



BASE PROSPECTUS

CENTRICA plc

(incorporated in England and Wales with limited liability under registered number 03033654)

U.S.\$10,000,000,000

Euro Medium Term Note Programme

Under this U.S.\$10,000,000,000 Euro Medium Term Note Programme (the **Programme**), Centrica plc (the **Issuer**) may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively **Bearer Notes** and **Registered Notes**). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.\$10,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Overview of the Programme" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "Risk Factors".

Application has been made to the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended (the **FSMA**), (the **UK Listing Authority**) for Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Notes to be admitted to trading on the London Stock Exchange's regulated market.

References in this Base Prospectus to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The London Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under "Terms and Conditions of the Notes") of Notes will be set out in a final terms document (the **Final Terms**) which, with respect to Notes to be listed on the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange. Copies of Final Terms in relation to Notes to be listed on the London Stock Exchange will also be published on the website of the London Stock Exchange through a regulatory information service.

The Issuer has been assigned a long-term debt credit rating of Baa1 (stable outlook) and a short-term debt credit rating of P-2 (stable outlook) by Moody's Investors Service Ltd (**Moody's**) and a long term debt credit rating of BBB+ (negative outlook) and a short term debt credit rating of A-2 (stable outlook) by Standard & Poor's Credit Market Services Europe Limited (**Standard & Poor's**). The Programme has been rated Baa1 (long-term) and P-2 (short-term) by Moody's and BBB+ (long-term) and A-2 (short-term) by Standard & Poor's. Each of Moody's and Standard & Poor's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). Notes issued under the Programme may be rated by either of the rating agencies referred to above or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Programme by the relevant rating agency. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Arranger

NatWest Markets

Dealers

Barclays
BofA Merrill Lynch
HSBC
MUFG

BNP PARIBAS
Citigroup
J.P. Morgan Cazenove
NatWest Markets

RBC Capital Markets

The date of this Base Prospectus is 26 October 2017.

IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC as amended.

The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Base Prospectus shall be read and construed on the basis that such documents are incorporated in and form part of this Base Prospectus.

The Trustee and the Dealers make no representation, warranty or undertaking, express or implied, and no responsibility or liability is accepted by the Trustee or the Dealers as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. Neither the Trustee nor any Dealer accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Trustee or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation of the Issuer and/or the Notes, or (ii) should be considered as a recommendation by the Issuer, the Trustee or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, the Trustee or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Trustee and the Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS BASE PROSPECTUS AND OFFERS OF NOTES GENERALLY

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Trustee and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Trustee or the Dealers which is intended to permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States and the European Economic Area (including the United Kingdom), see “*Subscription and Sale*” below.

The minimum denomination of the Notes shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor’s currency;
- (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Prohibition of sales to EEA Retail Investors – The Notes are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (EEA). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (MiFID II); (ii) a customer within the meaning of Directive 2002/92/EC (IMD), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the

Directive 2003/71/EC (as amended, the Prospectus Directive). Consequently no key information document required by Regulation (EU) No 1286/2014 (the PRIIPs Regulation) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the *Securities Act*) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see “*Subscription and Sale*” below).

PRESENTATION OF INFORMATION

In this Base Prospectus, all references to:

- *U.S. dollars*, *U.S.\$* and *\$* refer to United States dollars;
- *C\$* refer to Canadian dollars;
- *Sterling* and *£* refer to pounds sterling; and
- *euro* and *€* refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

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STABILISATION

In connection with the issue of any Tranche of Notes, one or more relevant Dealers (the *Stabilising Manager(s)*) (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of listed Notes only, a new prospectus will be made available which will describe the effect of the agreement reached in relation to such Notes.

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

Words and expressions defined in “*Form of the Notes*” and “*Terms and Conditions of the Notes*” below shall have the same meanings in this Overview.

Issuer:	Centrica plc
Description:	Euro Medium Term Note Programme
Arranger:	The Royal Bank of Scotland plc (trading as NatWest Markets)
Dealers:	Barclays Bank PLC BNP Paribas Citigroup Global Markets Limited HSBC Bank plc J.P. Morgan Securities plc Merrill Lynch International MUFG Securities EMEA plc RBC Europe Limited The Royal Bank of Scotland plc (trading as NatWest Markets) and any other Dealers appointed in accordance with the Programme Agreement.
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. These are set out under “ <i>Risk Factors</i> ”. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under “ <i>Risk Factors</i> ” and include certain risks relating to the structure of particular Series of Notes and certain market risks.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale</i> ” below) including the following restrictions applicable at the date of this Base Prospectus. Notes having a maturity of less than one year Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “ <i>Subscription and Sale</i> ” below.
Trustee:	The Law Debenture Trust Corporation p.l.c.
Principal Paying Agent:	HSBC Bank plc
Registrar:	Such person as shall be appointed as registrar by the Issuer prior to the issue of Registered Notes or Exchangeable Bearer Notes (as defined below) of any Series in accordance with the Agency Agreement.

Programme Size:	Up to U.S.\$10,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Maturities:	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency (as indicated in the Final Terms).
Issue Price:	Notes may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	<p>The Notes will be issued in bearer or registered form as described in the applicable Final Terms. Notes may be issued in bearer form only (Bearer Notes), in bearer form exchangeable for Registered Notes (Exchangeable Bearer Notes) or in registered form only (Registered Notes).</p> <p>Each Tranche of Bearer Notes and Exchangeable Bearer Notes will be represented on issue by a Temporary Global Note (as defined below) if (i) definitive Notes are to be made available to Noteholders (as defined below) following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in “<i>Overview of the Programme – United States Selling Restrictions</i>” below), otherwise such Tranche will be represented by a Permanent Global Note (as defined below). Registered Notes will be represented either (i) in certificated form (certificated Registered Notes) or (ii) in uncertificated form (uncertificated Registered Notes) comprising those Registered Notes which for the time being are uncertificated units of a security in accordance with the Uncertificated Securities Regulations 2001 (the Uncertificated Securities Regulations). Certificated Registered Notes will be represented by Certificates (as defined below), one Certificate being issued in respect of each Noteholder's entire holding of certificated Registered Notes of one Series.</p>
Initial Delivery of Notes:	On or before the issue date for each Tranche, the Global Note representing Bearer Notes or Exchangeable Bearer Notes may be deposited with a common depositary for, or a common safekeeper for, Euroclear (as defined below) and Clearstream, Luxembourg (as defined below). Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Trustee, the Principal Paying Agent (as defined below) and the relevant Dealer.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and, on redemption, will be calculated on the basis of such Day Count Fraction (as defined below) as may be agreed between the Issuer and the relevant Dealer.

Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Issuer and the relevant Dealer. <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p> <p>Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes in respect of each Interest Period (as defined below), as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates (as defined below), and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.</p>
Zero Coupon Notes:	<p>Zero Coupon Notes may be offered and sold at a discount to their nominal amount and will not bear interest.</p>
Redemption:	<p>The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.</p> <p>Notes having a maturity of less than one year are subject to restrictions on their denomination and distribution, see "<i>Certain Restrictions: Notes having a maturity of less than one year</i>" above.</p>
Denomination of Notes:	<p>Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "<i>Certain Restrictions: Notes having a maturity of less than one year</i>" above, and save that the minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).</p>
Taxation:	<p>All payments in respect of the Notes will, save as required by law, be made without deduction or withholding for or on account of tax imposed by any Tax Jurisdiction, subject as provided in Condition 8. In the event that any such deduction or withholding is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.</p>
Negative Pledge:	<p>The terms of the Notes will contain a negative pledge provision as further described in Condition 4.</p>
Cross Default:	<p>The terms of the Notes will contain a cross default provision as further described in Condition 10.</p>
Status of the Notes:	<p>The Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4, unsecured obligations of the Issuer and will rank <i>pari</i></p>

passu among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

Rating: The Issuer has been assigned a long-term debt credit rating of Baa1 (stable outlook) and a short-term debt credit rating of P-2 (stable outlook) by Moody's and a long term debt credit rating of BBB+ (negative outlook) and a short term debt credit rating of A-2 (stable outlook) by Standard & Poor's Credit Market Services Europe Limited. The Programme has been rated Baa1 (long-term) and P-2 (short-term) by Moody's and BBB+ (long-term) and A-2 (short-term) by Standard & Poor's. Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Listing: Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market.

Governing Law: The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.

Selling Restrictions: There are restrictions on the offer, sale and transfer of the Notes in the United States and the European Economic Area (including the United Kingdom) and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*" below.

United States Selling Restrictions: The Issuer is a Category 2 issuer for the purposes of Regulation S under the Securities Act.

The Notes will be issued in compliance with U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for the purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the **Code**)) (the **D Rules**) unless (i) the applicable Final Terms states that Notes are issued in compliance with U.S. Treasury Regulations §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for the purposes of Section 4701 of the Code) (the **C Rules**) or (ii) the Notes are issued other than in circumstances in which the Note will not constitute **registration required obligations** under the United States Tax Equity and Fiscal Responsibility Act of 1982 (**TEFRA**), which circumstances will be referred to in the applicable Final Terms as a transaction to which TEFRA is not applicable.

RISK FACTORS

In purchasing Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors, which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Base Prospectus a number of factors, which could materially adversely affect its business and ability to make payments due under the Notes. In addition, factors that are material for the purpose of assessing the market risks associated with Notes issued under the Programme are described below.

Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME

The Group is exposed to movement in commodity prices

The Group's financial performance, cash flows and price competitiveness are sensitive to the Group's ability to manage exposure to volatile world energy markets, including wholesale commodity prices in various locations for natural gas, crude oil, oil products, coal, carbon and power. In order to support its core business activities, it is necessary for the Group to purchase significant quantities of commodities, and although it routinely enters into long-term contracts to protect its commercial position, significant price rises and/or failure to secure key materials and/or maintain adequate supply chains and strategic alliances could have a significant adverse effect on its operations and/or financial position.

In the energy supply and services businesses (i.e. UK Home, UK Business, Ireland, North America Home and North America Business) (**ES&S**) commodity price increases or decreases may require the Group to change the price at which it sells energy to its customers. The Group may not be able to pass on all increases in commodity prices to its customers, or when commodity prices fall may need to reduce prices for customers to remain competitive, thereby potentially resulting in lower profitability. Where the Group does increase prices to its customers or fails to pass on decreases in commodity costs, including doing so in a timely manner, customers may seek to switch to competitors. In the case of fixed price products, changes to commodity prices may affect the Group's ability to offer competitive products, or for those products to be profitable. There has been significant adverse publicity in recent years associated with United Kingdom (**UK**) residential energy prices, which may increase the number of customers switching to competitors or damage public trust in the Group's business and its consumer brands. This may be so, especially given the continuing input cost pressures to consumer bills which continue to require price increases that raise the risk of political or regulatory intervention (please see *"The Group's business is subject to political intervention"* and *"The Group's business is subject to regulatory oversight"* for further information). In North America, the relatively low cost of natural gas may encourage new market entrants, resulting in additional competitive pressure.

In the Exploration and Production (**E&P**) business, rapid material and/or sustained changes in prices can impact the validity of the assumptions on which strategic decisions are based and, as a result, the actions derived from those decisions may no longer be appropriate. A low oil and gas price environment would generate less revenue from producing assets and, over the longer term, may make certain exploration and development projects less profitable or uneconomic. Prolonged periods of low oil and gas prices, or rising costs, could also result in projects being delayed or cancelled, and/or in the impairment of some assets. In upstream power, higher gas prices may put pressure on profits from gas-fired power plants, and lower power prices may reduce profits from nuclear and wind power generation assets. In UK electricity generation, as is common in other European markets, the combination of power, gas and European Union (**EU**) emissions prices and the UK carbon price floor means that the opportunities to economically run the Group's fleet of gas-fired power stations are currently limited, with some earmarked or at risk of closure as a result.

In the Energy Marketing & Trading (**EM&T**) business, sensitivity to hydrocarbon prices arises from the purchase of third-party supply, the direct sale of commodities into spot markets and the indexation terms in longer-term sales contracts. Uncertain demand creates a risk that surplus commodity positions cannot be sold profitably in wholesale markets or that any short commodity positions cannot be covered at a cost that

can be passed on to customers. The Group's portfolio also includes a number of flexible gas contracts that are not directly linked to short-term changes in hydrocarbon commodity prices and the profit from which will vary between periods based on the commodity price environment and the decisions the Group takes to optimise these contracts to maximise value. The Group also has a number of contractual capacity contracts, the economic value of which depends on certain price relationships.

In Centrica Storage, profits depend on the difference between summer and winter gas prices in the UK (summer/winter "spreads"). A narrowing of these spreads over recent years has reduced levels of profitability for Centrica Storage. However, Centrica Storage has announced that it will now cease storage operations and has received permission from the Oil and Gas Authority to become a production asset. Key announcements were made to the market through Centrica Storage's REMIT publications website (see <http://www.centrica-sl.co.uk/regulation/remit>).

For all assets, both investment decisions and the valuation of existing assets are based upon evaluations underpinned by forecasts of longer-term commodity prices. Assets, including goodwill, may be impaired if future cash flows from such assets are insufficient to cover their cost on the balance sheet.

Commodity prices fluctuate based on a large number of factors, most notably forecasts for supply and demand in local and global markets as well as operational and technological, political, social and economic factors, and actions by major oil-producing countries. Seasonal variations and, in the short-to-medium term, economic conditions, make it difficult to forecast future energy demand. Moreover, prices for oil and gas can move independently from each other. Political factors may also trigger an expectation of or actual disruptions in supplies from those regions affected. In recent years, there has also been significant investment in shale gas in North America resulting in lower wholesale gas prices and a weakening of the traditional links between gas and oil prices, particularly in North American markets. This energy source could further influence global energy markets over time and, in particular, the surplus of gas could affect the liquefied natural gas (LNG) sector, which is becoming an increasingly important source of natural gas for the UK. If the Group is unable to manage its exposure to fluctuating commodity prices, its competitive position could be negatively impacted and its business, financial condition, credit rating, results of operations and growth rate could be adversely affected.

The rapid and material drop in both oil and gas prices during and since 2014 has negatively impacted the Group's cash flow and profitability, and it is not clear that the forward price curves for oil and gas will improve in the near term. The external commodity price environment could also impact the Group's longer term strategy, future dividend payments, and increase the likelihood of the Group's projects and assets being subject to cancellation, postponement or divestment.

The Group's business is subject to political intervention

The Group is subject to various political interventions and changes to corporate governance requirements from governments in the UK, Republic of Ireland, North America and elsewhere. In the UK, the energy supply market has been a high profile subject in the media and in political debate and interventions by the government could have a significant impact on the Group's UK Home business in particular. Government intervention in energy markets, or changes in government policy, may also affect the Group's ability to invest in new assets in the markets concerned. In addition, a worsening of the international political climate increases the possibility of sanctions or other trade limiting actions that could impact our ability to source commodities, and there is no certainty that current projects can be progressed as initially planned. Any failure or perceived failure by the Group to comply with such developments or related requirements could result in substantial fines, loss or debarment of licence or legal proceedings and could have a negative impact on its brands, operations and reputation.

In the Distributed Energy and Power business, key elements of the UK Government's plans to decarbonise the electricity sector and achieve security of supply are set out in the provisions of the Energy Act 2013 which relate to Electricity Market Reform (EMR). UK Government priorities, however, appear to have a greater emphasis on energy affordability. Although the Group does not have significant exposure to new renewable electricity projects and is not materially impacted by recent UK Government proposals to restrict the availability of subsidies to new renewable generators, uncertainty still remains with regard to how EMR will affect the market in general and the Group's business. In particular, the effects may include a change to the generation mix in the UK and could adversely affect the profitability of the Group's existing generation assets.

The Medium Sized Combustion Plant Directive (2015/2193) (MCPD) entered into force on 18 December 2015 and is required to be implemented by member states by 19 December 2017. MCPD seeks to

regulate emissions to air of SO₂, NO_x and dust, with the aim of reducing emissions and the risks to human health and to the environment. It does not apply to gas turbines and gas and diesel engines, when used on offshore platforms but does set emission limits for existing plants which come into force on 1 January 2025 or 1 January 2030 (depending on the size of the plant). These arrangements will affect any retrofit or replacement plans and accelerate decommissioning in some circumstances.

The UK Government confirmed in August 2017 that it would be conducting an energy cost review, looking into how to keep energy prices as low as possible while ensuring the UK meets its domestic and international climate targets. This review builds on the commitment the Government made in its industrial strategy green paper published in January 2017 and was confirmed in the Conservative Party's 2017 election manifesto. The terms of reference state that the specific aim of the review is to make recommendations on how decarbonisation, security and affordability objectives can be met in the power sector at minimum cost and without imposing further costs on the Exchequer. It will focus on the power sector, but will be able to examine heat and transport insofar as these sectors are likely to impact power demand in future years. It will not, however, review carbon budgets nor propose any detailed tax changes. Therefore, whilst it will consider carbon pricing, it will not, for example, make recommendations on changes to the level of the Carbon Floor Price. A report is due by the end of October 2017, which will look at the full supply chain of electricity generation, transmission, distribution and supply, and consider the opportunities to reduce costs in each part.

Political parties addressing the issue of affordability have often focused on the energy supply companies as a particular target, and politicians in all major parties have made statements about proposed action they wish to take in the market. In the build up to the snap general election called by Theresa May in May 2017, both major political parties stated an intention to impose price restrictions on standard variable tariffs (SVTs). In October 2017, the Office of Gas and Electricity Markets (**Ofgem**) announced plans to extend the existing tariff cap for prepayment metered customers to approximately an additional 1 million vulnerable customers (please see *"The Group is subject to the remedies proposed by the CMA in relation to the Energy Market Investigation"* for further information). Plans to impose a price cap on SVTs were included in Theresa May's speech at the Conservative party conference in October 2017 and a draft Domestic Gas and Electricity (Tariff Cap) Bill was published on 12 October 2017 which, if enacted, will impose a temporary price cap on certain default energy tariffs for domestic customers in the UK.

Furthermore, other political parties have made statements in respect of their intended actions in the UK energy supply market. The Labour party and the Scottish National Party have both made reference to introducing publicly owned energy suppliers. Any changes to UK government policy or, if an early general election were to be called, a change in government may trigger new announcements, proposals or interventions in the UK energy supply market, and any such interventions could have a material adverse effect on the business, results of operations and overall financial condition of the Group.

The significant media attention generated by energy being made a political "hot-topic" may also have an impact on the operations of British Gas. Increased public discussion about energy companies can have an impact upon the perception of the brand, and in particular any price increases receive particular public attention, which can be disproportionate to the media coverage of other competitors. Any such impact may have a material adverse impact on the Group's reputation and competitive position.

The Group operates in competitive markets

The Group operates in highly competitive markets in Great Britain, the Republic of Ireland and North America for the supply of energy and services to business and residential customers including new home technology services and products. Customer behaviour and demand can change due to improved energy efficiency, climate change, government initiatives, long-term weather patterns and the general economic outlook. To retain or develop a competitive position, suppliers price aggressively in order to build market share and customers may switch supplier based on price, product and service levels, as well as competitor activity. In addition, new market suppliers continue to enter and grow their share of the domestic supply market, further increasing competition. In the UK, this has resulted in significant changes to customer numbers and has increased pressure on the Group to retain its customer accounts in challenging market conditions. Any announcements by the Group to increase prices also have a greater impact on its customer numbers due to the high profile nature of the British Gas brand. In addition, some competitors have targeted new geographical locations as growth targets in the past year.

The Group also operates in the competitive home services market in both the UK and North America. Competition in these markets is increasing as existing energy and other service providers, such as insurance companies, telecom companies, supermarkets and other large retail companies have entered the

services market and seek to strengthen their positions and diversify their product offerings. In North America Business, energy efficient measures have lowered power usage per customer across the industry, reducing total customer accounts and putting pressure on sold unit margins, particular in power. The Group's services businesses have been some of the most impacted by the economic environment, with customers choosing to decrease their cover or exit the cover market altogether in favour of on-demand or do-it-yourself options or delaying purchases or upgrades. Failure to sustain competitive cost and service levels, or to sufficiently differentiate the Group's ES&S products and services, could affect market share and challenge the Group's ability to deliver sustainable operating margins and attain its growth aspirations.

In the E&P business, the Group faces competition from both international and state-run energy companies for obtaining exploration and development rights, particularly outside the UK, and in developing and applying new technology to maximise hydrocarbon recovery. If the Group, even with its reduced E&P business, fails to obtain new exploration and development acreage in the North Sea or East Irish Sea, or to apply and develop new technology, its future results of operations and cash flows may be adversely affected. Current industry trends towards the consolidation of existing operators in North America and strategic divestment by larger operators around the UK markets in which the Group operate may lead to stronger competition from operators with greater financial resources.

