nirex Option Agreement
NLF	the Nuclear Liabilities Fund Limited, a company incorporated under the laws of Scotland with registered number SC164685
NLFA	the nuclear liabilities funding agreement dated 14 January 2005 originally between the Secretary of State, the NLF, BEG, BEG (UK), British Energy, BEH and BEBF (as amended, restated and/or supplemented from time to time prior to the date of this Circular)
NNB Company	NNB Gen Company or NNB Holding Company and **"NNB Companies"** shall mean NNB Gen Company and NNB Holding Company
NNB Exclusivity Agreement	the conditional exclusivity agreement dated 10 May 2009 between Centrica and EDF, details of which are set out in paragraph 4 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
NNB Gen Company	the limited liability company to be established as the operational entity for the NNB Joint Venture
NNB Holding Company	the limited liability company to be established as the holding entity for the NNB Joint Venture
NNB Joint Venture	the joint venture to be created by GB Gas Holdings and EDF Energy for the development, construction, operation and decommissioning of new nuclear power stations in the UK, initially on a 80/20 (EDF/Centrica) basis, as further described in this Circular
NNB Reserved Matters	has the meaning given in paragraph 3.3.7 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
NNB Project	the development, construction, ownership, operation and decommissioning of one or more nuclear reactors in accordance with the NNB Shareholders' Agreement
NNB Shareholders' Agreement	the conditional shareholders' agreement dated 10 May 2009 between EDF Energy and GB Gas Holdings, details of which are set out in paragraph 3 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular

NNB Shareholders' Participating Interest	the interest of a shareholder in NNB Holding Company expressed as a percentage of the interests of all of the shareholders in NNB Holding Company
NNB Shareholders' Representatives	mean the individuals appointed to the Technical Committee as representatives of the shareholders of NNB Holding Company
NNL	National Nuclear Laboratory
Non-Nuclear Volumes	has the meaning given in paragraph 8.1 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
NPN Holder	a holder of an NPN
NPN Holder Deed Poll	the deed poll entered into by LDTC dated 19 January 2009 in favour of the NPN Holders
NPV	net present value
Nuclear Liabilities Fund	an independently administered fund into which the British Energy Group makes contributions to cover all qualifying uncontracted nuclear liabilities, including costs of decommissioning nuclear power stations and PWR back end fuel costs
Nuclear NPS	HM Government's national policy statement on nuclear power
Nuclear Power Notes or **NPNs**	nuclear power notes
Nuclear Site Licence	the nuclear site licence to be held or, as applicable, held by NNB Gen Company in respect of the NNB Projects and issued under the Nuclear Installations Act 1965
Nuclear Site Licence Conditions	the licence conditions required by the HSE to be attached to nuclear site licences, pursuant to the NIA (as amended), in relation to areas of nuclear safety to which a licensee should pay attention to ensure safe operation of a site
Nuclear Volumes	has the meaning given in paragraph 8.1 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Offers	the recommended offers made by Lake Acquisitions (including, without limitation, the Partial CVR Alternative) on 5 November 2008 for the entire issued and to be issued share capital of British Energy (other than the single special share held by HM Government and those ordinary shares already acquired by Lake Acquisitions), which offers were completed on 5 January 2009
Offer Document	the document on 5 November 2008 posted to shareholders of British Energy by Lake Acquisitions containing the terms of the Offers as required by Rule 30.1 of the City Code on Takeovers and Mergers
Official List	the official list maintained by the UK Listing Authority pursuant to Part VI of FSMA
Ofgem	the Office of the Gas and Electricity Markets
OFT	the Office of Fair Trading
Oldbury Land	the land owned by the NDA at Oldbury, Gloucestershire (demarcated on the plans appended to the Deed of Undertaking)
Operational Change	in relation to a Power Station: (i) changes to Safety Cases, the modification or removal of, or change or amendment to, a Safety Case, process, practice or procedure; or

(ii) the introduction in whole or part of any new Safety Case, process, practice or procedure; or

(iii) the modification, replacement, removal or decommissioning of, or change to, any building or fixed or moveable plant (or part thereof) which was installed or commissioned at the Power Station; or

(iv) the construction, installation or commissioning of any building or fixed or moveable plant at the Power Station; or

(v) the carrying out at the Power Station of any non-routine task, including any experiments