In 2016, the Group created a new business unit to focus on delivery of distributed energy products and services (Distributed Energy & Power). Whilst this market is currently relatively small, it is growing at a good rate; however competition is high, with several new entrants positioning themselves in advance of an expected upturn in growth. Due to the uncertainty this causes, the Issuer faces risks of failing to deliver its strategy in this market.

The Group also faces significant competition in respect of its Hive brand which operates in a highly competitive market with a range of competitors, including technology companies. There is no certainty that products produced under the Hive brand will be successful on a customer uptake or feedback level compared to a competitor and the Issuer faces a risk of falling behind the speed of a competitor's technological development.

There can be no certainty that the Group will retain or develop a competitive position within the markets in which it operates, either at acceptable levels of profitability or at all. Failure to achieve or retain such a competitive position could have a material adverse effect on the business, results of operations and overall financial condition of the Group.

The Group's business is subject to regulatory oversight

The Group is subject to various regulatory interventions from regulatory bodies in the UK, Republic of Ireland, North America and elsewhere. Objectives of these interventions vary, but include changing environmental regulations and disclosure requirements, governance of industry operations, security of energy supplies, amendment to existing tax and disclosure regimes and protection of consumers and business customers.

The Group is subject to oversight from a wide range of regulatory bodies including the Ofgem, the Competition and Markets Authority (**CMA**), the Agency for the Cooperation of Energy Regulators (**ACER**), the Oil and Gas Authority, the Financial Conduct Authority and the Prudential Regulatory Authority in the UK; the Commission for Energy Regulation in the Republic of Ireland; the Federal Energy Regulatory Commission (**FERC**) in the United States; and a number of regulators at federal, state, and provincial level in the United States and Canada. Regulatory bodies have the power to amend licences, conduct investigations into companies' operations, issue financial penalties and enforcement notices and, in North America, take direct oversight of operations. In certain cases, regulators have the power to impose substantial fines that could have a material adverse impact on the Group's profitability. In the case of a licence breach in the UK for example, this could be up to 10 per cent of Group revenue and in the case of a breach of the European Regulation on Wholesale Energy Market Integrity and Transparency, the fine could be unlimited. While fines imposed to date by regulators on the Group and close competitors have not come close to these levels, future fines may be more significant. Any intervention or remedies could materially adversely impact the Group's business, operations and overall financial condition.

The Group's E&P, ES&S and EM&T businesses, in the UK, the Republic of Ireland, North America and mainland Europe are closely regulated and significant changes to the legal and regulatory framework of these markets could have an impact on the Group's ability to achieve its operational or financial goals.

The UK E&P, UK Home and UK Business businesses have also seen regulators impose significant obligations to implement carbon reduction measures. The Energy Companies Obligation (**ECO**) came into effect from January 2013. The new obligation period, known as ECO2t, launched on 1 April 2017 and runs until 30 September 2018, further extending the original lifetime of the scheme which was scheduled to end on 31 March 2015 and had already been extended until 31 March 2017 under ECO2. There is a risk that the assumptions underlying the Group's estimates may change or may prove to be incorrect. In addition, there may be changes to the UK Government's policy regarding carbon emissions or a lack of industry capacity or customer uptake. There may be a substantial increase in the estimated cost to fulfil the Group's obligations, which, to the extent that such costs cannot be adequately passed through to customers, could have a material impact on the Group's results of operations and financial condition. The Group may not fulfil its ECO obligations, which could also harm the Group's reputation and have an adverse effect on its results of operations and financial condition.

UK Home and UK Business is also affected by changes to the retail supply and wholesale industry processes, which could have an impact on the Group's operating costs. Ofgem published a decision in July 2014 to change the electricity transmission charging methodology, which has now been implemented. These reforms will have a mixed impact across the Group's electricity generation assets located in the south of Great Britain but favourable for assets in northern locations. The net impact across all chargeable generators is negative. In December 2014, Ofgem also published final determinations for how much revenue electricity distribution networks will be allowed to recover from supply businesses from April 2015. This decision was appealed but with limited success, and the consequences for the Group's UK Home and UK Business businesses remain uncertain. A number of gas European network codes were implemented in the UK last year (via changes to the Uniform Network Code). The Group awaits finalisation of the European Tariff network code for gas (expected this year). This is expected to lead to significant changes to gas transmission charging methodologies in the UK (by 2019) and it is unclear to what extent Ofgem will expand the requirements laid down for interconnection (entry/exit) points to domestic points. Changes will likely affect capacity procurement strategies and origination deals involving NTS short-haul. Any material increases in the regulated charges that the Group pays for use of transmission, distribution, network price controls and other infrastructure may impact the Group's margins, to the extent that any such increases cannot be passed on to its customers.

In December 2016, the UK's third power capacity auction took place for capacity in 2020/21. Once again, the auction clearing price continued to clear at low levels. Although this could adversely affect the future profitability of the Group's remaining generation assets, the sale by the Group of its two largest combined cycle gas turbines (**CCGTs**) at Langage and Humber reduces the Group's exposure to the capacity market.

In North America, regulatory approaches vary by jurisdiction and regulator, with the Group's entry into new markets being assessed on a case-by-case basis. Although the Group operates primarily in price-deregulated markets in North America, it is subject to certain regulations and oversight by state or provincial regulatory agencies in its principal residential energy markets, primarily Texas, the north eastern United States, and the Canadian province of Alberta, as well as by federal regulators in the wholesale commodity and derivative markets.

In the current environment, changes in regulations or legislation brought about by the conclusion of the CMA's investigation into the energy market could increase the risk of non-compliance. Ofgem is currently working on implementing a range of the CMA's remedies published in its reports, with the expected implementation period running into 2018 and beyond. The ongoing level of focus on energy companies in the UK serves to heighten further the level of scrutiny from regulatory bodies, and other key stakeholders, including the UK Government and consumer groups, adding to the level of public attention already directed towards compliance matters.

Following the acquisition by the Group of the Rough facility and a subsequent Competition Commission inquiry, the Issuer and Centrica Storage gave undertakings to the Secretary of State for Trade and Industry in 2003 which place certain obligations on Centrica Storage and the Issuer in respect of the storage business. The undertakings require Centrica Storage to be legally, financially and physically separate from all other Centrica businesses. In addition, there are restrictions prohibiting the disclosure by Centrica Storage of commercially sensitive information to other parts of the Group and prohibiting the solicitation or making use of such information by other parts of the Group. In April 2006, March 2012 and April 2016, the Issuer and Centrica Storage signed amended undertakings with certain variations. Any failure to comply with these undertakings could result in substantial fines for the Group. However, following the completion of an

extensive well testing programme in June 2017, the Group has decided to permanently end Rough's status as a storage facility. It was announced on 20 June 2017 that Centrica Storage is now looking to make all relevant applications to permanently end Rough's status as a storage facility and has now received consent from the Oil and Gas Authority to produce up to an initial 30.7 billion cubic feet (**bcf**) of cushion gas. This will include seeking termination of the above mentioned undertakings.

Regulatory developments affecting the energy markets within which the Group operates are uncertain and may have a material adverse effect on the Group's business, results of operations and financial condition. The costs and risks of compliance with any new or revised regulations, or new or changed interpretations or enforcement of existing regulations, may have a material impact on the Group's business and financial position. These include the electricity balance reforms which were implemented from November 2015 and the substantial transaction reporting obligations under EU Regulation (No.1227/2011) on energy market integrity and transparency (**REMIT**), of which phase 2 was implemented in April 2016.

The Group is subject to the remedies proposed by the CMA in relation to the Energy Market Investigation

The CMA's investigation into the energy market concluded in June 2016. The CMA's key remedies included a cap to be placed on the price that suppliers are able to charge customers with prepayment meters (from April 2017). The Group is also working with Ofgem on the implementation of other remedies. Of the CMA's remedies, the prepayment price cap has proven to be the most material.

Ofgem is currently consulting on a temporary extension of the prepayment price cap to customers on the Government's warm home discount scheme, to be implemented by February 2018 and to end by December 2019. By December 2019 it is expected that a wider price cap for customers on default tariffs will be implemented by Ofgem, following instruction by the Government via the current draft Energy Bill published on 12 October 2017.

The Group may be materially affected by the UK decision to leave the EU

The UK Government invoked Article 50 of the Treaty on European Union on 29 March 2017, thereby commencing the official process of the UK's withdrawal from the EU (**Brexit**). The developments in negotiations for Brexit, and the process that follows will lead to a prolonged period of uncertainty that may well weigh on the country's economic and financial performance and could see some of the Group's activities subject to revised policy and regulatory decisions, an altered economic and fiscal environment, and a new political direction in the markets we work within.

The forthcoming exit of the UK from the EU, the potential withdrawal of Scotland from the UK, or prolonged periods of uncertainty relating to any of these possibilities, could result in significant macroeconomic deterioration, including, but not limited to, further decreases in global stock exchange indices, increased foreign exchange volatility (in particular a further weakening of the pound sterling against other leading currencies, with potential consequences for UK inflation), UK interest rates which remain 'lower for longer', decreased GDP in the UK or other markets in which the Group operates, energy and commodity market volatility and a downgrade of the UK's sovereign credit rating. In addition, there are increasing concerns that these events might push the UK, Eurozone and/or United States into an economic recession, any of which, were they to occur, would further destabilise the global financial markets and could have a material adverse effect on the Group's business, results of operations and overall financial condition.

The UK's post-Brexit relationship with the EU has yet to be defined and there are a number of risks which the Group's businesses may face as a result, e.g. the possibility of tariffs on European cross-border trade in plant and equipment and/or possible restrictions on the cross-border movement of skilled labour required to support our business activities.

The withdrawal of the UK from the EU is likely to affect the Group in a number of other ways. EU-derived law applies or has been implemented in the UK across a wide range of areas, including energy market rules, the EU emissions trading system (ETS) participation and carbon pricing, data protection, intellectual property and tax and it is unclear when, how and to what extent UK law in these areas will in future diverge from European rules and regulation. In addition, because a significant proportion of the regulatory regime applicable to the Group is derived from EU directives and regulations, the UK's exit from the EU could materially change the regulatory framework applicable to the Group's operations. In particular, the energy industry in the UK is subject to substantial domestic and EU regulation, placing significant statutory obligations on the Group with regard to, amongst other factors, upstream activities, energy supply, imports and exports, the wholesale market and energy efficiency. For example, if UK trading standards or

rules diverge from those of the EU in respect of the wholesale market (i.e. REMIT, Network Codes), as a result of future changes either in EU law which are not mirrored by the UK or vice versa, it could lead to additional obligations and restrictions being imposed on the Group, which may adversely impact its operations and increase operating costs and/or capital expenditure.

The Group may fail to deliver its stated strategic objectives

Delivery of the Group's strategy, including sustainable growth in a number of business areas, implementing substantial cost efficiencies and making certain disposals is fundamental to the Group's future success and requires significant organisational, cultural and technical transformation. There can be no assurance that the Group will be able to successfully execute some or all of the strategic objectives, achieve the planned cost efficiencies outlined in the review, or achieve its stated financial targets.

In certain areas, most notably in Distributed Energy and Power and Connected Home, the Group will be required to achieve growth in relatively new business areas in order to be successful in its strategic objectives. This may include entering new markets or developing commercial offerings that have not generated significant profits or cash flow in the past. These new businesses are also intended to be structured as global units and operate consistently and efficiently across a number of geographies and jurisdictions. This form of global business unit is new to the Group and there can be no assurance that the Group will be able to develop this model successfully or grow in these business areas, or generate sufficient cash or commercial propositions and products.

In order to achieve targeted cost efficiencies, improve customer service and transfer resource to developing businesses, significant changes are required to the Group's operating model and organisational structure. Such structural change can be difficult to achieve, and creates risk as the business enters a period of significant transition. Additionally, these changes are expected to result in up to 6,000 job losses across the Group. These changes may affect employee engagement, industrial relations, and make it difficult to attract and retain employees with the right capabilities in key roles across the business.

In E&P and central power generation, the Group has a stated objective to release £0.5 - £1.0 billion of divestment proceeds by the end of 2017. This has largely been achieved, with £800 million of central power generation and E&P disposals having been announced or completed in the first half of 2017, bringing the total announced disposals to over £900 million since the start of 2016. This includes the completed sales of the large gas-fired power stations at Langage and Humber and the King's Lynn B power station development project, the Group's interest in the Lincs windfarm, and the disposal of the Group's Trinidad and Tobago and Canadian assets. Going forward, there can be no assurance that the Group will be able to dispose of assets at a price that the Group considers to be appropriate, or at all, or that any disposal will take place in the timeline envisaged by the Group.

Where the Group deploys new capital in making acquisitions, there is a risk that the Group will not effectively integrate purchased assets or businesses to achieve expected synergies, continue to improve customer service and engage in new markets.

Management has publicly communicated the importance of its strategic priorities, and aligned the future success of the Group to delivery of these goals. The Group's targeted growth is based on assumptions of flat real oil and gas prices, as well as normal weather patterns and impact on demand. There can be no guarantee that the assumptions or longer-term forecasts on prices, weather patterns, or demand used to calculate growth targets will prove to be accurate. Failure to deliver on the Group's strategy or plans and to identify changes in the market environment and react appropriately, disruption to the business caused by these changes, or any significant variation in one or more of our underlying forecasts not under the Group's direct control, could have a material adverse effect on the Group's business, results of operations and overall financial condition.

Damage to corporate reputation or brand perception could affect the Group's competitive position

The Group and its businesses are leading energy brands, and its brand and reputation are important assets. The Group must actively manage its reputation, and that of senior management and the executive, with a number of different stakeholders including customers, investors, opinion-formers, consumer and community representatives, employees, the media, governments and government agencies, other political parties and regulatory and trade union bodies. Any failure to follow the Group's global business principles of operating professionally, fairly and with integrity, or the public perception that there has been such a failure or other real or perceived failures of governance, or legal or regulatory compliance could further undermine public trust in the Group, one or more of its businesses or its management, lead to increased regulatory

intervention, harm the Group's reputation, damage one or more of its consumer brands and adversely affect its business, results of operations and overall financial condition.

The challenges of day-to-day costs of living, including energy, increased political pressures and other economic challenges have all increased the level of media coverage, and had a negative impact on the public's perception of the energy industry and many of the companies that operate in this industry. The increased use of social media also allows customers and consumer groups to engage, share views, and take part in direct action and other campaigns more readily than before. Any failure to retain the trust of the Group's customers and/or shareholders could lead to campaigns for corporate change through increased shareholder resolutions, and/or challenges in attracting and retaining new customers. In addition, British Gas, as the UK's leading residential energy and services provider, due to the scale of its operations in the UK, and Bord Gáis Energy as one of the leading energy providers in the Republic of Ireland, may be subject to heightened scrutiny by the media, in particular regarding compliance with its regulatory obligations and its retail energy pricing policies. The continued low wholesale energy price environment since 2014 and the timing of subsequent reductions in UK Home energy bills further heightened media attention on the Group. The increased level of media coverage may also result in additional or heightened government and regulatory scrutiny. In North America, the Group operates under numerous brands, each of which faces the risk of heightened media scrutiny and/or adverse media coverage, which could have a negative impact on the reputation of one or more of the individual brands and, ultimately, the Group.

In June 2013, the Group acquired a 25 per cent interest in a shale exploration licence with Cuadrilla Resources Ltd and AJ Lucas. Significant adverse publicity from campaign groups affecting the brand and reputation of the Group could be generated following the Group's strategic move into hydraulic fracturing or 'fracking'. The Group intends to continue to explore opportunities for unconventional energy supply and generation as part of its overall business strategy. Any investment in unconventional energy or related technologies may expose the Group to adverse publicity and reputational risk and there can be no guarantees that the necessary planning applications to proceed with these explorations and developments will be successful. This can be illustrated by Lancashire county council's rejection in June 2015 of the planning applications by Cuadrilla Resources to permit drilling at two sites in Lancashire and related applications to monitor seismic activity. Cuadrilla Resources successfully appealed against this decision in October 2016, but subsequent challenges and appeals have led to further delays and costs to the project (please see "*Description of the Centrica Group – Exploration and Production (E&P)*" for further information).

The loss of rights to use trademarks and logos could affect the Group's competitive position

As part of the demerger in 1997 (see "*Description of the Centrica Group – Background and Formation*"), BG Group plc (**BG Group**), (which is a separately listed company and not a part or affiliate of the Group) assigned ownership of the British Gas trademarks and related logos for use in Great Britain to the Group. At the same time the rights to the British Gas trademarks and related logos for use outside the UK were assigned to BG Group. The Group successfully called for a reassignment of this intellectual property upon the change of control of BG Group, which occurred upon the completion of the cash and share offer by Royal Dutch Shell plc of the entire issued and to be issued share capital of BG Group in February 2016. If, for any reason, the Group is unable to continue to use the British Gas trademarks and logos, this could adversely affect its competitive position. In addition to the British Gas trademarks and logos, the Group trades under various other well-known brands, such as Dyno in the UK, Direct Energy in North America and Bord Gáis Energy in the Republic of Ireland. The Connected Home "Hive" brand is also now in use across the UK, North America, Ireland and parts of Italy. Any damage to corporate reputation or brand perception could have a material adverse effect on the Group's overall reputation, business, results of operations and overall financial condition.

The Group is exposed to the risk of interruptions to information systems or failure to protect confidential information

The Group's operations, including the efficient management and accurate billing of the Group's customers, effective upstream operations, and successful energy trading and hedging activities rely on sensitive and highly complex information systems and networks, including systems and networks provided by and interconnected with those of third-party providers. It is critical for the Group to maintain a high degree of focus on the effectiveness, availability, integrity and security of information systems.

The Group's businesses, joint ventures, and associates could be compromised by an incident arising from the accidental or deliberate exposure of sensitive or personal data, intellectual property, inadvertent or deliberate changes to data, and changes in asset control systems, or a breakdown of critical information

infrastructure and networks. Parties wishing to disrupt or reduce output from the energy infrastructure and networks in which the Group operates may view the Group's information systems as an attractive target for cyber-attack.

Due to the continual advancement of technology, computing capabilities and other developments including increasing digitisation of information and global reach, the use of social media and the continually evolving external cyber threat landscape, the Group may be subject to malicious and unauthorised attempts to penetrate the network security and misappropriate confidential information or materially compromise the security of our assets, employees and the public. This can be illustrated by the recent "WannaCry" ransomware cyber-attack which, although it did not adversely affect the Group, did impact around 200,000 computers or networks in around 150 countries worldwide. The Group is also vulnerable to the potential viral effect of employees, consumers or 'hactivist' groups using social media channels that could expose the Group to legal liabilities, damage the Group's reputation or the disclosure of confidential information.

Threats to information security are not limited by geography as the Group's digital infrastructure is accessible globally, and parties who are able to circumvent information security barriers are capable and willing to perform attacks that destroy, disrupt or otherwise compromise information systems. There can be no guarantee that the Group's security measures will be sufficient to prevent all possible breaches.

Attempts to collect, secure, and dispose of information appropriately now face far greater scrutiny from regulators, customers and employees. The Group must comply with laws and regulations, in the various jurisdictions in which it operates, on the secure storage, use and disposal of customer data, and provide for secure transmission of confidential information to ensure the security of financial and personal data passing over public networks. EU, U.S. and Canadian data privacy and cybersecurity requirements and proposals to amend such requirements, together with any regulatory changes, could increase the requirements around public notification of incidents and also the ability of the regulator to impose associated fines or penalties for non-compliance. The loss, corruption or improper disclosure of personal or confidential information as a result of an information security breach could reduce the value of the Group's proprietary information and lead to significant notification and mitigation expenses, as well as reputational damage and legal or regulatory action.

There can be no certainty that response, recovery and contingency plans will be sufficient and effective in all possible scenarios. In addition, the Group relies on third party hardware, software and service providers, which are not fully under the Group's control. Failure to protect critical and sensitive systems and information adequately may result in compromises to intellectual property and trade secrets, unauthorised disclosure of personal, confidential, share-price sensitive and proprietary data, loss of commercial or strategic advantage, damage to the Group's reputation and business, operational disruption, harm to the public or to employees, litigation or regulatory sanction and fines and increased regulatory scrutiny, which could all materially and adversely affect the Group's business, results of operations and overall financial condition.

Information security breaches could also cause system outages or reduced output that could cause significant financial and operational loss, for example by preventing the Group from serving customers, communicating with third parties, maintaining facilities, generating and purchasing energy, collecting and tracking revenues, or processing and reporting information. Such an incident could also compromise the security of critical national infrastructure assets and have a material effect on the Group's business, results of operations and overall financial condition.