OPG	Ontario Power Generation, a Canadian company, incorporated on 1 December 1998 pursuant to the Business Corporations Act (Ontario)
Option Agreement	the option agreement dated 14 January 2005 originally between the Secretary of State, BEG (UK), BEG, British Energy and BEBF (as amended, restated and/or supplemented from time to time prior to the date of this Circular)
Option Deed	the conditional option deed dated 10 May 2009 between EDF and Centrica, details of which are set out in paragraph 5 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Option Effective Date	the date of scheduled or early closure of a Power Station (or in the latter case, a short time thereafter, depending on the length of notice of closure BEG has provided to the Secretary of State)
Option to Decommission	an option to acquire BEG's Power Stations in order to decommission them
Option to Operate	an option to extend a Power Station's operating life beyond its scheduled closure date or early closure date (if BEG decides to close a station before its scheduled closure date)
Output Increase Agreement	the agreement entitled *"Convention de cession de puissance"* entered into between Electrabel and SPE on 12 June 2008
Partial Closure Option	an option pursuant to which the Secretary of State may require BEG to continue operating a reactor under a maintenance and operation contract for a term which does not extend beyond the closure date of the other reactor at the relevant Power Station
Partial CVR Alternative	the Basic CVR Alternative together with the Additional CVR Election Facility
Pax Electrica II	the arrangement made on 12 June 2008 between Electrabel and SPE and known as *Pax Electrica II* relating, among others, to the sale of electricity and output by Electrabel to SPE
Phase 2 Equity Power Purchase Agreements	the agreed form power purchase agreements to be entered into between Centrica Trading and BETS and EDF Plc and BETS appended to the Subscription and Investment Agreement, details of which are set out in paragraph 8.3 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Phase 3 Equity Power Purchase Agreements	the power purchase agreement(s) to be entered into between Centrica Trading and BEG or Centrica Trading, BEG and EDF Plc and EDF Plc and BEG, the form of which is to be based on the agreed form Phase 3 Equity Power Purchase Agreement Principles appended to the Subscription and Investment Agreement, details of which are set out in paragraph 8.3 of Part V

	(*"Further Information on the Transaction Agreements"*) of this Circular
Phase 3 Equity Power Purchase Agreement Principles	the agreed form heads of terms appended to the Subscription and Investment Agreement, upon which the Phase 3 Equity Power Purchase Agreements will be based
Physical Early Redemption	has the meaning given in Section III of Part VIII (*"CVR Yearly Payment Formula, NPV Illustration and Terms of the CVRs and NPNs"*) of this Circular
PMR	power market ratio
Power Purchase Agreements	the State Aid Power Purchase Agreement, the Equity Power Purchase Agreements, the Residual Power Purchase Agreements and the Commercial Power Purchase Agreement
Power Station	any one of the Existing British Energy Nuclear Fleet
PPFL	Peel Park Funding Limited, a company incorporated under the laws of the Channel Islands with registered number SF000854
PricewaterhouseCoopers LLP	PricewaterhouseCoopers LLP of 1 Embankment Place, London WC2N 6RH
Prospectus	the prospectus of Centrica for the Rights Issue, dated 31 October 2008
Prospectus Rules	the prospectus rules made by the FSA for the purposes of Part VI of FSMA
PSR	a periodic safety review of a Power Station's Safety Cases, as required by the Nuclear Site Licence Conditions, which must generally be submitted to the NII every 10 years and assessed, maintained and implemented on a continuous basis
PWR	a pressurised water reactor, a type of nuclear reactor
Receivables Deed of Charge	the security deed entered into by BEG on the first utilisation of the facility granted pursuant to the Receivables Facility Agreement
Receivables Facility Agreement	the receivables facility agreement dated 25 August 2004 and originally between BEG and Barclays (as amended and restated and/or supplemented from time to time prior to the date of this Circular)
Redemption Amount	has the meaning given in Section III of Part VIII (*"CVR Yearly Payment Formula, NPV Illustration and Terms of the CVRs and NPNs"*) of this Circular
Relevant Land	(i) land outside a Station Site identified as being required for decommissioning in the most recent decommissioning plans approved by the NDA prior to the making of an IPC Consent Application in respect of land adjoining the relevant Station Site; and (ii) any other land specified by BEG (in consultation with the NDA) which is: (a) not land identified in the Option Agreement for NNB which is or is proposed or intended to be the subject of an IPC Consent Application; (b) owned by BEG or another member of the British Energy Group or EDF Group; and (c) located within a two mile radius of the relevant Station Site,

	which is required for the purposes of decommissioning a Station Site
Relevant Management	a member of senior operational management nominated pursuant to the NNB Shareholders' Agreement
Relevant Owner	British Energy, EDF, EDF DCL and/or NPL, depending on which of the foregoing is an owner of all or part of any of the EDF Wylfa Land and the British Energy Bradwell Land
Required Funding	has the meaning given in paragraph 2.3.1 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Residual Power Purchase Agreements	the residual volume power purchase agreements to be entered into between Centrica Trading and BETS and EDF Plc and BETS, the form of which is to be based on the agreed form Residual Power Purchase Agreement Principles appended to the Subscription and Investment Agreement, details of which are set out in paragraph 8.4 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Residual Power Purchase Agreement Principles	the agreed form heads of terms appended to the Subscription and Investment Agreement, upon which the Residual Power Purchase Agreements will be based
Resolution	the ordinary resolution to approve the Transactions as set out in the notice of General Meeting sent to Shareholders on 19 May 2009 and set out at the end of this Circular
Restructuring	the restructuring of the British Energy Group completed on 14 January 2005
Restructuring Agreements	the NLFA, HLFA, Contribution Agreement, DDP Debenture, Option Agreement and Guarantee and Indemnity
RED	the restructuring effective date, 14 January 2005
Rights Issue	the fully underwritten rights issue of 1,392,545,298 Shares in Centrica at a price of 160 pence per new Share on the basis of three new Shares for every eight existing Shares in Centrica, announced on 31 October 2008
ROCs	renewables obligation certificates
RPI	retail price index
Safety Case	a detailed set of technical principles, operational criteria and other requirements which together demonstrate the case for the safe operation of a Power Station and/or one of its component parts, including identifying any conditions and limits necessary in the interests of safety
S&P	Standard and Poor's
Scottish Charged Securities	all Charged Securities which are, at any time, located in Scotland or governed by the laws of Scotland (first ranking Scottish standard security has been granted under Scottish law governed security documentation dated 14 January 2005 over Torness and Hunterston B)
Scottish Executive	the ministers of the Scottish Government appointed under the terms of the Scotland Act 1998
Scottish Government	the devolved government for Scotland (formerly known as the Scottish executive) established pursuant to the Scotland Act 1998
Secretary of State	the Secretary of State for Business, Enterprise and Regulatory Reform or the Secretary of State for Energy and Climate Change

Segebel	Segebel S.A., a company incorporated under the laws of Belgium with registered number 0874.651.176
Segebel Disposal	the conditional sale of 100 per cent. of the issued share capital in Segebel by Centrica Overseas Holdings Limited to EDF International pursuant to the Segebel SPA
Segebel SPA	the conditional sale and purchase agreement dated 10 May 2009 between Centrica Overseas Holdings Limited as seller and EDF International as purchaser for the sale of the entire issued share capital in Segebel, details of which are set out in paragraph 7 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Shareholders	the holders of the Shares
Shares	the ordinary shares of $6^{14}/_{81}$ pence each in the capital of the Company
Simultaneous Marketing Agreement	the simultaneous marketing agreement dated 11 November 2008 and originally between the NDA, EDF and EDF DCL (as amended and restated and/or supplemented from time to time prior to the date of this Circular)
SIP	British Energy's share incentive plan
Site Transfer	the transfer of land comprised in an existing Station Site as well as certain other portions of land to a Station Purchaser
Sites Transfer Agreement	the conditional site transfer agreement dated 10 May 2009 between EDF International, EDF Energy, Centrica, GB Gas Holdings and Lake Acquisitions details of which are set out in paragraph 6 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Sites Undertaking	the agreement dated 24 September 2008 between the Secretary of State, EDF and Lake Acquisitions, as amended and restated on 4 March 2009 and to which various parties, including British Energy acceded on 4 March 2009
Sizewell B	a pressurised water reactor and associated physical plant, known as Sizewell B nuclear power station, whose address is Nr Leiston, Suffolk IP16 4UR
Sizewell Land	any land comprised in title number SK160398 and any adjoining land which is owned by EDF, British Energy or any of their affiliates from time to time
SPE	SPE S.A., a company incorporated under the laws of Belgium with registered number 0471.811.661
Special Share	the special rights redeemable preference share of £1 held jointly by the Secretary of State and the Secretary of State for Scotland in British Energy
SSA	the strategic siting assessment, HM Government's process for identifying and assessing sites which are strategically suitable for the deployment of new nuclear power stations
State Aid Decision	the decision dated 22 September 2004 of the European Commission relating to state aid to be granted by HM Government to British Energy
State Aid Deed	the deed of 8 October 2004 originally between British Energy Limited (now British Energy) and the Secretary of State relating to the State Aid Decision (as amended, restated and/or supplemented from time to time prior to the date of this Circular)