The Group depends on the performance of third parties for certain contracts and activities, which have been outsourced

The Group has entered into a number of outsourcing contracts, some of which are for offshore operations, in respect of certain support functions for its businesses in the UK and North America, including business-critical information technology services, financial accounting matters and customer billing transactions. In addition, third party infrastructure will continue to be relied upon by a number of the Group's assets. Upstream production, including certain upstream projects, are increasingly being operated or developed by third parties. As with any contractual relationship, there are inherent risks to be considered and mitigated. There can be no guarantee that suppliers will be able to provide the functions and services for which they have been contracted. Any failure by suppliers to deliver the contracted goods or services, and to adhere to the Group's Corporate Responsibility and other policies, could have a material adverse effect on the Group's reputation, business, results of operations and overall financial condition.

The Group's business may be affected by changes in weather conditions

Gas sales volumes and electricity sales volumes are affected by temperature and other environmental factors, which are beyond the Group's control and which may have an adverse impact on the Group's business, results of operations and overall financial condition.

The demand for power and gas is seasonal and weather dependent. In the UK, higher demand is typically experienced during the cold weather months of October to March and lower demand during the warm weather months of April to September. In the U.S., hot weather, particularly in Texas and the U.S. North East, results in an increased demand for electricity to operate air conditioning units and cold weather, particularly in the U.S. North East, results in increased demand for gas and ancillary charges for running additional power plants to satisfy demand. The Group's profitability is partly dependent upon its ability to manage its exposure to unseasonably warm or cold weather and to stabilise the impact of such fluctuations through adjustments to its tariffs. The Group's revenues and results of operations could be negatively affected if the Group is unable to adjust for fluctuations in pricing and demand due to volatility in weather patterns.

The Group's gas storage business is also seasonal. Colder weather conditions in the UK result in higher withdrawal rates from the Group's storage facilities; however, colder than normal weather during the summer months, or warmer than normal weather during winter months, may result in narrowing of price differentials between summer and winter months, in turn resulting in reduced revenue (Please see *"The Group is exposed to movement in commodity prices"* for further information on the status of the Group's gas storage business).

Initiatives to address climate change may affect the Group's operations

The continuing heightening of attention to climate change, including activities by non-governmental and political organisations as well as greater interest by the broader public, is likely to lead to additional regulations designed to tackle climate change. Policies and initiatives at national and international levels to address climate change may affect business conditions and demand for various types of energy in the medium to long term. U.S. climate change policy is also in a state of flux, bringing uncertainty to the Group's North America Businesses. Customer response to climate change also presents risks to the Group, including risk to sales volumes due to growing customer demand for low-carbon products and services.

Policy approaches that promote the usage of alternative 'green' energy sources may have an adverse impact on the Group's ability to maintain its position in key markets. In addition, new regulatory regimes may adversely affect the Group's operations if the Group is unable to find economically viable, as well as publicly acceptable, solutions that reduce its CO₂ emissions for new and existing projects or products.

Measures to tackle loss of biodiversity and policies intended to protect local habitats may also limit access to gas and oil resources in areas deemed to be biologically sensitive, which in turn could affect the Group's upstream production. Failure to adhere to the terms of any such policies or regulations on climate change, or indeed damage to the environment caused by the Group's business activities, could result in added reputational risk, legal proceedings or other measures being taken against the Group.

The Group is affected by global economic conditions

The Group continues to pursue a range of investment options across the energy chain and in different geographies both to deepen the Group's customer relationships and to secure the Group's future energy requirements.

The Group's operating and financial performance is influenced by the economic conditions of the countries and markets in which it operates and the Group's access to debt markets to raise capital through instruments such as bonds and commercial paper. The banking and financial market sector that the Group relies upon could also be affected by the exit from the EU or the Euro by a member state. Pressure from economic deterioration, deflation, volatile wholesale prices, increased levels of competition, political instability, reduced demand and recessionary impacts can all contribute to challenging market conditions. Recent global economic conditions have meant that disposable income has decreased or remained flat and consumer confidence has declined, which could result in discretionary spend being reduced and lead to increased turnover in services, or lead to customers delaying or forgoing the purchase of equipment and services. Strategic issues, including capital investment in mergers, acquisitions, disposals, market position, climate change, sustainable development, and new technologies, are also affected by global economic conditions and the Group's ability to grow its business successfully in these respects may be subject to circumstances beyond its control.

The Group's business relies on the security of energy supply

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 LNG supplies from other parts of the world. As the UK secures an increasing proportion of gas from abroad, its price and availability will be increasingly shaped by international forces, combined with the additional challenge of transitioning to lower carbon generation. Key elements of security of supply are access to these reserves and the reliability of the storage, pipeline, gas processing and power infrastructure operated by the Group and third parties both in the UK and abroad. Any break in this supply chain, for example as a result of unplanned outages at the Group's facilities, could jeopardise supply to customers and impact the Group's earnings. The Group's entire business is exposed to the risk of facilities being damaged by natural disasters, including but not limited to severe weather conditions. The Group currently owns or has a stake in a variety of gas and power assets in the UK and overseas and its results of operations and financial condition could be materially adversely impacted if there were to be long-term outages associated with one or more of those assets.

The Group 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 or cyber-attack of power stations or pipelines. An act of terrorism in a geographical location in which the Group has an interest could also have a commercial impact on the Group's existing agreements in the affected region. Such events could affect security of supply or cause a break in supply of energy to customers. Any failure to supply energy to customers could have a material adverse impact on the Group's reputation, business, results of operations and overall financial condition.

The Group is exposed to falling residential energy consumption in the UK

Improved energy efficiency, new boiler installations, and changing customer behaviour as a result of greater environmental awareness, reaction to past retail energy bill movements, long-term weather patterns and the general economic environment have led to a reduction in energy demand. The UK Government sees both residential and business energy efficiency as a key part of meeting its carbon reduction targets and continues to focus on and emphasise energy efficiency and low-carbon solutions. The Group may be subject to additional obligations, which may lead to higher operating costs, increased capital investment, and operational constraints for certain of the Group's activities and assets.

In the UK, gas demand is forecast to continue to decline over the decade with the emergence of smart connected home solutions, and electricity demand is forecast to decline by a smaller amount or remain flat. The long-term demand for gas will be significantly affected by government decisions about market structures, climate change initiatives and industry decisions around generation mix. To offset the reduced sales of gas and electricity to residential customers, the Group needs to grow its energy market share in certain markets, together with demand for its services, products and energy efficiency measures (including microgeneration, distributed energy, insulation and smart enabled applications). The success of these (and other) initiatives could have a significant impact on the Group's revenues and profits over the decade, but no assurance can be given as to their success, widespread adoption or support from the UK Government. While these trends are currently most pronounced in the UK, changes in consumption patterns in the Group's other principal markets due to regulation, technology or other reasons could have an impact on the Group's business, results of operations and overall financial condition.

The Group's business activities and sales may be affected by changing customer behaviour and the emergence of new technologies

With increasing pressure from economic, political and social developments, including rising income inequality, national sentiment and recognition of the economic and environmental impact of global climate change, the Group's future operations will potentially be shaped by changes in customer demands and expectations as well as regulatory requirements necessitating a move towards a lowest possible cost environment and low-carbon economy. This may present significant additional risks and may lead to operating cost challenges, reduced energy demand, increased capital requirements, and operational constraints for certain of the Group's activities and assets. In addition, the ineffective or incomplete implementation of new legislation may have adverse consequences on the viability of investment in new technologies and the development of new assets.

Technology and innovation are essential to the Group to meet energy demands in a competitive way. If the Group does not develop the right technology, does not have access to it or does not deploy it effectively, the delivery of its strategy and its licence to operate may be adversely affected. The Group

operates in environments where the most advanced technologies are needed. While these technologies are regarded as safe for the environment with today's knowledge, there is always the possibility of unknown or unforeseeable environmental impacts that could harm the Group's reputation, licence to operate or expose the Group to litigation.

As digital media, the internet and mobile devices play a greater role in the retail energy sector, the Group will continue to face heightened competitive pressures resulting from falling barriers to market entry and swiftly changing customer loyalties. The value of customer data has increased, and the widening range of virtual interaction with customers through digital media, the internet, mobile devices and the emergence of new technologies, such as smart metering and smart grids, plays a greater role in the retail energy sector and could affect gas and electricity demand and therefore the Group's earnings through energy related services such as energy efficiency, micro generation and energy management/automation. New technology allows non-energy web-based firms to access customer energy consumption data, with or without the agreement of energy suppliers. This new data may not simply be used for billing, but also to provide customers with improved reporting, advice, new products and new services. The Group cannot be certain that its future operations and strategy will successfully mitigate against the risks presented, or enable the Group to remain competitive, offer innovative products and services or otherwise to take advantage of opportunities that may present themselves.

The Group is also currently subject to certain UK Government-enforced obligations to promote greater energy efficiency by its customers, including smart meter installation. Failure by the Group to adapt to further regulation, 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 the Group's reputation, business, results of operations and overall financial condition.

The Group may not sufficiently fund investment in or develop operational assets

Continual investment is required to maintain and improve the condition of, and to address operational issues that arise in relation to, the Group's E&P assets. Such investment therefore affects the operational life and the output achievable from these assets. The Group reviews the value of its assets periodically to inform valuation and investment decisions and, in some cases, may write down the value of certain assets.

Upstream capital projects are exposed to the risk of potential build quality issues, as well as cost and timetable overruns, unsuccessful development and management of partnerships, and health, safety, environment and security (HSES) failures.

Timing delays, cost overruns, changes in the regulatory environment, changes in commodity prices and other factors could reduce a project's net present value and damage relationships with partners, investors, and regulators, or otherwise render a project uneconomic. Assets may not perform as expected, including as a result of shutdowns or an inability to realise expected production volumes. In addition, the Group may decide not to continue with certain investments or developments if the Group believes the anticipated risks are too severe or the anticipated returns are or become insufficient to justify the investment.

The level of investment is dependent on sufficient cash resources and business cases being available for this purpose, and those resources being directed to the most appropriate use. A lack of investment, or failure to direct investment as required, may reduce the output from, and resale value of, assets. If the output or resale value reduced, this could adversely affect the Group's business, results of operations and overall financial condition.

The Group uses derivatives and hedging arrangements in the conduct of its business, which exposes it to further regulatory and financial risk

The Group has entered into and may continue to enter into hedging transactions, including transactions to manage its exposure to fluctuations in currency exchange rates, interest rates and commodity prices by way of futures contracts, financial and physical, forward-based contracts and swap contracts. Hedging transactions can result in substantial losses, which can occur under various circumstances. The standalone value of these hedges can change significantly, potentially increasing the volatility of cash required for margin calls and the accounting profit recognised within a particular period. In addition, losses may arise in any circumstances in which a counterparty does not perform its obligations under the applicable hedging arrangement, the arrangement is imperfect or the Group's internal hedging policies and procedures are not followed or do not work as planned. As a result of these factors, the Group's hedging activities may not be as effective as intended in reducing, and may in certain circumstances increase, the volatility of its

cash flows and earnings. Any such losses or increases in volatility could materially and adversely affect the Group's liquidity and financial position.

The Group uses a number of derivative arrangements and other financial instruments in the ordinary course of its business as part of its risk management programme. As a result, the Group is subject to additional regulatory regimes. Regulation of derivatives and other similar financial instruments in the U.S. and the EU has changed significantly over the past few years, and is currently undergoing similar changes in Canada. Some regulations have been or are in the process of implementation but others are being revised and/or require the publication of subordinate legislation and it is uncertain when or how these will be fully implemented and therefore what the consequences for the Group will be.

In the U.S., regulations are being implemented by the Commodity Futures Trading Commission pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act. In Europe, implementation is through the European Market Infrastructure Regulation (**EMIR**). Certain subordinate legislation and/or regulatory processes have not been finalised, including in key areas such as the mandatory clearing obligation and the mandatory collateral requirements that apply to non-cleared Over-The-Counter (**OTC**) products and restrictions on the size of positions that can be held in certain financial instruments. An additional complexity in assessing the impact of EMIR on the Group is that the Markets in Financial Instruments Directive II, voted through the European Parliament in 2014, is due to take effect from January 2018. This legislation and related regulatory processes could expand each of the trading instrument definitions, as well as restrict the exemption criteria for firms to remain designated as "non-financial", which could increase the impact of clearing obligations on the Group and other entities with whom the Group interacts.

Both U.S. and European regulations require certain market participants, carrying out certain types of transactions, to clear certain financial derivatives through central clearing parties. Derivatives, which are not so cleared, may become covered by rules obliging the exchange of margin between OTC counterparties and imposing a number of other operational and risk management requirements. The full and final effect of all of these regulations on the Group is uncertain as is the impact of voluntary changes that may be introduced by other market participants. The Group could be subject to increased cash margin and collateral requirements, restrictions as to which platforms or counterparties can be used for certain types of trades, increased transaction costs, vulnerability from the insolvency of Central Counterparty Clearing Houses, and the risk of reduced liquidity in some of its important markets. Any of these outcomes could adversely affect the Group's ability to manage risk and the cost of its risk management programme, and therefore may have a material adverse effect on its business, results of operations and overall financial condition.

The Group is subject to a number of HSES risks and regulations

The Group manages significant HSES hazards given the geographic range, environmental sensitivity, operational diversity and technical complexity of the Group's daily operations. The Group's operations include onshore and offshore oil and gas production, exploration, transportation and shipping, gas storage and supply and power generation assets (gas, wind and nuclear generation) and the provision of downstream energy supply and services to retail and business customers. These assets and services are run by the Group, as operated and non-operated joint ventures, and through franchises.

The principal areas of HSES risk associated with the Group's operations include asset integrity, major process safety and other incidents that could result in fatality or injury to employees, contractors and members of the public, loss of containment, significant environmental damage, compliance breach, personal health and safety lapses, crime and sabotage, internal security related attack, activism, cyber-attack and failure of climate-change adaptation.

Certain events, including those arising due to third-party actions, such as the rapid and deadly spread of infectious disease, extreme weather events and natural catastrophes, social unrest and acts of terrorism or war, are not within the Group's direct control; however, these may cause significant disruption or interruption to the Group's operations impacting customer energy supplies and result in significant costs managing and reinstating normal customer services.

The use of third parties in the Group's E&P businesses may increase risks that could lead to HSES issues and decisions that adversely affect upstream production. Responsibility for the safe operation of non-operated joint ventures remains with the operator; however, this may result in not implementing or applying relevant HSES standards that the Group might expect in its own assets.

Both onshore and offshore operations and transportation are subject to interruptions, restrictions or termination by government authorities based on safety, environmental or other considerations.

The management of the Group's operational assets is subject to various environmental, health and safety, economic and competition laws and regulations governing, among other things: the development and operation of high hazard facilities and associated process safety requirements; the generation, storage, handling, release, use, disposal, and transportation of hazardous substances; decommissioning and decontamination of its facilities; the health and safety of the public and its employees; the generation of electricity; and trading activities. Complying with these regulations or changes to these regulations could significantly impact the cost of managing the Group's operational assets and may make it uneconomic to continue managing certain of its operational assets.

Permits, consents and technical certifications are required from appropriate government departments and regulatory authorities in order for the Group to operate assets. Permit and consent conditions and certifications are regularly reviewed to ensure continued compliance. The Group actively engages with government departments and regulatory bodies in the development and amendment of regulatory requirements either directly or through professional advisors and industry bodies. The Group could be asked to adjust its future production plan, impacting assumptions on future production, income and costs. Failure to obtain or maintain these certifications, or meet required conditions or standards, may impact the Group's ability to operate effectively, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Significant HSES events, precautionary closures, suspension of activities, or breach of applicable Health, Safety and Environment (**HSE**) regulations could result in injury or loss of life, damage to the environment, damage to or the destruction of wells and operational assets, pipelines and other property. This could result in regulatory action including a loss of licence, legal liability, criminal penalties and/or remedial and/or compensation costs, damage to the Group's reputation and disruption to business activities. Furthermore, there could be an increase in the Group's costs (including those covering clean-up, recovery and reinstatement), a shutdown of the Group's operations and a loss of its investments in affected areas which could have a materially adverse effect on the Group's business, results of operations and overall financial condition. In certain circumstances, liability could be imposed without regard to the Group's fault in the matter.

Insurance proceeds may not be adequate to cover all liabilities incurred, lost revenue or increased expenses resulting from a major incident, particularly involving oil and gas E&P activities or the nuclear fleet.

The Group is exposed to risks associated with the existing EDF Energy, Nuclear Generation Group Limited (ENGGL) nuclear fleet

The Group holds a 20 per cent interest in Lake Acquisitions Limited, a nuclear power generation business that owns eight nuclear power facilities, which are operated by ENGGL. The remaining 80 per cent of Lake Acquisitions Limited is owned by Electricité de France S.A. (**EDF**). The Group's 20 per cent investment in the existing fleet of eight nuclear power stations exposes it to the risks associated with the nuclear industry (including the fleet's operational life, planned and unplanned outages and operational costs) and the impact of nuclear regulation (including HSE regulation relating to the operation of nuclear power stations). The Group is exposed to potential losses in production due to the fleet's age, which could be further exacerbated by unforeseen plant closures, such as those experienced at the Heysham 1 and Hartlepool plants in August 2014.

Although ultimate responsibility for the safe operation of nuclear plants remains with ENGGL, the Group, through its joint venture with EDF, is also exposed to the scope of the hazards associated with the nuclear power generation industry.

Whilst the Group enjoys certain veto rights over certain decisions to be taken by Lake Acquisitions Limited (or its affiliates), EDF has majority management control of such entities. As such, if the Group disagrees with EDF's management, it has limited rights to dispute and seek compensation in relation to such decisions.

In January 2017, the UK announced its intention to withdraw from the European Atomic Energy Community (**Euratom**) following its decision to withdraw from the EU. Formal notice to withdraw was provided in March 2017, although withdrawal will only become effective following negotiations on the terms of the exit, which are scheduled to last two years. A report by the House of Commons Business Energy and Industry

Strategy Committee, published in May 2017, questioned the legal necessity of leaving Euratom and called for temporary extension of membership to allow time for new arrangements to be made.

If the UK does withdraw from Euratom, this may raise questions around UK nuclear fuel availability after 2019 if, for example, nuclear fuel is not permitted to be transported outside Euratom member states. It also raises questions on the need for new treaties relating to the transportation of nuclear materials. This uncertainty means there will be risks surrounding nuclear power generation in the UK until the position is clarified.

The Group is exposed to joint venture risks

On 17 July 2017, the Group announced that it had reached an agreement with Stadtwerke München GmbH (**SWM**) to combine its European oil and gas E&P business with Bayerngas Norge AS (**Bayerngas Norge**) to form a newly incorporated joint venture (the **Joint Venture**). The Joint Venture will have two shareholding entities. The Group will own 69 per cent and Bayerngas Norge's existing shareholders, led by SWM and Bayerngas GmbH, will own 31 per cent. The effective date of the transaction was 1 January 2017 and it is expected to complete in the fourth quarter of 2017. Completion is, however, conditional upon, amongst other things, approval by the relevant regulatory authorities. There can be no assurance that such approval will be forthcoming in a timely fashion, if at all.

The objective of combining the E&P business with Bayerngas Norge is to create a sustainable E&P business, which will be capable of self-financing through operating cash flow in a range of commodity price environments. It is envisaged that the Joint Venture will create opportunities to accelerate and increase existing cost saving programmes, improve efficiency and optimise the joint portfolio. The aim is to achieve this through the sharing of technical expertise and best practice across the two portfolios, the streamlining of operations and areas of overlap, and the delivery of corporate and administrative efficiencies.

As part of the Joint Venture, the Group could encounter substantial difficulties in the implementation of the measures intended to generate these synergies and/or fail to achieve the operational advantages and synergies expected from the Joint Venture. The costs incurred to achieve these synergies could be higher than anticipated or there may be additional unanticipated costs that exceed the expected synergies.

Among the events that could make the integration more difficult and result in failed synergies and increased costs are the following:

- inconsistencies in the standards, controls, procedures and rules, the business culture and the organisation of both predecessor groups and the need to implement, integrate and harmonise different operational systems and procedures which were specific to the two companies, such as the financial and accounting systems and other information technology systems;
- the Group's relationship with SWM and/or Bayerngas GmbH may not remain stable or SWM and/or Bayerngas GmbH may be acquired by competitors of the Group;
- SWM and/or Bayerngas GmbH may take action contrary to the Group's policies or objectives with respect to its investments or commercial arrangements;
- SWM and/or Bayerngas GmbH may not continue to have economic or business interests or goals that are consistent with those of the Group; and
- as a result of financial or other difficulties, SWM and/or Bayerngas GmbH may be unable or unwilling to fulfil their obligations under the Joint Venture or other agreement, such as contributing capital to expansion or maintenance projects.