State Aid Power Purchase Agreement or **State Aid PPA**	the power purchase agreement between EDF Energy and BETS entered into on 24 March 2009, details of which are set out in paragraph 8.2 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Station Options	the Option to Decommission and the Option to Operate
Station Purchaser	such person(s) as the Secretary of State may nominate to acquire a Power Station following completion of a Station Option
Station Site	the site on which the relevant Power Station is located, as demarcated on the property schedules to the Option Agreement
Subscription and Investment Agreement	the conditional share subscription and investment agreement dated 10 May 2009 between EDF, EDF International, Centrica, EDF Energy, GB Gas Holdings and Lake Acquisitions, details of which are set out in paragraph 1 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Target Amount	the target amount for Cash Reserves
Taxes Act	the Income and Corporation Taxes Act 1988;
Technical Committee	the committee of the board of NNB Holding Company as described in paragraph 3.3.4 of Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Torness	the two AGRs known as Reactor 1 and Reactor 2 and associated physical plant, together known as Torness nuclear power station, whose address is Torness, Dunbar, East Lothian EH42 1QS
Transaction Agreements	the Subscription and Investment Agreement, the Lake Shareholders' Agreement, the NNB Shareholders' Agreement, the Sites Transfer Agreement, the NNB Exclusivity Agreement, the Power Purchase Agreements, the Segebel SPA and the Option Deed, each as described in Part V (*"Further Information on the Transaction Agreements"*) of this Circular
Transactions	has the meaning given in paragraph I of Part I ("*Letter from the Chairman of Centrica*") of this Circular the Acquisition (subject to EDF's continuing ability to force Centrica to sell its interest in Lake Acquisitions in certain circumstances), the arrangements described in the Power Purchase Agreements and the New Nuclear Build Option
Trust Deed	the trust deed originally between the Issuer, the Initial Guarantors, the Restricted Subsidiaries and the Bond Trustee dated on or about 14 January 2005
TUPE Regulations	Transfer of Undertakings (Protection of Employment) Regulations 1981
TWh	terawatt hours, a measure of electricity where 1 terawatt hour is equal to 1,000,000 megawatt hours
UKAEA	United Kingdom Atomic Energy Authority
UK Listing Authority or **UKLA**	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part 6 of FSMA
Ultimate Bradwell Long Stop Date	30 June 2018
Ultimate Wylfa Long Stop Date	30 June 2015
Umbrella Agreement	the agreement dated 24 September 2008 between the Secretary of State, the NLF, Lake Acquisitions and EDF (as amended, restated and/or supplemented from time to time prior to the date of this Circular)

Underlying Payment Date	has the meaning given in Section III of Part VIII (*"CVR Yearly Payment Formula, NPV Illustration and Terms of the CVRs and NPNs"*) of this Circular
Underlying Payment Instalment	has the meaning given in Section III of Part VIII (*"CVR Yearly Payment Formula, NPV Illustration and Terms of the CVRs and NPNs"*) of this Circular
Venture	Venture Production plc, a company incorporated under the law of Scotland with registered number SC169182
Wider Group	the Wider Group Ultimate Parent Company and its Subsidiaries (within the meaning of sections 736 and 258 of the Companies Act 1985) from time to time
Wider Group Ultimate Parent Company	in relation to BEG, British Energy or such other person from time to time as is the holding company of BEG and is itself not a subsidiary (within the meaning of sections 736 and 258 of the Companies Act 1985) of any other person (excluding the Secretary of State, the NLF and the nuclear trust (established by the Secretary of State and British Energy by a deed of trust dated 27 March 1996, as subsequently amended on or about 14 January 2005))
Wylfa Long Stop Date	the earlier of two years from the publication of the Nuclear NPS and 31 December 2011
Yearly Payment	the payment to be made to each holder of a CVR as calculated in accordance with the principles set out in Section I of Part VIII *("CVR Yearly Payment Formula, NPV Illustration and Terms of the CVRs and NPNs")* of this Circular

THIS NOTICE AND ACCOMPANYING PROXY FORM ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised under the Financial Services and Markets Act 2000 immediately if you are resident in the United Kingdom or, if not, another appropriately authorised independent professional adviser.

If you have sold or otherwise transferred all of your shares in Centrica plc, please send this Notice and accompanying Form of Proxy at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

centrica

Centrica plc

(incorporated in England and Wales under the Companies Act 1985 with registered number 3033654)

NOTICE OF GENERAL MEETING OF CENTRICA PLC

NOTICE IS HEREBY GIVEN that a **GENERAL MEETING** of Centrica plc (the **"Company"**) will be held at 2.00 pm on 8 June 2009 at Old Billingsgate, 1 Old Billingsgate Walk, 16 Lower Thames Street, London EC3R 6DX for the purposes of considering and, if thought fit, passing the following resolution, which will be proposed as an ordinary resolution (the **"Resolution"**).

Ordinary Resolution

THAT the Transactions, on the terms set out in the Transaction Agreements (each as defined in the circular to Shareholders dated 19 May 2009 (the **"Circular"**)), be and are hereby approved and the Directors of the Company (or a committee of the Directors) be and are hereby authorised to waive, amend, vary or extend any of the terms of the Transaction Agreements (provided that any such waivers, amendments, variations or extensions are not of a material nature) and to do all things as they may in their absolute discretion consider to be necessary or desirable to implement and give effect to, or otherwise in connection with, the Transactions and any matters incidental to the Transactions.

Dated: 19 May 2009

By order of the Board,

By:

Grant Dawson
General Counsel & Company Secretary
Registered in England and Wales with number: 3033654
Registered office: Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD

Important Notes

The following notes explain your general rights as a Shareholder and your right to attend and vote at the General Meeting or to appoint someone else to vote on your behalf.

1. A Shareholder entitled to attend and vote at the General Meeting is entitled to appoint one or more proxies to attend, speak and vote instead of him or her provided that each proxy is appointed to attend, speak and vote in respect of a different share or shares. A proxy need not be a Shareholder. Appointing a proxy will not prevent a Shareholder from attending in person and voting at the General Meeting. If a share is held by joint Shareholders and more than one of the joint Shareholders votes (including by way of proxy), the only vote that will count is the vote of the person whose name is listed before the other voters on the Register for the share.

2. You may register your proxy appointment or voting directions electronically by visiting www.sharevote.co.uk, where full details of the procedure are given (see note 3 below for deadlines). If you return more than one proxy appointment, either by paper or electronic communication, that which is received last by the Company's registrar (Equiniti of Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA) before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all Shareholders and those who use them will not be advantaged or disadvantaged.

3. The appointment of a proxy, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should be: (a) deposited with the Company's registrars, at the address shown on the proxy form or received via the sharevote website, no later than 2.00 pm on 6 June 2009, or 48 hours before the time for holding any adjourned Meeting or (in the case of a poll not taken on the same day as the General Meeting or adjourned Meeting) for the taking of the poll at which it is to be used; or (b) lodged using the CREST proxy voting service — see note 11 below.

4. Voting by multiple corporate representatives will be facilitated at the meeting in accordance with Appendix B of the ICSA Guidance on Proxies and Corporate Representatives at General Meetings dated February 2008 and available from www.icsa.org.uk.

5. Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a **"Nominated Person"**) may, under an agreement between him or her and the Shareholder by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the Shareholder as to the exercise of voting rights.

6. The statement of the rights of Shareholders in relation to the appointment of proxies in notes 1 and 2 above does not apply to Nominated Persons. The rights described in these notes can only be exercised by Shareholders of the Company.

7. The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those Shareholders listed on the Register as at 2.00 pm on 6 June 2009 (or, if the General Meeting is adjourned, 48 hours before the time fixed for the adjourned Meeting) shall be entitled to attend and vote at the General Meeting in respect of the number of shares registered in their name at that time. In each case, changes to entries on the Register after such time shall be disregarded in determining the rights of any person to attend or vote at the General Meeting.

8. As soon as practicable following the General Meeting, the results of the voting at the General Meeting and the numbers of proxy votes cast for and against and the number of votes actively withheld in respect of the Resolution will be announced via a Regulatory Information Service and also placed on the Company's website www.centrica.com. Also, a summary of the business transacted will be available, on written request, from the Company Secretary at the Company's registered office.

9. Holders of Shares (as defined in the Circular) are entitled to attend and vote at general meetings of the Company. As at 12 May 2009 (being the last practicable date prior to the publication of this Notice) the Company's issued share capital consists of 5,116,001,306 Shares, carrying one vote each. Therefore, the total voting rights in the Company as at 12 May 2009 are 5,116,001,306.

10. A copy of the Circular and Notice of General Meeting are available on the Centrica website at www.centrica.com.

Electronic proxy appointment through CREST

11. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the General Meeting to be held on 8 June 2009 and any adjournment(s) thereof by following the procedures described in the CREST Manual. All messages relating to the appointment of a proxy or an instruction to a previously appointed proxy, which are to be transmitted through CREST, must be received by our registrars, Equiniti, (ID RA19) no later than 2.00 pm on 6 June 2009, or, if the General Meeting is adjourned, 48 hours before the time fixed for the adjourned Meeting. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

12. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

13. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.