The anticipated level of synergies from the Joint Venture is also based on a number of assumptions, many of which depend on factors that are beyond the control of the Issuer, including the materialisation of the risks relating to the activities of the Issuer, as indicated in this section "*Risk Factors*". Any of these factors, among others, could result in the actual level of revenue and/or synergies being lower than anticipated.

Failure to successfully integrate the two businesses and to achieve the expected synergies and costs related to the integration would materially and adversely affect the Group's activities, result of operations, financial conditions and prospects.

The Group is subject to numerous permit requirements and licencing regimes

The operation of various businesses conducted by the Group requires authorisations from various national and local government agencies. Obtaining necessary consents, permits, licences, authorisations and certifications can be a complex, time-consuming process, and the Group cannot guarantee that it will be able to obtain all such authorisations required for the operation of its various businesses in a timely manner or at all. Failure to obtain, renew or maintain such required authorisations or any disputes in connection with previously obtained authorisations could result in the suspension or termination of the Group's operations or the imposition of material fines, penalties, liabilities and other costs and expenses that could have a material adverse effect on the Group's financial condition, results of operations and cash flows. In addition, the Group's counterparties may require that the Group maintains certain quality and safety certifications, or meets certain quality and safety targets, during the term of a contract. Failure on the Group's part to obtain and maintain these certifications or meet these targets may result in the early termination of the respective contract or in the Group's failure to be considered for future contracts, either of which could have a material adverse effect on the Group's financial condition, results of operations and cash flows.

The Group is exposed to uncertain decommissioning costs

In addition to the risks associated with operating the Group's E&P assets, the Group incurs liabilities and costs associated with the decommissioning of such assets at the end of their lives. The Group's estimates of the cost of decommissioning are reviewed periodically and for producing assets are based on proven and probable reserves, price levels and decommissioning technology at the relevant balance sheet date. For storage assets, the estimated cost of decommissioning is based on the general economic performance of each asset, including price levels and decommissioning technology at the relevant balance sheet date. As at 31 December 2016, the Group's decommissioning provision was £3,146 million (as described on page 146 of the annual report of the Issuer for the year ended 31 December 2016). The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, which are also uncertain.

The decommissioning of such assets is also regulated by law and may require the owners of installations and pipelines to provide security or enter into decommissioning security agreements. Decommissioning liabilities may be increased as the UK Secretary of State is entitled to make all relevant parties (which may include former owners of such assets) 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 installations and pipelines. Decommissioning costs could exceed the Group's estimated costs and the Group may be required to provide greater security for decommissioning costs than expected, which could have a material adverse effect on its business, results of operations and overall financial condition.

The Group's stake in the existing ENGGL nuclear fleet will, following closure of the power stations, give rise to decommissioning costs. Certain of ENGGL's nuclear liabilities will be paid for from the Nuclear Liabilities Fund which is underwritten by the UK 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 ENGGL to discharge.

The Group may fail to execute change programmes

The successful delivery of business change is fundamental to the Group's future success, and includes organisational, cultural and technical transformation.

The delivery of certain large change programmes is technically complex. Trying to deliver too much change could result in a stretch on resources, undermine system integrity, threaten business continuity, cost more than originally planned, or take longer than estimated to implement. Change programmes could also suffer from quality, safety and compliance issues. Planned cost savings, value creation or other benefits may not be realised and individual products may not be as widely accepted as anticipated.

As a result of business change, any failure to attract or retain capability and corporate knowledge, to mobilise personnel quickly, or take into account trade union dialogue, could affect the Group's ability to successfully execute any future plans. Delays or challenges with organisational restructure, changes to billing systems, the implementation of new products and entry into new markets, integration of acquisitions, meeting expected growth targets, and asset disposal could adversely affect stakeholders' perception of the Group, if not successfully delivered.

The Group may fail to provide good quality customer service levels

The delivery of good quality customer service is central to the Group's business strategy. Customers may switch supplier if they experience unacceptable customer service levels, or if it is perceived that the Group is failing to maintain and improve service quality. In an environment where price differentials may narrow, trust and service levels become increasingly important factors for the retention and growth of the customer base. Any failure to maintain good quality customer service levels or to improve service levels in certain parts of the Group's business could have a material adverse effect on the Group's reputation, business, results of operations, and overall financial condition, as well as subject the Group to the risk of increased regulatory scrutiny that could, in turn, result in sanctions from relevant authorities.

The Group may fail to identify and execute suitable acquisitions and divestments

The Group's success in acquiring suitable assets and rebalancing its asset portfolio may be limited by its ability to execute and finance acquisitions and to divest non-core assets. The Group must identify suitable acquisitions and disposals and negotiate acceptable terms and conditions relating thereto. The Group may face significant competition in identifying and acquiring suitable targets from competitors who may have greater resources or greater familiarity with the market. There can be no assurance that the Group will be able to dispose of non-core assets at a price that the Group considers to be appropriate, or at all, or that any disposal will take place in the timeline envisaged by the Group. Failure to successfully acquire and/or dispose of assets may leave the Group increasingly exposed to portfolio concentration risk on both the supply and demand side. Over-concentration or inappropriate balance of the Group's portfolio may mean that a disruption in one asset or revenue stream in the Group's portfolio may have a disproportionate impact on the Group as a whole.

There can be no assurance that economic interests taken in businesses or assets will prove to be good investments, or that any acquired business will successfully integrate into the Group. Failure by the Group to identify, execute, finance or integrate acquisitions of available assets could also leave the Group increasingly exposed to short term movements in UK wholesale gas markets as it produces less gas and power than it requires to fulfil customer demand. Furthermore, the Group may be required to refinance indebtedness incurred to fund such acquisitions, in the capital markets or otherwise, and there is no guarantee that the Group will be able to do so on favourable terms or at all. Any of these factors could have a material adverse effect on the Group's business, results of operations and overall financial condition.

The Group may fail to attract and retain senior management, skilled personnel and capabilities

The attraction, development, retention, reputation and succession of senior management and individuals with key skills are critical factors in the successful execution of the Group's strategy, and operation of the Group's businesses. This is especially relevant in the highly competitive markets in which the Group currently or plans to operate and at times when the business is subject to high levels of public scrutiny. Insufficient capability and capacity in high calibre senior management and individuals, or any failure to make appropriate succession plans, could compromise achievement of the Group's strategic objectives and could have a material adverse effect on its business, results of operations and overall financial condition.

Changes to the Group's structure and business model, including entry into new and emerging markets, could make attracting, retaining and motivating employees with the right capabilities in key roles across the business more challenging. Employee engagement may decrease and industrial relations could worsen. This primarily affects areas of the operational work force in upstream activities, the engineers in British Gas and the staff in Direct Energy Services, and could also be triggered by changes to employment terms and conditions, employment related court decisions, changes to pension, and as a response to a wider climate of trade union unrest.

Labour disputes could have an adverse impact on the Group's business

The Group, and some of the third parties it relies upon, has a significant unionised workforce. Labour disputes or unrest, such as strikes, walkouts, claims or other labour disturbances may disrupt its business. A significant strike or other labour dispute could impact the Group's ability to provide upstream operations and downstream residential and business services in one or more of its key markets and could impact the customer service offered to residential and business supply customers. Any such disruption to the Group's business could negatively impact its reputation and may result in the loss of customers to competitors. The Group has not taken out any insurance to cover losses due to business disruptions caused by labour issues. Consequently, its reputation, financial position and operating results may be adversely affected by labour unrest.

The Group may be significantly impacted by changing tax laws and tax rates

The Group is subject to tax rates and tax legislation applicable in the markets and jurisdictions in which it operates. In particular, the Group is impacted by significantly higher rates of tax in its E&P businesses, most notably in the UK, where the tax rate is 40 per cent and in Norway where applicable tax rates are 78 per cent. The Group's E&P businesses are typically subject to different tax rates and regimes than those that apply to its ES&S businesses. Consequently, the Group is exposed to changes, both in the general corporate tax regime and specific tax regimes in relation to upstream production or other business segments. Tax laws, tax rates and interpretation of legislation and compliance and disclosure requirements, with associated costs and penalties change regularly.

The Organisation for Economic Co-operation and Development Base Erosion and Profit Shifting Project is expected to generate changes to tax policy and systems across many countries, including those where the Group has operations, in order to mitigate cross-border corporate tax avoidance. Following the 2014 Scottish independence referendum, there is uncertainty on the new powers (including areas such as fuel poverty and energy efficiency) that will be devolved to Scotland and the resulting changes, if any, to the tax system in Scotland compared to the rest of the UK. A key action, which is due to be implemented in the UK, concerns transparency of disclosures. The scope and impact of these changes cannot currently be assessed, but may be material. Any action by governments to increase tax rates, impose additional taxes, revise tax legislation or its interpretation could have a material adverse effect on the Group's business, results of operations and overall financial condition.

Liquidity risk, including risk relating to margin obligations as a result of existing contracts, is inherent in the Group's operations

Liquidity risk is the risk that the Group is unable to meet its obligations as they fall due.

Exposure to adverse conditions in the debt or capital markets may hinder or prevent the Group from obtaining the financing required to properly carry on its business activities. The liquidity risk within the Group is increased by the margin cash arrangements contained in certain wholesale commodity contracts. As the Group 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. Further collateral can be required in times of price or weather volatility and depending on which markets the Group uses to access for price hedging and for physical supply of commodity. Cash forecasts identifying the liquidity requirements are produced at least monthly and these are assessed for different scenarios, including the impact of significant changes in commodity prices or a credit rating downgrade, however, the Group's ability to access liquidity during periods of liquidity stress may be constrained as a result of current and future economic and market conditions. A reduction of the Group's liquidity could have a material adverse effect on its business, results of operations and overall financial condition.

A downgrade in the Group's credit rating may increase its costs of funding and limit its ability to trade in commodity markets

The Group benefits from its strong credit rating (long-term debt: Baa1 stable outlook (Moody's), BBB+ negative outlook (Standard & Poor's)); (short-term debt: P-2 stable outlook (Moody's), A-2 stable outlook (Standard & Poor's)). Any deterioration in the Group's credit ratings may increase its costs of funding or otherwise affect its ability to obtain credit from counterparties. The Group may also need to increase its levels of margin or other security in its wholesale commodity contracts or face limits on its ability to trade in commodity markets and to implement its hedging strategy. The Group would also need to increase its security for decommissioning of assets. Any of these factors could have a material adverse effect on the Group's business, results of operations and overall financial condition.

The Group has funding risks relating to its defined benefit pension schemes

The Group maintains a variety of pension schemes, including defined benefit schemes. The aim of the Company and pension scheme trustees (as set out in each scheme's Statement of Funding Principles) is to meet the defined benefit liabilities with a portfolio of investments. The associated risks therefore relate to interest rates, inflation, returns on assets and the longevity of scheme members; the mismatch between asset and liability value movements is a consequence of targeting higher returns than those available from assets effectively matching the liabilities. The defined benefit schemes' investment portfolios contain a high proportion of 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 deficit having to be recognised on the Group's balance sheet, alongside

an increase in the P&L expense and the funding requirements (cash and possibly contingent assets). The current business environment, with changing long-term interest and inflation rates, long-term gilt yields, corporate bond yields, equity values and credit spreads could also potentially result in a large deficit having to be recognised. A material weakening of the Group's credit rating could result in higher pension contributions. Furthermore, a quicker than expected increase in life expectancy and/or employee pensionable salaries increasing above the rates assumed in the previous scheme valuation could be expected to increase the defined benefit liabilities. Further changes in the accounting standards relating to defined benefit pension liabilities could also lead to increasing deficits arising in the Group's pension schemes. The pension schemes in the UK are subject to triennial actuarial valuations with the most recent based on assumptions as at 31 March 2015. If these valuations identify that the pension schemes are in deficit, this could, subject to agreement between the Company and the pension scheme trustees result in additional deficit repair contributions being required, further changes to members' benefits and the Group offering more contingent assets or asset backed contributions as further security. Any further requirement to make significant immediate cash contributions into one or more of the Group's defined benefit schemes to cover any such deficits could have a material adverse effect on the Group's business, results of operations, and overall financial condition.

Unanticipated actions by the pension regulators in relevant jurisdictions to the Group and/or any material revisions to existing pensions legislation could require accelerated and increased contributions to the Group's pension schemes before, or concurrently with, any increased return to shareholders beyond the normal dividend, which may restrict the Group's financial flexibility. The pension scheme trustees could also seek accelerated and increased contributions in the event of the Group planning to make material disposals, execute a share buyback programme or take on more leverage through acquisitions or investment, which may restrict the Group's ability to carry out such transactions or investments. This could therefore have a material adverse effect on the Group's business, results of operations and overall financial condition.

The Group's business may be affected by the default of counterparties in respect of monies owed to the Group

As a consequence of its normal operations, the Group often has significant amounts owed to it by its energy and other counterparties. In addition, the Group often holds large cash balances on deposit with financial institutions. There is a risk of a counterparty default, which may, among other things, reduce the Group's cash flows. The Group's policy to limit counterparty exposures by setting credit limits for each counterparty, where possible by reference to published credit ratings, cannot eliminate such exposure or absolutely mitigate such risk, and such a counterparty default may have a material adverse effect on the Group's business, results of operations and overall financial condition. The Group may also, from time to time, be owed amounts by its retail and wholesale customers. A significant number of defaults could also adversely affect the Group's business, results of operations and financial condition.

The Group is exposed to currency fluctuations

The Group has cross-border operational exposure in U.S. and Canadian dollars, Norwegian Krone, and euros, as well as a number of other currencies. Operational and capital expenditure cash flows may also be in currencies other than Sterling, the Group's reporting currency. The Group's profitability may be adversely affected if the results and cash flows associated with these international operations fall or cash outflows rise because of currency fluctuations against Sterling.

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

The Group is exposed to interest rate fluctuations

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

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features, which contain particular risks for potential investors. Set out below is a description of the most common such features:

If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner, which achieves a similar effective return

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

If the Issuer has the right to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned

Fixed/Floating Rate Notes are Notes, which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has a right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

Notes that are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

The terms and conditions of the Notes contain provisions, which may permit their modification without the consent of all investors and confer significant discretions on the Trustee, which may be exercised without the consent of the Noteholders and without regard to the individual interests of particular Noteholders

The terms and conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The terms and conditions of the Notes also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of any successor in business to the Issuer or of a Subsidiary either of the Issuer or any successor in business to the Issuer as principal debtor under any Notes in place of

the Issuer or any successor in business to the Issuer, in the circumstances described in Conditions 15 and 16 of the terms and conditions of the Notes.

The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Notes

The value of the Notes could be adversely affected by a change in English law or administrative practice

The terms and conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

Investors who purchase Notes in denominations that are not an integral multiple of the Specified Denomination may be adversely affected if definitive Notes are subsequently required to be issued

In relation to any issue of Notes, which have denominations consisting of a minimum Specified Denomination, plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in its account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes, which have a denomination, that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Certain Notes may be affected by changes to the calculation of the London Interbank Offered Rate benchmark (LIBOR)

On 27 July 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the **FCA Announcement**). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark (including but not limited to Floating Rate Notes whose interest rates are linked to LIBOR). Any such consequence could have a material adverse effect on the value of and return on any such Notes.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell its Notes

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities.

If an investor holds Notes, which are not denominated in the investor's home currency, it will be exposed to movements in exchange rates adversely affecting the value of its holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the

risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The value of Fixed Rate Notes may be adversely affected by movements in market interest rates

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an investment in those Notes

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by its assigning rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Base Prospectus and have been filed with the Financial Conduct Authority shall be incorporated in and form part of, this Base Prospectus:

- (a) the auditors' report and audited consolidated and non-consolidated annual financial statements of the Issuer for the financial year ended 31 December 2016 which appear on pages 100 to 200 (together with the section titled "*Additional Information – Explanatory Notes (Unaudited)*" on pages 219 to 220) of the annual report for the year ended 31 December 2016, including the information set out at the following pages, in particular:

Independent Auditors' Report to members of Centrica plc	Pages 100 to 106
Group Income Statement	Page 108
Group Statement of Comprehensive Income	Page 109
Group Statement of Changes in Equity	Page 109
Group Balance Sheet	Page 110
Group Cash Flow Statement	Page 111
Notes to the Financial Statements	Pages 112 to 189
Company Statement of Changes in Equity	Page 190
Company Balance Sheet	Page 191
Notes to the Company Financial Statements	Pages 192 - 200
Additional Information – Explanatory Notes (Unaudited)	Pages 219 - 220

- (b) the auditors' report and audited consolidated and non-consolidated annual financial statements of the Issuer for the financial year ended 31 December 2015 which appear on pages 80 to 180 of the annual report for the year ended 31 December 2015, including the information set out at the following pages, in particular:

Independent Auditors' Report to members of Centrica plc	Pages 80 to 86
Group Income Statement	Page 88
Group Statement of Comprehensive Income	Page 89
Group Statement of Changes in Equity	Page 89
Group Balance Sheet	Page 90
Group Cash Flow Statement	Page 91
Notes to the Financial Statements	Pages 92 to 168
Company Statement of Changes in Equity	Page 169
Company Balance Sheet	Page 170
Notes to the Company Financial Statements	Pages 171 to 180

- (c) the independent review report and unaudited interim financial statements of the Issuer included on pages 24 to 54 of the unaudited interim results for the six month period ended 30 June 2017; and

- (d) the Terms and Conditions of the Notes contained in the Base Prospectus dated 26 September 2014 (pages 39 to 64), Base Prospectus dated 26 September 2013 (pages 38 to 63), Base Prospectus dated 26 September, 2012 (pages 33 to 57), the Base Prospectus dated 27 September, 2011 (pages 38 to 59), the Base Prospectus dated 30 September, 2010 (pages 36 to 57), the Base Prospectus dated 28 August, 2009 (pages 35 to 56), the Base Prospectus dated 26 September, 2008 (pages 33 to 54), the Base Prospectus dated 28 September, 2007 (pages 32 to 53), the Base Prospectus dated 29 September, 2006 (pages 30 to 50), the Base Prospectus dated 8 November, 2005 (pages 30 to 50), the Offering Circular dated 1 October, 2002 (pages 18 to 39) and the Offering Circular dated 7 September, 2001 (pages 19 to 40), in each case prepared by the Issuer in connection with the Programme.

Following the publication of this Base Prospectus a supplement may be prepared by the Issuer and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall to the extent applicable (whether expressly, by implication or otherwise) be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London. Documents may also be viewed electronically and free of charge at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Any non-incorporated parts of a document referred to herein are either not relevant for an investor or are covered elsewhere in this Base Prospectus.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes.

The Issuer has undertaken to the Dealers in the Programme Agreement (as defined in "*Subscription and Sale*" below) that it will comply with section 87G of the Financial Services and Markets Act 2000.

Any Notes issued under the Programme on or after the date of this Base Prospectus are issued subject to the provisions herein. This does not affect any Notes issued prior to the date of this Base Prospectus.

Alternative Performance Measures

Certain alternative performance measures (**APMs**) are included or referred to in this Base Prospectus (including the 31 December 2016 financial statements incorporated by reference). APMs are non-GAAP measures used by the Group within its financial publications to supplement disclosures prepared in accordance with other regulations such as International Financial Reporting Standards (**IFRS**). We consider that these measures provide useful information to enhance the understanding of financial performance. The APMs should be viewed as complementary to, rather than a substitute for, the figures determined according to other regulatory measures. An explanation of each such metric's components and calculation method can be found at pages 219 to 220 (incorporated by reference herein) of the Issuer's Annual Report and Accounts for the year ended 31 December 2016.

FORM OF THE NOTES

BEARER NOTES

Initial Issue

Each Tranche of Bearer Notes (including Exchangeable Bearer Notes) will initially be issued in the form of a temporary global note (a **Temporary Global Note**) or, if so specified in the applicable Final Terms, a permanent global note (a **Permanent Global Note** and together with a Temporary Global Note, the **Global Notes**, each a **Global Note**) which, in either case, will:

- (i) if the Global Notes are intended to be issued in new global note (**NGN**) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**); and
- (ii) if the Global Notes are not intended to be issued in NGN form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common depository (the **Common Depository**) for Euroclear and Clearstream, Luxembourg.

Where the Global Notes issued in respect of any Tranche are in NGN form, Euroclear and Clearstream, Luxembourg will be notified as to whether or not such Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Notes are so to be held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Upon deposit of the Temporary Global Note(s) with the Common Safekeeper or the Common Depository, as the case may be, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed. Depositing the Global Notes with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in the Temporary Global Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg as the holder of a Note represented by a Global Note must look solely to Euroclear and/or Clearstream, Luxembourg for its share of each payment made by the Issuer to the bearer of such Global Note and in relation to all other rights arising under the Global Notes, subject to and in accordance with the respective rules and procedures of Euroclear and/or Clearstream, Luxembourg. Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note in respect of each amount so paid.

Exchange

Temporary Global Notes

Each Temporary Global Note will be exchangeable (free of charge to the holder) on or after the Exchange Date either:

- (i) if the applicable Final Terms indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable, in whole, but not in part, for definitive Bearer Notes; or
- (ii) otherwise, in whole or in part, upon certification as to non-U.S. beneficial ownership (in a form to be provided) for interests in a Permanent Global Note or, if so provided in the applicable Final Terms, for definitive Bearer Notes or, if the Temporary Global Note is also an Exchangeable Bearer Note, certificated Registered Notes.

Permanent Global Notes

Each Permanent Global Note will be exchangeable (free of charge to the holder) on or after the Exchange Date in whole but not, except as provided under "Partial Exchange of Permanent Global Notes" below, in part for:

- (a) definitive Bearer Notes with, where applicable, interest coupons and talons attached either:
 - (i) only upon the occurrence of an Exchange Event; for these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing or (ii) if the Permanent Global Note is held on behalf of Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Principal Paying Agent requesting exchange; or
 - (ii) at any time at the Issuer's request; or
- (b) if the Permanent Global Note is an Exchangeable Bearer Note, certificated Registered Notes upon the holder of an interest in such Permanent Global Note giving notice to the Principal Paying Agent of its election to exchange the whole of such Global Note for certificated Registered Notes.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not intended to be issued in NGN form) without any requirement for certification.

The exchange of a Permanent Global Note for definitive Bearer Notes upon notice from Euroclear and/or Clearstream (acting on the instructions of any Noteholder) or at any time at the request of the Issuer should not be expressed to be applicable in the applicable Final Terms if the Notes are issued with a minimum Specified Denomination such as €100,000 (or its equivalent in another currency) plus one or more higher integral multiples of another smaller amount such as €1,000 (or its equivalent in another currency). Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for definitive Bearer Notes.

Partial Exchange of Permanent Global Notes

For so long as a Permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, if the Permanent Global Note is an Exchangeable Bearer Note, the Permanent Global Note will be exchangeable (free of charge to the holder) on or after the Exchange Date in part on one or more occasions for certificated Registered Notes upon the holder of an interest in such Permanent Global Note giving notice to the Principal Paying Agent of its election to exchange a part of such Global Note for certificated Registered Notes.

Exchange Date means, in relation to a Temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a Permanent Global Note, a day falling not less than 60 days, or in the case of an exchange for certificated Registered Notes five days, after that on which notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the city in which the relevant clearing system is located.

Legend

The following legend will appear on all Bearer Notes which have an original maturity of more than one year and on all interest coupons relating to such Notes:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes or interest coupons.

Transfers

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

REGISTERED NOTES

Initial Issue

Each Tranche of Registered Notes will initially be issued in either:

- (i) uncertificated form (**uncertificated Registered Notes**), comprising Registered Notes which are for the time being uncertificated units of a security in accordance with the Uncertificated Securities Regulations 2001 (as amended from time to time); or
- (ii) certificated form (**certificated Registered Notes**).

Uncertificated Registered Notes will initially be credited to the subscribers' CREST accounts on the issue date thereof upon certification as to non-U.S. beneficial ownership.

Certificated Registered Notes will be represented by registered certificates (**Certificates**) and will initially be delivered to the subscribers thereof upon certification as to non-U.S. beneficial ownership. Each Certificate shall represent the entire holding of certificated Registered Notes of each Series by the same holder.

Certificates will, on issue, be delivered to the subscribers thereof upon certification as to non-U.S. beneficial ownership.

Transfers

Title to Registered Notes will pass upon registration in the register (the **Register**) which the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement, unless applicable law provides otherwise or provides for additional formalities for transfer of title.

Electronic Consent and Written Resolution

While any Global Note is held on behalf of, or any Registered Note is registered in the name of any nominee for, a clearing system, then:

- (i) approval of a resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent in nominal amount of the Notes outstanding (an Electronic Consent as defined in the Trust Deed) shall, for all purposes, take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all

Noteholders and holders of Coupons and Talons whether or not they participated in such Electronic Consent; and

- (ii) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by (a) accountholders in the clearing system with entitlements to such Global Note or Registered Note and/or, where (b) the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the **relevant clearing system**) and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended[, from 1 January 2018,] to be offered, sold or otherwise made available to and[, with effect from such date,] should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (**MiFID II**); (ii) a customer within the meaning of Directive 2002/92/EC (**IMD**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the **Prospectus Directive**). Consequently no key information document required by Regulation (EU) No 1286/2014 (the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[Date]

CENTRICA PLC
Issue of [Currency] [Aggregate Nominal Amount of Tranche] [Title of Notes] due []
under the U.S.\$10,000,000,000
Euro Medium Term Note Programme

PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Base Prospectus dated 26 October 2017 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus (the **Base Prospectus**) for the purposes of Directive 2003/71/EC. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published via the regulatory news service maintained by the London Stock Exchange (www.londonstockexchange.com/exchange/news/market-news/market-news-home.html).

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the **Terms and Conditions**) set forth in the [Offering Circular/Base Prospectus] dated [original date] and incorporated by reference in the Base Prospectus dated 26 October 2017. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC and must be read in conjunction with the Base Prospectus dated 26 October 2017 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Base Prospectus**) including the Terms and Conditions incorporated by reference in the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published via the regulatory news service maintained by the London Stock Exchange (www.londonstockexchange.com/exchange/news/market-news/market-news-home.html).]

- | | | |
|----|----------------------|--------------|
| 1. | Issuer: | Centrica plc |
| 2. | (i) Series Number: | [] |
| | (ii) Tranche Number: | [] |

- (iii) Date on which the Notes will be consolidated and form a single Series: [The Notes will be consolidated and form a single Series with [] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 22 below, which is expected to occur on or about []][Not Applicable]
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount:
- (i) Series: []
- (ii) Tranche: []
5. (i) Issue Price: [] per cent of the Aggregate Nominal Amount [plus accrued interest from []]
6. (i) Specified Denomination(s): []
- (ii) Calculation Amount: []
7. (i) Issue Date [and Interest Commencement Date]: []
- (ii) Interest Commencement Date (if different from the Issue Date): [[]/Issue Date/Not Applicable]
8. Maturity Date: [[]/Interest Payment Date falling in or nearest to []]
9. Interest Basis: [[] per cent Fixed Rate]
[[*Reference Rate*] +/- [] per cent Floating Rate]
[Zero Coupon]
(further particulars specified below)
10. Change of Interest Basis: [[]/Not Applicable]
11. Put/Call Options: [General Investor Put]
[Change of Control Investor Put]
[Issuer Call]
[(further particulars specified below)]
12. [Date [Board] approval for issuance of Notes obtained: []]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. Fixed Rate Note Provisions [Applicable/Not Applicable]
- (i) Rate(s) of Interest: [] per cent per annum payable in arrear on each Interest Payment Date
- (ii) Interest Payment Date(s): [[] in each year up to and including the Maturity Date]
- (iii) Fixed Coupon Amount(s): [] per Calculation Amount

	(iv)	Broken Amount(s):	[[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []] [Not Applicable]
	(v)	Day Count Fraction:	[30/360] [Actual/Actual (ICMA)]
	(vi)	Determination Date(s):	[[] in each year] [Not Applicable]
14.		Floating Rate Note Provisions	[Applicable/Not Applicable]
	(i)	Specified Period(s)/Specified Interest Payment Dates:	[]
	(ii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(iii)	Additional Business Centre(s):	[]
	(iv)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]
	(v)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):	[]
	(vi)	Screen Rate Determination:	
		— Reference Rate:	Reference Rate: [] month [LIBOR/EURIBOR]
		— Interest Determination Date(s):	[]
		— Relevant Screen Page:	[]
	(vii)	ISDA Determination:	
		— Floating Rate Option:	[]
		— Designated Maturity:	[]
		— Reset Date:	[]
	(viii)	Margin(s):	[+/-] [] per cent per annum
	(ix)	Linear Interpolation:	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
	(x)	Minimum Rate of Interest:	[] per cent per annum
	(xi)	Maximum Rate of Interest:	[] per cent per annum
	(xii)	Day Count Fraction:	[[Actual/Actual (ISDA)] [Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] 30E/360 (ISDA)]
15.		Zero Coupon Note Provisions	[Applicable/Not Applicable]

- (i) Accrual Yield: [] per cent per annum
- (ii) Reference Price: []
- (iii) Day Count Fraction in relation to Early Redemption Amounts: [30/360]
[Actual/360]
[Actual/365]

PROVISIONS RELATING TO REDEMPTION

- 16. Notice periods for Condition 7(b): Minimum period: [] days
Maximum period: [] days
- 17. Issuer Call: [Applicable/Not Applicable]
 - (i) Optional Redemption Date(s): []
 - (ii) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[] per Calculation Amount] [Spens Amount] [Make-Whole Amount]
 - (iii) Reference Bond: [[]/FA Selected Bond/Not Applicable]
 - (iv) Quotation Time: []
 - (v) Redemption Margin: [[] per cent/Not Applicable]
 - (vi) If redeemable in part:
 - (a) Minimum Redemption Amount: []
 - (b) Maximum Redemption Amount: []
 - (vii) Notice periods: Minimum period: [] days
Maximum period: [] days
- 18. General Investor Put: [Applicable/Not Applicable]
 - (i) Optional Redemption Date(s): []
 - (ii) Optional Redemption Amount: [] per Calculation Amount
 - (iii) Notice periods: Minimum period: [] days
Maximum period: [] days
- 19. Change of Control Investor Put: [Applicable/Not Applicable]
 - (i) Optional Redemption Amount: [] per Calculation Amount
 - (ii) Notice periods: Minimum period: [] days
Maximum period: [] days
- 20. Final Redemption Amount of each Note: [] per Calculation Amount
- 21. Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default: [] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 22. Form of Notes:
 - (i) Form [Bearer Notes:
[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for definitive Bearer Notes [on 60 days' notice

given at any time/only upon an Exchange Event/at any time at the request of the Issuer]]*

[Temporary Global Note exchangeable for [definitive Bearer Notes/certificated Registered Notes] on and after the Exchange Date]*

[Permanent Global Note exchangeable for [definitive Bearer Notes/certificated Registered Notes] [on [60/5] days' notice given at any time/only upon an Exchange Event/at any time at the request of the Issuer]]

[The Notes are Exchangeable Bearer Notes]

[Registered Notes:

[certificated]/[uncertificated] Registered Notes]

[Notes shall not be physically delivered in Belgium, except to a clearing system, a depositary or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14 December 2005.]

(ii) New Global Note:

[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognized as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

23. Additional Financial Centre(s):

[Not Applicable/[]]

THIRD PARTY INFORMATION

[[] has been extracted from []. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of Centrica plc:

By:.....
Duly authorised

PART B — OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority with effect from [].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority with effect from [].]
- (ii) Estimate of total expenses related to admission to trading: []

2. RATINGS

Ratings: [The Notes to be issued [(have been)/[are expected to be]] rated [] by [].]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Manager[s]/Dealer[s]], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Manager[s]/Dealer[s]] and [its/their] affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.]

4. YIELD

Indication of yield: []

5. OPERATIONAL INFORMATION

- (i) ISIN: []
- (ii) Common Code: []
- (iii) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/[]]
- (iv) Names and addresses of additional Agents/ Paying Agent(s) (if any): []
- (v) Names of Managers: [Not applicable/[]]
- (vi) Name of Dealer: [Not applicable/[]]
- (vii) U.S. Selling Restrictions: [Reg. S Compliance Category [1/2/3]; TEFRA D/TEFRA C/TEFRA not applicable]

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note, each definitive Note and each Certificate, in the case of definitive Notes and Certificates only if permitted by the London Stock Exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note or Certificate will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note, definitive Note and Certificate. Reference should be made to "Applicable Final Terms" for a description of the content of Final Terms which will specify which of such terms and conditions are to apply to the relevant Notes.

This Note is one of a Series (as defined below) of Notes constituted by a Trust Deed (such Trust Deed as amended and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 7 September 2001 between Centrica plc (the **Issuer**) and The Law Debenture Trust Corporation p.l.c. (the **Trustee**, which expression shall include all persons for the time being trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions (the **Terms and Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Coupons and Talons referred to below.

References herein to the **Notes** shall be references to the Notes of this Series.

The Notes and the Coupons (as defined below) have the benefit of an amended and restated Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 26 October 2017 and made between the Issuer, the Trustee and HSBC Bank plc as issuing and principal paying agent (the **Principal Paying Agent**, which expression shall include any additional or successor issuing and principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the **applicable Final Terms** are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Interest bearing definitive Bearer Notes (as defined below) have interest coupons (**Coupons**) and, in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Global Notes and Certificates do not have Coupons or Talons attached on issue.

Subject as provided in Condition 1, any reference to **Noteholders** or **holders** in relation to any Notes shall mean (in the case of Bearer Notes) the bearer of the Bearer Notes and (in the case of Registered Notes) the persons in whose names the Registered Notes are registered. Any reference herein to **Couponholders** shall mean the bearers of the Coupons and shall, unless the context otherwise requires, include the bearers of the Talons.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection by prior arrangement during normal business hours at the principal office of the Trustee, at Fifth Floor, 100 Wood Street, London EC2V 7EX, and at the specified office of each of the Principal Paying Agent, the Registrar, the other Paying Agents and the Transfer Agents (such Principal Paying Agent, Paying Agents, Transfer Agents and the Registrar being together referred to as the **Agents**). The applicable Final Terms will be published on the website of the London Stock Exchange through a regulatory information service. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them. The statements in

these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Words and expressions defined in the Trust Deed, the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the Trust Deed, the Trust Deed will prevail and, in the event of any inconsistency between the Agency Agreement or the Trust Deed and the applicable Final Terms, the applicable Final Terms will prevail.

In these Terms and Conditions, **euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

1. Form, Denomination and Title

The Notes are in bearer form (**Bearer Notes**, which expression includes Notes that are specified to be Exchangeable Bearer Notes) or in registered form (**Registered Notes**) as specified in the applicable Final Terms and serially numbered, in the currency (the **Specified Currency**) and the denominations (the **Specified Denomination(s)**) specified in the applicable Final Terms, provided that the minimum denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

Bearer Notes are represented either by a note in global form (**Global Note**) or by definitive Notes in bearer form (**definitive Bearer Notes**).

All Registered Notes shall have the same Specified Denomination. Where Exchangeable Bearer Notes are issued, the Registered Notes for which they are exchangeable shall have the same Specified Denomination as the lowest Specified Denomination of the Exchangeable Bearer Notes.

The Registered Notes may be in uncertificated form (**uncertificated Registered Notes**), comprising Registered Notes which are for the time being uncertificated units of a security in accordance with the Uncertificated Securities Regulations 2001 (as amended from time to time) (the **Uncertificated Securities Regulations**) or in certificated form (**certificated Registered Notes**).

Certificated Registered Notes are represented by registered certificates (**Certificates**) and each Certificate shall represent the entire holding of certificated Registered Notes of each Series by the same holder.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes, in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Bearer Notes and Coupons will pass by delivery. Title to the Registered Notes will pass upon registration in the register (the **Register**) which the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (unless applicable law provides otherwise or provides for additional formalities for transfer of title) and on which shall be entered the names and addresses of the holders of Registered Notes and the particulars of the Registered Notes held by them and of all transfers of Registered Notes, distinguishing between certificated and uncertificated Registered Notes in accordance with the Uncertificated Securities Regulations.

The Issuer, the Trustee and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon (or on the Certificate representing it) or notice of any previous loss or theft thereof (or of the related Certificate)) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next paragraph.

For so long as any of the Bearer Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (**Euroclear**) and/or Clearstream Banking S.A. (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Bearer Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount

of such Bearer Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee and the Agents as the holder of such nominal amount of such Bearer Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Bearer Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, the Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly. Bearer Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

2. Exchange of Exchangeable Bearer Notes and Exchange and Transfers of Registered Notes

(a) Exchange of Exchangeable Bearer Notes

Subject as provided in Condition 2(f), Exchangeable Bearer Notes may be exchanged for the same aggregate principal amount of certificated Registered Notes by submission of a duly completed request for exchange (**Exchange Request**) substantially in the form provided in the Agency Agreement, copies of which are available from the specified office of the Registrar or any Transfer Agent and upon surrender of each Exchangeable Bearer Note to be exchanged, together with all unmatured Coupons and Talons relating to it, at the specified office of any Transfer Agent. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes that are not Exchangeable Bearer Notes may not be exchanged for Registered Notes.

(b) Exchange and Transfers of Registered Notes

Exchange of certificated Registered Notes for uncertificated Registered Notes and *vice versa* shall be effected in accordance with the Uncertificated Securities Regulations and the rules, practices and procedures of a relevant system (as defined below).

One or more certificated Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such certificated Registered Notes to be transferred, together with the form of transfer endorsed in such Certificate duly completed and executed and such other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of certificated Registered Notes represented by a Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor.

Transfers of uncertificated Notes shall be effected by means of a relevant system.

No transfer of Registered Notes will be valid unless and until entered on the Register.

In these Terms and Conditions, **relevant system** has the meaning given to it in regulation 3 of the Uncertificated Securities Regulations.

(c) Exercise of Options or Partial Redemption in respect of Registered Notes

In the case of an exercise of the Issuer's or a Noteholder's option in respect of, or a partial redemption of, a holding of certificated Registered Notes, a new Certificate, if required, shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed.

New Certificates shall only be issued against the surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of certificated Registered Notes to a holder who is already a holder of certificated Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding to the Registrar or any Transfer Agent.

(d) Delivery of New Certificates

Each new Certificate to be issued pursuant to Condition 2(a) or 2(b) shall be available for delivery five business days after receipt by any Transfer Agent or the Registrar of the relevant Exchange Request or form of transfer together, if applicable, with the Certificate for exchange or transfer. Each new Certificate to be issued pursuant to Condition 2(c) shall be available for delivery from the relevant due date of redemption. Delivery of the new Certificate(s) shall be made either at the specified office of the Transfer Agent or of the

Registrar (as the case may be) to whom delivery or surrender of such Exchange Request, form of transfer, Put Notice or Certificate has been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant Exchange Request, form of transfer, Put Notice or otherwise in writing, by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), **business day** means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) *Exchange free of charge*

Exchange and transfer of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax, duty or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or Transfer Agent may reasonably require).

(f) *Closed Period*

No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note to be exchanged for one or more Registered Note(s):

- (i) during the period of seven days ending on the due date for redemption of that Note;
- (ii) subject as provided below, after any such Note has been called for redemption;
- (iii) during the period of seven days immediately preceding any Record Date (as defined in Condition 6(d)) and ending on (and including) the next Interest Payment Date; or
- (iv) in respect of which a Noteholder's redemption option pursuant to Condition 7(d) has been exercised.

An Exchangeable Bearer Note called for redemption may, however, be exchanged for one or more certificated Registered Notes in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date.

3. Status of the Notes

The Notes and any relative Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

4. Negative Pledge

So long as any of the Notes remains outstanding the Issuer will ensure that no Relevant Indebtedness (as defined below) of the Issuer or any of its Principal Subsidiaries (as defined below) will be secured by any Security Interest (as defined below) upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer or any of its Principal Subsidiaries unless the Issuer shall, in the case of the creation of the Security Interest, before or at the same time and, in any other case, promptly, take any and all action necessary to ensure that:

- (i) all amounts payable by it under the Notes, the Coupons and the Trust Deed are secured by the Security Interest equally and rateably with the Relevant Indebtedness to the satisfaction of the Trustee; or
- (ii) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided either (A) as the Trustee shall in its reasonable discretion deem not materially less beneficial to the interests of the Noteholders or (B) as shall be approved by an Extraordinary Resolution (which is defined in the Trust Deed as a resolution duly passed by a majority of not less than three-fourths of the votes cast thereon) of the Noteholders.

For the purposes of these Terms and Conditions:

- (a) **Excluded Subsidiary** at any time means a Subsidiary of the Issuer:
- (1) (A) which is either (x) a special purpose company whose principal assets are constituted by a project or projects or (y) is incorporated and conducts its business primarily outside the United Kingdom; and
 - (B) none of whose indebtedness is directly or indirectly the subject of security or a guarantee, indemnity or any other form of assurance, undertaking or support from the Issuer or any of its Principal Subsidiaries or, where such security, guarantee or indemnity or other form of assurance, undertaking or support is provided, the liability of the Issuer and its Principal Subsidiaries thereunder is contractually limited to and cannot in any circumstances exceed at any time an amount equal to £50,000,000 or its equivalent in any other currency or currencies; and
 - (C) which has been designated as such by the Issuer by written notice to the Trustee; provided that the Issuer may give written notice to the Trustee at any time that any Excluded Subsidiary is no longer an Excluded Subsidiary, whereupon it shall cease to be an Excluded Subsidiary; or
- (2) which has a banking licence or its equivalent in any jurisdiction;
- (b) **Principal Subsidiary** means a Subsidiary of the Issuer (not being an Excluded Subsidiary):
- (1) (A) whose total assets represent not less than 20 per cent of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole; or
 - (B) whose external turnover is more than 20 per cent of the consolidated turnover of the Issuer and its Subsidiaries,
- all as calculated by reference to the then latest audited consolidated accounts of the Issuer and the then latest audited accounts of its Subsidiaries; or
- (2) to which is transferred all or substantially all of the business, undertaking or assets of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary whereupon the transferor Subsidiary shall immediately cease to be a Principal Subsidiary and the transferee Subsidiary shall immediately become a Principal Subsidiary but shall cease to be a Principal Subsidiary under this sub-paragraph (2) (but without prejudice to the provisions of sub-paragraph (1) above) upon publication of its next audited accounts.
- A report by the directors of the Issuer that in their opinion a Subsidiary of the Issuer is or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;
- (c) **Relevant Indebtedness** means:
- (i) any indebtedness for or in respect of any notes, bonds or other debt securities having an original maturity of more than one year which (with the consent of the issuer of the indebtedness) are for the time being listed or traded on a stock exchange or other recognised securities market, other than any notes, bonds or other debt securities issued by an acquired Subsidiary prior to the date of the acquisition and not issued in contemplation of such acquisition; and
 - (ii) any guarantee or indemnity in respect of any such indebtedness;
- (d) **Security Interest** means any mortgage, charge, lien, pledge or other security interest, but shall not include any security interest over cash created or arising solely or principally in connection with, and for the purpose of, a defeasance arrangement; and
- (e) **Subsidiary** means a subsidiary within the meaning of Section 1159 of the Companies Act 2006.

5. Interest

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in these Terms and Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a):

- (i) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:
 - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Terms and Conditions:

Determination Period means each period from (and including) a Determination Date to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) *Interest on Floating Rate Notes*

(i) *Interest Payment Dates*

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In these Terms and Conditions, **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, **Business Day** means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Final Terms; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the

Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(B) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR or EURIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 11.00 a.m. London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR (the **Specified Time**) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of Condition 5(b)(ii)(B)(1), no offered quotation appears or, in the case of Condition 5(b)(ii)(B)(2), fewer than three offered quotations appear, in each case as at the Specified Time, the Principal Paying Agent shall request each of the Reference Banks to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or

more of the Reference Banks provide the Principal Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Principal Paying Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Principal Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Principal Paying Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Principal Paying Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Principal Paying Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

Reference Banks means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Principal Paying Agent.

Reference Rate shall mean (i) LIBOR or (ii) EURIBOR, in each case for the relevant period, as specified in the applicable Final Terms.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

The Principal Paying Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Principal Paying Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or
- (B) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5(b):

- (i) if “Actual/Actual (ISDA)”, or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Interest Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D₁ is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Interest Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D₁ is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30; and

- (vii) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Interest Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D₁ is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 in which case D₂ will be 30.

(v) *Linear Interpolation*

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Principal Paying Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period, provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Principal Paying Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

Designated Maturity means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(vi) *Notification of Rate of Interest and Interest Amounts*

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and

the London Stock Exchange and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to the London Stock Exchange and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vii) *Determination or calculation by the Trustee*

If for any reason at any time the Principal Paying Agent defaults in its obligation to determine the Rate of Interest or calculate any Interest Amount in accordance with sub-paragraph 5(b)(ii) or 5(b)(iv), as the case may be, above, the Trustee (or a person appointed by it for that purpose) shall determine the Rate of Interest at such rate plus or minus (as appropriate) the relevant Margin (if any) in its absolute discretion (having regard as it shall think fit to the foregoing provisions of this Condition 5 but subject always to sub-paragraph 5(b)(iii) above), it shall deem fair and reasonable in all the circumstances and/or, as the case may be, the Trustee (or a person appointed by it for that purpose) shall calculate the Interest Amount in the manner referred to in sub-paragraph (iv) above and such determination and/or calculation shall be deemed to have been made by the Principal Paying Agent. The Trustee shall have no liability to any person in connection with any determination or calculation it is required to make pursuant to this Condition 5(vii).

(viii) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5(b) by the Principal Paying Agent shall (in the absence of wilful default, bad faith, manifest error or proven error) be binding on the Issuer, the Trustee, the Principal Paying Agent, the other Agents and all Noteholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Trustee, the Noteholders or the Couponholders shall attach to the Principal Paying Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Accrual of interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation of such Note (in the case of Bearer Notes) or Certificate representing the same (in the case of certificated Registered Notes) or, in the case of uncertificated Registered Notes, in compliance with the rules from time to time laid down by the Issuer in a manner consistent with the rules, practices and procedures of a relevant system, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

6. Payments

(a) *Method of payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively); and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue

Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto.

(b) Presentation of definitive Bearer Notes and Coupons

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Notes in definitive bearer form (other than Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Bearer Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

(c) Payments in respect of Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes and otherwise in the manner specified in the relevant Global Note, where applicable against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made either on such Global Note by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

(d) Payments in respect of Registered Notes

Payments of principal and interest on each Registered Note will be made (subject, in the case of a payment of principal in respect of a certificated Registered Note, to the presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relative Certificate at the specified office of the Registrar or any of the Paying Agents) by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the certificated Registered Note appearing in the Register maintained by the Registrar at the close of business on the seventh business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date (the **Record Date**). Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its

approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below) and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register at the close of business on the Record Date at its address shown in the Register on the Record Date and at its risk.

For these purposes:

Designated Account means the account maintained by the holder with a Designated Bank and identified as such in the Register; and

Designated Bank means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of payment in euro) any bank which processes payments in euro.

In the case of uncertificated Registered Notes, such steps will be taken as the Trustee shall consider necessary having regard to the Uncertificated Securities Regulations and to the rules, practices and procedures of a relevant system to indicate the making of such payment, and may include, if the Trustee thinks fit, a requirement for such uncertificated Registered Note to be changed to a certificated Registered Note before payment.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post.

(e) General provisions applicable to payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Bearer Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Bearer Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(f) Payment Day

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 9) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) in the case of Notes in definitive form only, the relevant place of presentation;
 - (B) each Additional Financial Centre specified in the applicable Final Terms; and

- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

(g) *Interpretation of principal and interest*

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7(e)); and
- (vi) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

7. Redemption and purchase

(a) *Redemption at maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at 100 per cent of its nominal amount in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

(b) *Redemption for tax reasons*

Subject to Condition 7(e) the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms to the Principal Paying Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if as soon as practicable before giving such notice:

- (i) the Issuer satisfies the Trustee that, on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8), or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee to make available at its specified office to the Noteholders a certificate signed by two authorised signatories of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out above in which event it shall be conclusive and binding on the Noteholders and Couponholders.

Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

In this Condition 7(b) **authorised signatory** means a director, company secretary, or any other person authorised by the board of directors of the Issuer to provide certificates in relation to the Notes.

(c) *Redemption at the option of the Issuer (Issuer Call)*

If Issuer Call is specified as being applicable in the applicable Final Terms, the Issuer may, having given:

- (i) not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms to the Noteholders in accordance with Condition 14; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Trustee, the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms.

If Spens Amount is specified in the applicable Final Terms as the Optional Redemption Amount, the Optional Redemption Amount shall be equal to the higher of (i) 100 per cent of the principal amount outstanding of the Notes to be redeemed or (ii) the principal amount outstanding of the Notes to be redeemed multiplied by the price, as reported to the Issuer and the Trustee by the Financial Adviser, at which the Gross Redemption Yield on such Notes on the Reference Date is equal to the Gross Redemption Yield (determined by reference to the middle market price) at the Quotation Time specified in the applicable Final Terms on the Reference Date of the Reference Bond, plus the Redemption Margin, all as determined by the Financial Adviser.

If Make-Whole Amount is specified in the applicable Final Terms as the Optional Redemption Amount, the Optional Redemption Amount shall be an amount calculated by the Agent equal to the higher of (i) 100 per cent of the principal amount outstanding of the Notes to be redeemed or (ii) the sum of the present values of the principal amount outstanding of the Notes to be redeemed and the Remaining Term Interest on such Note (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on an annual basis at the Reference Bond Rate, plus the Redemption Margin.

In this Condition 7(c):

FA Selected Bond means a government security or securities selected by the Financial Adviser as having an actual or interpolated maturity comparable with the remaining term of the Notes that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the same currency as the Notes and of a comparable maturity to the remaining term of the Notes;

Financial Adviser means a financial adviser selected by the Issuer after consultation with the Trustee;

Gross Redemption Yield means, with respect to a security, the gross redemption yield on such security, expressed as a percentage and calculated by the Financial Adviser on the basis set out by the United Kingdom Debt Management Office in the paper "Formulae for Calculating Gilt Prices from Yields", page 4, Section One: Price/Yield Formulae "Conventional Gilts; Double dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date" (published 8 June, 1998, as amended or updated from time to time) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) or on such other basis as the Trustee may approve;

Redemption Margin shall be as set out in the applicable Final Terms;

Reference Bond shall be as set out in the applicable Final Terms or shall be the FA Selected Bond;

Reference Bond Price means, with respect to any date of redemption, (A) the arithmetic average of the Reference Government Bond Dealer Quotations for such date of redemption, after excluding the highest and lowest such Reference Government Bond Dealer Quotations, or (B) if the Agent obtains fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations;

Reference Bond Rate means, with respect to any date of redemption, the rate per annum equal to the annual or semi-annual yield (as the case may be) to maturity or interpolated yield to maturity (on the relevant day count basis) of the Reference Bond, assuming a price for the Reference Bond (expressed as a percentage of its nominal amount) equal to the Reference Bond Price for such date of redemption;

Reference Date will be set out in the relevant notice of redemption;

Reference Government Bond Dealer means each of five banks selected by the Issuer, or their affiliates, which are (A) primary government securities dealers, and their respective successors, or (B) market makers in pricing corporate bond issues;

Reference Government Bond Dealer Quotations means, with respect to each Reference Government Bond Dealer and any date for redemption, the arithmetic average, as determined by the Agent, of the bid and offered prices for the Reference Bond (expressed in each case as a percentage of its nominal amount) at the Quotation Time specified in the applicable Final Terms on the Reference Date quoted in writing to the Agent by such Reference Government Bond Dealer; and

Remaining Term Interest means, with respect to any Note, the aggregate amount of scheduled payment(s) of interest on such Note for the remaining term of such Note determined on the basis of the rate of interest applicable to such Note from and including the date on which such Note is to be redeemed by the Issuer pursuant to this Condition 7(c).

All notifications, opinions, determinations, certifications, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7(c) by the Agent, shall (in the absence of negligence, wilful default or bad faith) be binding on the Issuer, the Agent, the Trustee, the Paying Agents, the Registrar (if applicable) and all Noteholders and Couponholders.

In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7(c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

(d) *Redemption at the option of the Noteholders*

(i) *General Investor Put*

If General Investor Put is specified as being applicable in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms, the Issuer will, upon the expiry of such notice, redeem such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition in any multiple of their lowest Specified Denomination.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver such Note or the Certificate representing the same at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of certificated Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the

Registrar (a **Put Notice**) and in which the holder must specify (a) a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and (b) in the case of certificated Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which the new Certificate in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2(b). If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on its instruction by Euroclear or Clearstream, Luxembourg or any common depositary or common safekeeper (as the case may be) for Euroclear or Clearstream, Luxembourg to the Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this Condition 7(d)(i) shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Put Notice and instead to declare such Note forthwith due and payable pursuant to Condition 10.

A holder of uncertificated Registered Notes shall exercise the right to require redemption by complying with the rules, practices and procedures of a relevant system.

(ii) *Change of Control Investor Put*

If Change of Control Investor Put is specified as being applicable in the applicable Final Terms, the following provisions shall apply to the Notes.

(a) A **Put Event** will be deemed to occur if:

(A) any person (being an individual, partnership, company, corporation, unincorporated organisation, trust or joint venture, or any governmental agency or political subdivision thereof) or any persons acting in concert (as defined in the City Code on Takeovers and Mergers) or any person or persons acting on behalf of any such person(s) (the **Relevant Person**) at any time directly or indirectly own(s) or acquire(s): (A) more than 50 per cent of the issued or allotted ordinary share capital of the Issuer or (B) such number of shares in the capital of the Issuer carrying more than 50 per cent of the total voting rights attached to the issued or allotted share capital of the Issuer that are normally exercisable at a general meeting of the Issuer (such event being a **Change of Control**), provided that a Change of Control shall be deemed not to have occurred if all or substantially all of the shareholders of the Relevant Person are, or immediately prior to the event which would otherwise have constituted a Change of Control were, the shareholders of the Issuer with the same (or substantially the same) pro rata interest in the share capital of the Relevant Person as such shareholders have or, as the case may be, had in the share capital of the Issuer; and

(B) on the date (the **Relevant Announcement Date**) that is the earlier of (x) the date of the first public announcement of the relevant Change of Control; and (y) the date of the earliest Relevant Potential Change of Control Announcement (if any), the Notes carry from any Rating Agency (as defined below):

(1) an investment grade credit rating (*Baa3/BBB-*, or equivalent, or better), and such rating from any Rating Agency is within the Change of Control Period either downgraded to a non-investment grade credit rating (*Ba1/BB+*, or equivalent, or worse) or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded or (in the case of a withdrawal) reinstated to an investment grade credit rating by such Rating Agency; or

(2) a non-investment grade credit rating (*Ba1/BB+*, or equivalent, or worse), and such rating from any Rating Agency is within the Change of Control

Period downgraded by one or more notches (*for illustration, Ba1/BB+ to Ba2/BB being one notch*) or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded or (in the case of a withdrawal) reinstated to its earlier credit rating or better by such Rating Agency; or

- (3) no credit rating, and no Rating Agency, assigns within the Change of Control Period an investment grade credit rating to the Notes,

provided that, if on the Relevant Announcement Date the Notes carry a credit rating from more than one Rating Agency, at least one of which is investment grade, then sub-paragraph (1) will apply; and

- (C) in making the relevant decision(s) referred to above, the relevant Rating Agency announces publicly or confirms in writing to the Issuer or the Trustee that such decision(s) resulted, in whole or in part, from the occurrence of the Change of Control or the Relevant Potential Change of Control Announcement.
- (b) If a Put Event occurs, the holder of each Note shall have the option to require the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) each such Note on the Put Date (as defined below) at an amount equal to its Final Redemption Amount (the **Optional Redemption Amount**) together with interest accrued to but excluding the date of redemption or purchase. Such option (the **Put Option**) shall operate as set out below.
- (c) Promptly upon the Issuer becoming aware that a Put Event has occurred the Issuer shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders, shall (subject in each case to being indemnified to its satisfaction), give notice (a **Put Event Notice**) to the Noteholders in accordance with Condition 14 specifying the nature of the Put Event and the procedure for exercising the option contained in this Condition 7(d)(ii).
- (d) To exercise the Put Option under this Condition 7(d)(ii) the holder of the Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver such Note or the Certificate representing the same at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of certificated Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar, falling within the period (the **Put Period**) of 45 days after a Put Event Notice is given, accompanied by a duly signed and completed Put Notice (as defined in Condition 7(d)(i)). The Note (in the case of Bearer Notes) should be delivered together with all Coupons appertaining thereto maturing after the date which is seven days after the expiry of the Put Period (the **Put Date**), failing which the Paying Agent will require payment of an amount equal to the face value of any such missing Coupon. Any amount so paid will be reimbursed in the manner provided in Condition 6 against presentation and surrender of the relevant missing Coupon (or any replacement therefor issued pursuant to Condition 11) at any time after such payment, but before the expiry of the period of five years from the Relevant Date (as defined in Condition 8) in respect of that Coupon. Payment in respect of any such Note will be made on the Put Date either (i) by transfer to the bank account (if any) specified in the relevant Put Notice or (ii) if no bank account is so specified, by cheque posted to the address specified in the relevant Put Notice. If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on its instruction by Euroclear or Clearstream, Luxembourg or any common depositary or common safekeeper (as the case may be) for Euroclear or Clearstream Luxembourg to the Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time. The Issuer shall redeem or purchase the relevant Notes in accordance with this Condition 7(d)(ii) unless such Notes have been previously redeemed and cancelled.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this Condition 7(d)(ii) shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Put Notice and instead to declare such Note forthwith due and payable pursuant to Condition 10.

A holder of uncertificated Registered Notes shall exercise the right to require redemption by complying with the rules, practices and procedures of a relevant system.

If 80 per cent or more in nominal amount of the Notes outstanding as at the day immediately preceding the day on which the Put Event Notice was given have been redeemed pursuant to this Condition 7(d)(ii), the Issuer may, on not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the Noteholders given within 30 days after the Put Date, redeem, at its option, all, but not some only, of the remaining Notes at the Optional Redemption Amount plus interest accrued to but excluding the date of such redemption.

(e) If the rating designations employed by either Moody's or S&P are changed from those which are described in paragraph (a)(B) above, or if a rating is procured from a Substitute Rating Agency, the Issuer shall determine, with the agreement of the Trustee (not to be unreasonably withheld or delayed), the rating designations of Moody's or S&P or such Substitute Rating Agency (as appropriate) as are most equivalent to the prior rating designations of Moody's or S&P and paragraph (a)(B) above shall be read accordingly.

(f) The Trustee is under no obligation to ascertain whether a Put Event or Change of Control, or any event which could lead to the occurrence of, or could constitute, a Put Event or Change of Control, has occurred and, until it shall have actual knowledge or notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no Put Event or Change of Control or other such event has occurred.

(g) In these Terms and Conditions:

Change of Control Period means the period commencing on the Relevant Announcement Date and ending 90 days after the Change of Control (or such longer period for which the Notes are under consideration (such consideration having been announced publicly within the period ending 90 days after the Change of Control) for rating review or, as the case may be, rating by a Rating Agency, such period not to exceed 60 days after the public announcement of such consideration);

Rating Agency means Standard & Poor's Credit Market Services Europe Limited (**S&P**) or Moody's Investors Service Ltd (**Moody's**) or their respective successors or any rating agency (a **Substitute Rating Agency**) substituted for any of them by the Issuer from time to time with the prior written approval of the Trustee; and

Relevant Potential Change of Control Announcement means any public announcement or statement by the Issuer, any actual or potential bidder or any adviser thereto relating to any potential Change of Control provided that within 180 days following the date of such announcement or statement a Change of Control occurs.

(e) *Early Redemption Amounts*

For the purpose of paragraph (b) above and Condition 10, each Note will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Note (other than a Zero Coupon Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in the applicable Final Terms or, if no such amount is so specified in the applicable Final Terms, at its nominal amount; or

- (iii) in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is the Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

(f) *Purchases*

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

(g) *Cancellation*

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to paragraph (f) above (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

(h) *Late payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent, the Trustee or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 14.

8. **Taxation**

All payments of principal and interest in respect of the Notes and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (i) presented for payment in the United Kingdom; or

- (ii) the holder of which is liable for such taxes or duties in respect of such Note or Coupon by reason of its having some connection with a Tax Jurisdiction other than the mere holding of such Note or Coupon; or
- (iii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6(f)).

As used herein:

- (i) **Tax Jurisdiction** means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent, the Trustee or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14 and, in the case of Registered Notes, cheques shall have been despatched and/or payment made in accordance with mandate instructions in accordance with Condition 6.

9. Prescription

The Notes (whether in bearer or registered form) and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(b) or any Talon which would be void pursuant to Condition 6(b).

10. Events of default

(a) *Events of Default*

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction against all proceedings, claims and demands to which it may be liable and against all costs, charges, liabilities and expenses which may be incurred by it in connection with such enforcement or appointment, including the cost of its managements' time and/or other internal resources, calculated using its normal hourly rates in force from time to time), (but in the case of the happening of any of the events mentioned in sub-paragraphs (ii), (iii) (other than the winding-up or dissolution of the Issuer), (iv), (v) and (vi) below only if the Trustee has certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders), give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed, if any of the following events (each an **Event of Default**) occurs:

- (i) default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of seven days in the case of principal or 14 days in the case of interest; or
- (ii) there is a failure in the performance of any obligation under the Notes or the Trust Deed (other than an obligation to make payment of any principal or interest thereunder) which:
 - (A) in the opinion of the Trustee, is incapable of remedy; or
 - (B) being in the opinion of the Trustee capable of remedy, continues for the period of 30 days (or such longer period as the Trustee may permit) after written notification requiring such failure to be remedied has been given to the Issuer by the Trustee; or
- (iii) (except for the purpose of a reconstruction, an amalgamation or, in the case of a Principal Subsidiary, a voluntary winding-up, in each case the terms of which have previously been approved in writing by the Trustee) an order is made (and not discharged or stayed within a

period of 30 days) or an effective resolution is passed for winding up the Issuer or any of its Principal Subsidiaries or an administration order is made in relation to the Issuer or any of its Principal Subsidiaries; or

- (iv) an administrative or other receiver is appointed of the whole or substantially the whole of the assets of the Issuer or any of its Principal Subsidiaries and is not removed, paid out or discharged within 30 days or, following such 30 day period, the appointment is not being disputed in good faith; or
- (v) the Issuer or any of its Principal Subsidiaries makes a general assignment for the benefit of its creditors; or
- (vi)
 - (A) any loan or other indebtedness for borrowed money (as defined in the Trust Deed) of the Issuer or any of its Principal Subsidiaries, amounting in aggregate to not less than £40,000,000 or its equivalent in other currencies, becomes due and repayable prematurely by reason of an event of default (however described) or is not repaid on its final maturity date (as extended by any applicable grace period); or
 - (B) any security given by the Issuer or any of its Principal Subsidiaries for any loan or indebtedness for borrowed money amounting in aggregate to not less than £40,000,000 or its equivalent in other currencies becomes enforceable and steps are taken to enforce the same; or
 - (C) default is made by the Issuer or any of its Principal Subsidiaries in making any payment due under any guarantee or indemnity given by it in respect of any loan or indebtedness for borrowed money amounting in aggregate to not less than £40,000,000 or its equivalent in other currencies.

(b) Enforcement

The Trustee may, in its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Notes and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of not less than one-quarter in principal amount of the Notes then outstanding and (ii) it shall have been indemnified to its satisfaction.

No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and the failure is continuing.

11. Replacement of Notes, Coupons and Talons

Should any Bearer Note, Certificate, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Notes or Coupons) or the Registrar (in the case of Certificates) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates, Bearer Notes, Coupons or Talons must be surrendered before replacements will be issued.

12. Agents

The names of the initial Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (i) there will at all times be a Principal Paying Agent; and
- (ii) so long as the Notes are listed on the London Stock Exchange, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the London Stock Exchange (or any other relevant authority); and

- (iii) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6(e). Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 14.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and, in the certain limited circumstances specified in the Agency Agreement and the Trust Deed, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

13. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14. Notices

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the *Financial Times* in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of the London Stock Exchange on which the Bearer Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on the London Stock Exchange's regulated market or are admitted to the Official List of the UK Listing Authority and the rules of the London Stock Exchange or the UK Listing Authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Bearer Notes are issued, there may, so long as any Global Notes representing the Bearer Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on the London Stock Exchange's regulated market or are admitted to the Official List of the UK Listing Authority and the rules of the London Stock Exchange or the UK Listing Authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Bearer Notes are represented by a Global Note, such notice may be given by any holder of a Bearer Note to the Principal Paying Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

15. Meetings of Noteholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons, these Terms and Conditions or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or Noteholders holding not less than ten per cent in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Trustee and the Issuer may agree, without the consent of the Noteholders or Couponholders, to:

- (a) any modification of the Notes, the Coupons, these Terms and Conditions or the Trust Deed which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders; or
- (b) any modification of these Terms and Conditions, the Notes, the Coupons or the Trust Deed which is in the opinion of the Trustee of a formal, minor or technical nature or is made to correct a manifest error or an error which, in the opinion of the Trustee, is proven or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders and the Couponholders and any such modification shall, unless the Trustee agrees otherwise, be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

The Trustee may also agree, without the consent of the Noteholders or Couponholders, to the waiver or authorisation of any breach or proposed breach of any of these Terms and Conditions or any of the provisions of the Trust Deed or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders.

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, but without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interest of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except, in the case of the Issuer, to the extent provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

16. Substitution

Subject as provided in the Trust Deed, the Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the Noteholders, may agree, without the consent of the Noteholders or Couponholders, to the substitution of any successor in business to the Issuer or of a Subsidiary either of the Issuer or any successor in business to the Issuer in place of the Issuer or any successor in business to the Issuer as principal debtor under the Trust Deed, the Notes and the Coupons, provided in the case of a Subsidiary either of the Issuer or of any successor in business to the Issuer the obligations of such Subsidiary in respect of the Trust Deed, the Notes and the Coupons shall be guaranteed by the Issuer or such successor in business in a form satisfactory to the Trustee. Any such substitution shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such substitution shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

17. Indemnification of the Trustee and its Contracting with the Issuer

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction against all proceedings, claims and demands to which it may be liable and against all costs, charges, liabilities and expenses which may be incurred by it in connection with such

enforcement or appointment, including the cost of its managements' time and/or other internal resources using its normal hourly rates in force from time to time.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or any of its Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or Couponholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

18. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the Issue Date, the amount and date of the first payment of interest thereon and/or the Issue Price and so that the same shall be consolidated and form a single Series with the outstanding Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of bearer or registered notes of other Series in certain circumstances where the Trustee so decides.

19. Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Notes, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20. Governing Law

The Trust Deed, the Agency Agreement, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency Agreement, the Notes and the Coupons are governed by, and shall be construed in accordance with, English law.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes (which include making a profit and making acquisitions).

DESCRIPTION OF THE ISSUER

The legal and commercial name of the Issuer is Centrica plc. The Issuer was registered and incorporated in England and Wales under registration number 03033654 and operates under the Companies Act 2006 as a public limited company. The Issuer was incorporated on 16 March 1995 and its shares were first traded on the London Stock Exchange on 17 February 1997. The Issuer's registered office is located at Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD and the telephone number is 01753 494 000.

The Issuer is the parent company of the group (the **Group**) comprising Centrica plc and all its subsidiary undertakings. As the parent company of the Group, the Issuer is dependent on receiving dividends and revenues from its subsidiaries.

DIRECTORS AND SENIOR MANAGEMENT OF THE ISSUER

The directors and senior management of the Issuer, their position and principal activities outside the Group, where those are significant, are as follows as at the date of this Base Prospectus:

Centrica plc Board of Directors

Name	Position	Outside Directorships/Activities
Rick Haythornthwaite	Chairman	Chairman, Mastercard Incorporated Director, RH Management Limited Director, Glass Holdings SA Director, Arc International Holdings Director, QIO Technologies Limited Chairman, Creative Industries Federation
Iain Conn	Group Chief Executive	Member of the Council, Imperial College London Chairman, Advisory Board, Imperial College Business School Member, CBI: President's Committee Non-Executive Director, BT Group plc Member, British Museum Chairman's Advisory Group Member, Magritte Group Member, European Round Table of Industrialists Member, British American Business International Advisory Board Trustee, Movement to Work Member, Trilateral Commission Director, Centre for European Reform's Advisory Board Member, Advisory Board, European Centre for Energy & Resource Security (EUCERS), Department of War Studies, King's College, London
Jeff Bell	Group Chief Financial Officer	N/A
Margherita Della Valle	Non-Executive Director	Director, Woodsford Square Management Limited Member, HM Treasury's Financial Management Review Board of HM Government Deputy Group CFO, Vodafone Group plc Trustee, Vodafone Foundation

Centrica plc Board of Directors

Name	Position	Outside Directorships/Activities
Joan Gillman	Non-Executive Director	Director, VF Ventures Limited Director, Airgain Inc Director, InterDigital Inc Director, Transit Wireless LLC
Mark Hanafin	Group Executive Director and Chief Executive, Energy Production, Trading and Distributed Energy	Non-Executive Director, EDF Energy Nuclear Generation Group Limited Non-Executive Director, Lake Acquisitions Limited
Stephen Hester	Non-Executive Director	Group Chief Executive, RSA Insurance Group plc
Mark Hodges	Group Executive Director and Chief Executive, Energy Supply & Services, UK & Ireland	Director, Association of Electricity Producers Limited (t/a Energy UK)
Lesley Knox	Non-Executive Director	Chairman, Design Dundee Limited Trustee, Grosvenor Estates Chairman, Grosvenor Group Limited Director, NGS Trading Company Limited Non-Executive Director, Legal & General Group plc Non-Executive Director, Thomas Cook Group plc Trustee, National Galleries Scotland
Carlos Pascual	Non-Executive Director	Non-resident Senior Fellow, Centre on Global Energy Policy, Columbia University Senior Vice President, Global and International Issues, IHS Markit Advisory Board, Riverstone Holdings LLC Adviser, Repsol, S.A Director, Evercore Mexico Trust Fund External Advisory Board Member, GE Ecomagination
Steve Pusey	Non-Executive Director	Member, The Invicta Film Partnership No.43, LLP Member, Cumberland House BPRA

Centrica plc Board of Directors

Name	Position	Outside Directorships/Activities
		Property Fund LLP Non-Executive Director, FireEye Inc. Non-Executive Director, Apax Partners Board member, GlobalLogic Director, The Pusey Group Limited Huawei Customer Strategy Board HP Customer Advisory Board Board member, Vista Inc Private Equity Advisory Board
Scott Wheway	Non-Executive Director	Senior Independent Director, Santander UK plc Non-Executive Director, Santander UK Group Holdings plc Chairman, Aviva Insurance Limited

Centrica plc Senior Management

Name	Position	Outside Directorships/Activities
Charles Cameron	Director of Technology & Engineering	N/A
Chris Cox	Managing Director, Exploration & Production	Director, Oxomo Tequila Ltd Director, Curium Energy Ltd Chairman, CATS Management Limited Director, Cox Gulf Coast Properties LLC
Grant Dawson	Group General Counsel & Company Secretary	Vice Chairman, GC100 Director, Aiyana Sci
Jill Shedden	Group HR Director	N/A
Mike Young	Group Chief Information Officer	N/A

The business address of the directors and the senior management (as described above) of the Issuer is c/o Centrica plc, Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD. There are no potential conflicts of interest between the duties to the Issuer of the directors or the senior management (as described above) of the Issuer and their private interests and/or other duties.

DESCRIPTION OF THE CENTRICA GROUP

Background and Formation

The Issuer was listed in 1997 following the demerger of the gas supply, service and retail businesses of British Gas plc together with its Morecambe gas field production activities. The Group at the time comprised British Gas Trading Limited, British Gas Services Limited, British Gas Energy Centres Limited and Accord Energy Limited, together with the gas production business of the North and South Morecambe gas fields owned through Hydrocarbon Resources Limited and various other subsidiaries.

Since 1997, the Group has made numerous acquisitions and disposals and has developed organically. As at 31 December 2016, the Group had a gross turnover of approximately £28.3 billion (as described on page 119 of the annual report of the Issuer for the year ended 31 December 2016) and, during 2016, employed on average over 38,000 people. The principal operations of the Group as at the date of this Base Prospectus are described briefly below.

The Group's Strategy

In July 2015, the Group completed a fundamental and wide-ranging strategic review which concluded that Centrica's strength lies in being a customer-facing business, with a purpose to provide energy and services to satisfy the changing needs of its customers.

The Group's activities and priorities have therefore been re-focused away from its asset business and towards its customer-facing businesses: energy supply; services; distributed energy and power; the connected home; and energy marketing and trading. The Group also announced in July 2015 that it would reduce and limit the scale of its operations in exploration and production and central power generation. The Group considers its customer-facing businesses as a source of competitive advantage given its distinctive positions and capabilities, including strong market shares, good brands and deep capability in energy services. These areas are expected to receive additional operating and capital resources of about £1.5 billion by 2020 when compared to 2015.

In order to realise value from a more aligned and coherent approach to the end-customer, and to ensure that capability is developed globally and efficiently in support of the Group's customer-focused strategy, in February 2017 the Group established two new customer-facing global divisions: Centrica Consumer and Centrica Business. The Group's main existing business units have since been re-organised under these divisions. Centrica Consumer comprises the UK Home, Ireland, North America Home and Connected Home business units, with a strategic framework developed around five areas of offer – energy supply, services, peace of mind, home energy management and home automation. Centrica Business comprises the UK Business, North America Business, Distributed Energy & Power (DE&P), Energy Marketing & Trading (EM&T) and Centrica Power Generation business units, with a strategic framework developed around five areas of offer – energy supply, wholesale energy, energy insight, energy optimisation and energy solutions.

The E&P and Central Power Generation businesses will continue to play a role in the Group's portfolio by providing diversity of cash flows and the balance sheet strength that goes with this. In July 2017, the Group announced that it will be combining its European E&P business with Bayerngas Norge AS to create a new joint venture, with the Group owning a 69 per cent stake in the joint venture entity. This will create a strong and sustainable self-financing European E&P business, by combining Centrica's relatively near-term production profile with Bayerngas Norge AS's more recently on-stream producing assets and development portfolio. The new joint venture entity is expected to deliver near-term annual production in the 45-55 million barrels of oil equivalent (mboe) range. In Central Power Generation, during 2017 the Group rationalised its thermal power generation portfolio with the sale of its two largest CCGTs at Langage and Humber, and completed its exit from wind power generation ownership. It continues to focus its growth on peaking units and distributed generation.

In February 2017, the Group established a new function, Centrica Innovations, which will target small early stage investments which help identify, incubate and accelerate new technologies and innovations that provide the right offers, products and services for the Group's customers.

In addition to this re-organisation and portfolio shift, the Group is targeting improvements in efficiency, aiming to deliver a reduction of £750 million per annum by 2020 in its like-for-like 2015 base of operating costs and controllable cost of goods. The Group is on track to deliver £250 million of savings in 2017, which will take total savings since 2015 to approaching £650 million, well ahead of its original plan to achieve two thirds of the savings by the end of 2018. Taking into account the Group's incremental

investments for growth and the effects of inflation, the Group expects its reported operating cost base in 2020 to be at or below the same level as 2015.

Overall, as part of its financial framework, the Group is targeting adjusted operating cash flow growth of 3-5 per cent per annum at flat real commodity prices, driven predominantly by growth from its focus areas described above and the major cost efficiency programme. In 2016, adjusted operating cash flow growth was 14 per cent.

In summary, the Group believes it is well placed to build on its existing strengths and the strategy is aimed at establishing it as a leading energy and services provider, able to serve its customers' needs and deliver long-term shareholder value through returns and growth.

The ability of the Issuer to deliver on this strategy is subject to a number of risks. Please see "Risk Factors" for further information.

Centrica Consumer

Centrica Consumer consists of four business units: UK Home, Ireland, North America Home and Connected Home. In June 2016 the CMA published its final report on its investigation into the UK energy market (please see "*Risk Factors – The Group is subject to the remedies proposed by the CMA in relation to the Energy Market Investigation*" for further information).

UK Home

UK Home is a national supplier of gas and electricity to customers in Britain's domestic market, predominantly under the British Gas brand. A majority of its domestic customers are now dual fuel customers – reflecting the Group's efforts to sell electricity to its single fuel gas customers. As of 30 June 2017, UK Home supplied gas and/or electricity to over 8 million customers with 13.9 million customer accounts.

UK Home also continues to lead the industry in the roll-out of smart meters and, as of 30 June 2017, had installed 4 million smart meters in customers' homes.

UK Home is also a national provider of energy related maintenance and repair services for the home, and as at 30 June 2017 had 7.4 million customer accounts, many of which are provided in connection with insurance products sold by the Group. British Gas Insurance Limited has been established as an insurer and British Gas Services Limited has been given authority to sell its insurance based service and repair products. British Gas Insurance Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority to carry out these functions. British Gas Services Limited is also authorised and regulated by the Financial Conduct Authority. The services provided include maintenance and repair contracts and on-demand services for central heating, plumbing and drains, home electrics and kitchen appliances. It owns the franchise business Dyno-Rod, a UK drain specialist, as well as its related plumbing business and has now launched a new technology-led on-demand services platform, 'Local Heroes', which provides access to local tradesman backed by a British Gas guarantee. In addition, UK Home is one of the UK's largest national installer of domestic central heating boilers and systems.

In April 2017, UK Home launched its British Gas Rewards programme, under which digital and data science is used to personalise offers and rewards for customers. There has been a strong early sign-up, with 150,000 members as of June 2017.

Ireland

In June 2014, the Group acquired Bord Gáis' gas and electricity supply business in the Republic of Ireland, including the Whitegate gas-fired power station, for €214 million (approximately £172 million). The transaction provided a vertically integrated energy supply business in an adjacent downstream market to the UK and a platform for growth. The business had approximately 694,000 gas and electricity accounts in Ireland as at 30 June 2017. Bord Gáis Energy continues to leverage Centrica's expertise in deregulated energy markets, having in 2015 launched the first residential fixed price tariff in the Republic of Ireland, as well as the full suite of Hive connected home products in the first half of 2017.

North America Home

As at 30 June 2017, North America Home had approximately 2.7 million residential gas and electricity customer accounts, predominantly under the Direct Energy brand in deregulated markets. Its principal markets include the province of Alberta, the northeastern United States and the state of Texas. The business has been built from three major acquisitions – Direct Energy in 2000, CPL Retail Energy LP and

WTU Retail Energy L.P. in Texas in 2002 and the acquisition of around one million residential gas and electricity customers in Alberta from the ATCO Group in 2004. These larger-scale acquisitions have been supplemented with a number of smaller acquisitions over the years.

North America Home also provides heating, ventilation and air-conditioning services, plumbing, electrical services, home protection plans and energy advisory activities, across the United States and in Canada in the form of contracts and on-demand services. As at 30 June 2017, North America Home had approximately 871,000 services customer accounts across North America. In July 2017, North America Home announced that it would be exiting the residential solar market by the end of 2017 due to challenging market dynamics and falling margins, although the Group's participation in commercial solar in North America will continue as part of its DE&P customer offering. Direct Energy is a key channel for the Group's Hive products in North America, including the smart thermostat which was launched in April 2017. Overall, as of 30 June 2017, North America Home has sold 30,000 Hive hubs.

Connected Home

The Connected Home is one of the Group's focus areas for growth and it has brought together the Group's existing expertise in the UK and North America to create a single international business unit. It is focused on the Centrica Consumer strategic pillars of peace of mind, home energy management and home automation.

The business continues to look to develop new and innovative products, and as at 30 June 2017 had sold approximately 660,000 connected hubs, mostly under the Hive brand, and had sold over 1 million Hive connected home products. The Hive brand is a smart home device producer which offers products, services and subscriptions which connect the home remotely.

In March 2015, the business acquired AlertMe, the provider of the technical platform that underpins the Group's connected home activity, including Hive. In July 2015, the business launched Hive Active Heating 2 in the UK, the next generation of the Hive smart thermostat, and in 2016 launched a suite of new home technology products: Hive Active Plug; Hive Window and Door Sensor; Hive Motion Sensor; Hive Active Light and Boiler IQ. In the second half of 2016, the Group partnered with Amazon Echo to allow its Hive customers to control their heating, lighting and plugged in devices simply by speaking through the Alexa voice assistant. In August 2016, the business added to its capabilities through the acquisition of FlowGem, an early stage UK-based business developing unique and innovative technology to remotely detect water leaks.

In the first half of 2017, the Group launched two new products: the Hive Camera, which links customers with their home and family through live HD streaming capability, and a U.S. smart thermostat with air conditioning. In the second quarter of 2017, the full suite of Hive products was launched in North America and Ireland, with connected products now also available to customers in Italy.

The Group has now also launched a range of subscription offers, including a 'Heating and Cooling' proposition in the U.S. and 'Welcome Home' and 'Home Check' propositions in the UK and North America. These propositions offer easy to use solutions that enable customers to personalise, control and interact with their home through the Hive product range. In addition, around 5 million customers are now able to access Centrica's energy insight products, 'My Energy' in the UK and 'Direct Your Energy' in North America.

Centrica Business

Centrica Business consists of five business units: UK Business, North America Business, Distributed Energy & Power, Energy Marketing & Trading and Central Power Generation. Bringing together the Group's business-facing units is already beginning to create value - for example, the Group is now assessing how its North America Business 'Energy Portfolio' online platform, which empowers customers to better understand the energy markets and procure energy in a proactive way, could be used in UK Business.

UK Business

Through UK Business, the Group is one of Britain's largest suppliers of gas and electricity to the UK commercial sector and, as at 30 June 2017, supplied approximately 687,000 supply points. UK Business also provides central heating installation and maintenance services as well as other commercial services such as electrical installation to a broad range of businesses as well as public sector clients. It continues to develop further its business services capabilities, through the provision of its careplan products, its connections and metering business and the development of an increasing number of bundled products.

North America Business

North America Business supplies natural gas and electricity to small commercial, medium and large sized businesses, institutions and government entities across North America. Its principal markets include Texas, the northeastern United States and most provinces in Canada. It continues to look to expand its offering into new geographies and deliver increased gas and power sales volumes in the mid-continent, California and Canada.

In November 2013, the Group completed the acquisition of the energy marketing business of Hess Corporation for U.S.\$1,194 million (approximately £736 million) in cash, including net working capital of approximately U.S.\$416 million (approximately £259 million). North America Business is now the third largest commercial and industrial electricity supplier in North America by customer numbers.

North America Business continues to work closely with the DE&P business, with the development of joint propositions to deepen the customer relationship and enable cross sell opportunities. North America Business continues to be an important channel for sales of demand response products, including Panoramic Power's wireless energy insight management solutions which allow customers to monitor, operate and optimise their own assets, with the number of sensors deployed to Direct Energy customers increasing by 2,200 in the first half of 2017. The Group is also looking to expand its combined heat and power (**CHP**) offering in North America following the acquisition of ENER-G Cogen in 2016.

Distributed Energy & Power (DE&P)

Distributed energy, including energy efficiency, flexible generation and new technologies, energy management and optimisation, is one of the Group's focus areas for growth. The Group has brought together existing relevant capabilities from its UK business services and power businesses and its North America business division and sees DE&P as a material opportunity with business-to-business (**B2B**) customers, including energy efficiency, flexible generation and new technologies alongside energy management systems and optimisation. DE&P is focused on the Centrica Business strategic pillars of energy insight, energy optimisation and energy solutions. As at 30 June 2017, the total number of DE&P active customer sites was approximately 4,236, an increase of 11 per cent over the previous 12 months.

In November 2015, the Group completed the acquisition of Panoramic Power for a net purchase price consideration of U.S.\$64 million (approximately £42 million). The acquisition provides DE&P with leading capabilities in energy management technology and data science expertise and enables it to offer enhanced and innovative propositions to customers that allow them to better understand their energy consumption. As at 30 June 2017, the Group had 44,000 sensors deployed across more than 1,500 sites in 30 countries, collecting around 11 billion data points per month.

In May 2016, the Group added to its capabilities through the acquisition of ENER-G Cogen, an established supplier and operator of combined heat and power (**CHP**) solutions, for £149 million. ENER-G Cogen has operations in the UK, U.S., Italy, Netherlands and Hungary. The acquisition complements and enhances the Group's existing capability in installing and managing distributed systems, including flexible generation, for business customers in the UK and North America. ENER-G Cogen has capacity under contract of over 500MW across 1,400 long-term contracted sites and active solutions in 13 countries, having sold both off-the-shelf and bespoke end-to-end CHP solutions. The Group continues to develop and build its customer propositions and has expanded its CHP offering in North America.

Following the creation of DE&P and these two acquisitions, the Group now has in-house capabilities and experience in a range of B2B energy services areas including energy analytics, solar photovoltaics, CHP, electrical design & installation, building controls, asset optimisation and multi-technology energy performance contracting.

Through DE&P, the Group also owns and operates three gas-fired peaking power plants at Glanford Brigg, Peterborough and Barry that participate in merchant power generation and flexibility markets. The Group is also developing further merchant power generation assets, having recently started construction of four projects: a refurbishment and upgrade project of its previously mothballed King's Lynn power station to create a 370MW power generation asset; construction of a 49MW battery storage facility at Roosecote; and construction of 50MW distributed generation fast response gas-fired plants at each of Brigg and Peterborough. In December 2016 these four projects were all awarded 15 year capacity market contracts starting in October 2020. In total, these four projects represent around £180 million of new investment.

The Group continues to innovate in local energy markets and its pioneering Cornwall trial now has over 300 homes and businesses that have registered their interest to take part in the three year programme.

The trial will test the use of flexible demand, generation and storage of energy, and allow participants to sell flexible energy capacity to both the grid and the wholesale energy market, rewarding local people and businesses for being more flexible with their energy.

Energy Marketing & Trading (EM&T)

EM&T is focused on the Centrica Business strategic pillars of energy optimisation and wholesale energy. EM&T is responsible for managing the commodity risk and providing wholesale market access for the Group, as well as building on its trading and optimisation capabilities and providing route to market access for business customers. The Group regularly enters into commodity purchase and sale contracts, including gas and electricity contracts with a number of international energy companies, to supplement energy produced by its own E&P assets.

EM&T also sources energy on behalf of the Group's energy supply and services operations in the United Kingdom. To do this, it uses a combination of the Group's long-term procurement contracts and short-term arrangements to balance energy supplies and customer demand and to optimise the price paid by the Group. To offset adverse fluctuations in prices, the Group also enters into various hedging agreements, including gas storage, and utilises over-the-counter and exchange-traded instruments to optimise the prices paid by the Group.

As part of the Group's strategy, the Group has identified EM&T as an area for growth and continues to expand its market presence in liquefied natural gas (LNG) whilst also leveraging its optimisation and risk management capabilities in LNG and route to market services.

In March 2013, the Group announced that it had entered into a 20 year agreement with Cheniere Energy Partners, L.P. (**Cheniere**) to purchase approximately 89 billion cubic feet per annum of LNG for export from the Sabine Pass liquefaction plant in Louisiana. The transaction gives the Group destination rights over cargoes for the first time on a long term basis and is expected to allow the Group to benefit from any differential between North American gas prices and those in other markets. The Group currently expects to take delivery of its first LNG cargo under this U.S. export contract in 2019.

In September 2016, the Group entered into a new five-year supply agreement with Qatargas for the purchase of up to 2 million tonnes per annum of LNG. The new LNG contract will start in January 2019, following expiry of the Group's existing contract with Qatargas at the end of December 2018. In October 2016, the Group signed a seven-year agreement with GasLog Ltd to charter a new build LNG carrier, starting in 2019. The agreement is expected to coincide with first commercial delivery of the Group's U.S. export supply contract with Cheniere.

Also in October 2016, the Group completed its £210 million acquisition of Denmark-based Neas Energy A/S, one of Europe's leading providers of energy management and revenue optimisation services for decentralised third-party owned assets. Following the acquisition, EM&T now serves customers who own decentralised assets, including wind farms, solar plants and CHP plants with a combined installed capacity of over 10GW. It operates predominantly in Denmark, the UK, Germany and Sweden, and has a short-term trading presence across 18 countries. The Group believes the acquisition will materially accelerate its route to market strategy, providing asset owners with access to wholesale commodity markets, and will also complement optimisation activity in DE&P.

Central Power Generation

In February 2017, the Group completed its disposal of its 50 per cent interest in the Lincs windfarm joint venture for cash proceeds of £224 million, thereby completing its exit from wind power generation asset ownership. At the end of August 2017, it also completed the sale of its two large gas-fired power stations in the UK, Langage and South Humber, as well as the King's Lynn B power station development project, for £320 million.

The Group continues to own a 20 per cent equity stake in Lake Acquisitions Limited which indirectly owns 100 per cent of EDF Energy Nuclear Generation Limited, the owner of eight operational nuclear power stations in the UK, with a total capacity of 8.9GW and retains a tolling arrangement relating to the Spalding gas-fired power station which is due to end in 2021.

The Group's strategy is to focus growth on distributed energy assets, rather than large-scale, central power generation, with many of these skills now residing in the new global DE&P business.

Centrica Innovations

In February 2017, the Group announced the creation of Centrica Innovations, a new function set up in order to invest in physical and digital technologies and to innovative ideas that can develop new products, offers and services to both consumer and business customers. The Group expects to invest up to £100 million in start-ups, incubation and acceleration programs through Centrica Innovations over the next five years.

In May 2017, Centrica Innovations made its first investment, acquiring the of assets of Rokitt Inc., a U.S. company which has developed a proprietary data discovery software solution that uses algorithms to extract meaningful information from data, as well as the shares in Rokitt Inc.'s associated companies in India and Ukraine. This acquisition complements Centrica Innovation's existing data management solutions and is a value-creating addition to the Group's digital technological capability.

Exploration and Production (E&P)

As part of its revised strategy, the role of E&P is to provide cash flow diversity and balance sheet strength. The Group's focus will be on assets in northwest Europe.

In line with this strategy, in May 2017, it completed its disposal of its remaining portfolio of gas assets in Trinidad and Tobago for £28 million and, in September 2017, it completed the disposal of its interest in the joint venture portfolio of assets in Canada for expected proceeds of approximately £240 million.

The Group's principal producing fields are South Morecambe (currently undergoing onshore and offshore asset integrity works to improve safety and operational efficiency), Kvitebjorn, Statfjord, Chiswick, Grove and Cygnus. The Group's principal development project in Norway is Maria. The Cygnus project in the Southern North Sea came on-stream in December 2016 and drilling operations at the Maria project in the Norwegian Sea commenced in the first quarter of 2017.

The Group continues to focus its investment on the most attractive development options in its portfolio. It has made positive final investment decisions on the Centrica-operated Oda field in the Norwegian North Sea and the infill wells at the Cheswick and Chestnut fields, and further infill wells are being drilled in Kvitebjorn and Statfjord. In early 2017, a gas discovery was announced at Valemon West, in which the Group owns a 13 per cent interest.

The Group also holds a 25 per cent interest in the Bowland shale exploration license in Lancashire which it acquired from Cuadrilla Resources and AJ Lucas in 2013. Planning permission was granted in relation to one of the sites, Preston New Road, on 6 October 2016; however, this has since been statutorily challenged with the Court of Appeal's ruling on the matter still pending. In relation to a second site, Roseacre Wood, although planning permission has not yet been granted, a public inquiry into the matter is set to re-open on 10 April 2018.

In July 2017, the Group announced that it would be combining its European E&P business with Bayerngas Norge AS to create a new joint venture, with the Group owning 69 per cent of the new joint venture entity. The joint venture will create a strong and sustainable, self-financing European E&P business by combining the Group's cash-generative and relatively near-term production profile with Bayerngas Norge AS's more recently on-stream producing assets and development portfolio, and is expected to deliver medium-term production in the 45-55 mmbob range. A total of £100 million to £150 million net present value of synergies are expected to be realised from the transaction, with the Group's 69 per cent share expected to be around £70 million to £100 million. The joint venture also provides the opportunity for the Group to participate in further consolidation opportunities in North West Europe should value enhancing combinations arise. The transaction is expected to result in a reduction to the Group's share of annual production into the 30-40 mmbob range, lower than its targeted 40-50 mmbob annual range. However, total production from the joint venture will still be of a large enough scale to create a sustainable E&P business and the Group believes that its lower share of production will be adequate to allow E&P to fulfil its role in the Group's portfolio of providing cash flow diversity and balance sheet strength.

Centrica Storage Limited

Centrica Storage Limited (**Centrica Storage**), a wholly owned subsidiary of the Group, operates the Rough gas storage facility, a seasonal storage facility acquired by the Group in November 2002. The facility consists of a partially depleted gas field (the Rough field) in the Southern North Sea, approximately 18 miles off the east coast of Yorkshire, together with an onshore gas processing terminal at Easington.

Following the acquisition by the Group of the Rough facility and a subsequent Competition Commission inquiry, certain undertakings (as amended in April 2006, March 2012 and April 2016) were given

by the Issuer and Centrica Storage to the Secretary of State for Trade and Industry in 2003 which place certain obligations on Centrica Storage and the Group in respect of the storage business.

In June 2017, Centrica Storage announced it had completed and analysed the results of the extensive well testing programme at the Rough gas storage asset, which had commenced in 2015 following the identification of a potential technical issue. Centrica Storage also announced that it had completed a review into the feasibility of returning Rough to injection and storage operations. It concluded that, as a result of the high operating pressures involved, and the fact that the wells and facilities are at the end of their design life and had suffered a number of different failure modes while testing, it could not safely return the assets and facilities to injection and storage operations. In addition, an assessment of both the current economics of seasonal storage and the costs involved suggested that it would not be economic to continue to operate Rough as a gas storage asset by refurbishing or rebuilding the facility and replacing the wells.

As a result, Centrica Storage is making all relevant applications to permanently end Rough's status as a storage facility and to produce all recoverable cushion gas. At the same time, it will also seek to terminate the above-mentioned undertakings.

Separate to this, Centrica Storage has received consent from the Oil and Gas Authority to produce up to an initial 30.7 bcf in order to reduce pressure on the wells to ensure that risks associated with operating the reservoir are as low as reasonably practical. Up to 15 bcf is expected to be produced in the second half of 2017, with the remainder expected to be produced in the first quarter of 2018.

TAXATION

General

The comments below are of a general nature and are not intended to be exhaustive. They assume that there will be no substitution of the Issuer and do not address the consequences of any such substitution (notwithstanding that such substitution may be permitted by the terms and conditions of the Notes). Any Noteholders who are in doubt as to their own tax position should consult their professional advisers.

United Kingdom Taxation

The comments below are based on the Issuer's understanding of current United Kingdom law (as applied in England and Wales) and published HM Revenue and Customs practice (which may not be binding on HM Revenue and Customs) and describe certain aspects of the United Kingdom tax treatment in respect of the Notes. Some comments do not apply to certain classes of persons (such as dealers and persons connected with the Issuer) to whom special rules may apply. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. Prospective holders of Notes should be aware that the particular terms of issue of any Series of Notes as specified in the applicable Final Terms may affect the tax treatment of that and other Series of Notes. The United Kingdom tax treatment of prospective holders of Notes depends on their individual circumstances and may be subject to change in the future. Prospective holders of Notes who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom are strongly advised to consult their own professional advisers. References in this part to "interest" shall mean amounts that are treated as interest for the purposes of United Kingdom taxation.

Interest on the Notes

- (1) Payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax as long as the Notes are and continue to be listed on a **recognised stock exchange** within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is such a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes remain so listed, interest may be paid on the Notes without withholding or deduction for or on account of United Kingdom income tax.
- (2) Payments of interest on the Notes may also be made without withholding or deduction for or on account of United Kingdom income tax by a company if, at the time the payments are made, the Issuer reasonably believes that the beneficial owner of the Note is within the charge to United Kingdom corporation tax in respect of that interest or falls within a list of specific tax exempt entities and bodies as set out in Chapter 11 of Part 15 of the Income Tax Act 2007, provided that HM Revenue and Customs has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.
- (3) In addition to the exemptions referred to above, where the maturity of the Notes is less than 365 days and those Notes are not issued with the intention, or under a scheme or arrangement the effect of which is, that such Notes form part of a borrowing with a total term of more than 364 days, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.
- (4) In other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20 per cent) subject to the availability of other exemptions or reliefs under domestic law or to any direction to the contrary from HM Revenue and Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.
- (5) If Notes are redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest for United Kingdom tax purposes. In that event, payments thereof would be subject to the treatment outlined in paragraphs (1) to (4) above.

- (6) Any amount treated as interest on a Note issued by the Issuer has a United Kingdom source and accordingly may be chargeable to United Kingdom income tax by direct assessment even where such interest is paid without withholding. However, where the interest is paid without withholding or deduction on account of United Kingdom tax, the interest is not chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a branch or agency in the United Kingdom in connection with which the interest is received or to which those Notes are attributable (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable). There are certain exemptions for interest received by certain specified categories of agent (such as some brokers and investment managers).
- (7) Noteholders should note that the provisions relating to additional amounts referred to in “*Terms and Conditions of the Notes – Taxation*” above would not apply if HM Revenue and Customs sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However, exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

Other United Kingdom Taxation Considerations

- (8) Noteholders which are companies within the charge to United Kingdom corporation tax may be subject to United Kingdom corporation tax on their holding, disposal or redemption of Notes. The nature of the tax charge will depend on the terms of the Note in question and the particular circumstances of the relevant Noteholder. In particular, Noteholders within the charge to United Kingdom corporation tax should have regard to the provisions of the “loan relationship” legislation contained in the Corporation Tax Act 2009.
- (9) Noteholders who are individuals or trustees and who are resident in the United Kingdom or who carry on a trade in the United Kingdom to which the Notes are attributable may be subject to United Kingdom income or capital gains tax on their holding, disposal or redemption of Notes. The nature of the tax charge will depend on the terms of the Note in question and the particular circumstances of the relevant Noteholder. In particular such Noteholders should have regard to the chargeable gains legislation, the “accrued income scheme” and the “deeply discounted securities” legislation.

FATCA Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer believes that it is not a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 on foreign passthru payments and Notes that are not treated as equity for U.S. federal income tax purposes issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding with respect to foreign passthru payments unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional notes of a Series (as described under “*Terms and Conditions of the Notes—Further Issues*”) that are not distinguishable from Notes of such Series issued prior to the expiration of the grandfathering period are issued after the expiration of the grandfather period and are subject to withholding under FATCA, then withholding agents may treat all notes of such Series, including grandfathered Notes of such Series, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

The Proposed Financial Transactions Tax

- (1) On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common financial transaction tax (**FTT**) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.
- (2) The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.
- (3) Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.
- (4) However, the FTT proposal remains subject to negotiation between the participating Member States, the scope of any such tax is uncertain and the timing of its implementation remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement, originally dated 7 September, 2001, as supplemented and/or amended and/or restated from time to time and as most recently amended and restated on 26 October 2017 (the **Programme Agreement**), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Terms and Conditions of the Notes*" above.

United States

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act (**Regulation S**).

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and U.S. Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether TEFRA C Rules or TEFRA D Rules apply or whether TEFRA is not applicable.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer and sell Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Prohibition of Sales to EEA Retail Investors

From 1 January 2018, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated in this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression "retail investor" means a person who is (one or more) of the following:
 - (I) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
 - (II) a customer within the meaning of Directive 2002/92/EC (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (III) not a qualified investor as defined in the Prospectus Directive; and
- (b) the expression **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

Public Offer Selling Restriction under the Prospectus Directive

Prior to 1 January 2018, in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; and

the expression **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU).

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

GENERAL INFORMATION

Authorisation

The establishment and updates of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of the Issuer dated 28 June, 2001, 4 September, 2002, 20 October, 2005, 21 September, 2006, 20 September, 2007, 18 September, 2008, 28 July, 2009, 26 July, 2010, 16 September, 2011, 25 September, 2012, 26 September, 2013, 22 September, 2014, 14 September, 2015, 19 September, 2016 and 20 September, 2017 and the resolutions of the committee of the Board of Directors of the Issuer passed on 19 September 2008, 28 August, 2009, 29 September, 2010, 23 September, 2011, 25 September, 2012 and 26 September, 2013.

Listing of Notes

The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange's regulated market will be admitted separately as and when issued, subject only to the issue of one or more Global Notes initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. The listing of the Programme in respect of Notes is expected to be granted on or before 31 October, 2017.

Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection at the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

- (a) the Articles of Association of the Issuer;
- (b) the consolidated audited financial statements of the Issuer in respect of the two financial years ended 31 December 2015 and 2016 together with the audit reports prepared in connection therewith;
- (c) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements (if any) of the Issuer, in each case together with any audit or review reports prepared in connection therewith;
- (d) the Agency Agreement, the Trust Deed and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons;
- (e) a copy of this Base Prospectus; and
- (f) any future series prospectuses, supplements and Final Terms to this Base Prospectus and any other documents incorporated herein or therein by reference.

Clearing Systems

The Notes are expected to be accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Yield

In relation to any Tranche of Fixed Rate Notes, an indication of the yield in respect of such Notes will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Notes on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Notes and will not be an indication of future yield.

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer and its Subsidiaries taken as a whole since 30 June 2017 and there has been no material adverse change in the financial position or prospects of the Issuer and its Subsidiaries taken as a whole since 31 December 2016.

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), nor have there been such proceedings in the 12 months preceding the date of this document, which may have or have in such period had a significant effect on the financial position or profitability of the Issuer and/or the Group.

Auditors

PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors (members of the Institute of Chartered Accountants of England and Wales) have audited, and rendered unqualified audit reports on, the annual consolidated published accounts of the Issuer and its subsidiaries in accordance with IFRS and the annual non-consolidated published accounts of the Issuer in accordance with generally accepted auditing standards in the United Kingdom for each of the two financial years ended on 31 December 2015 and 31 December 2016. Deloitte LLP have been appointed as the auditors of the Issuer for the financial year commencing 1 January 2017. The auditors of the Issuer have no material interest in the Issuer.

Transactions with the Dealers

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

REGISTERED OFFICE OF THE ISSUER

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PRINCIPAL PAYING AGENT

HSBC Bank plc
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PAYING AGENT

HSBC Institutional Trust Services (Ireland) Limited
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Grand Canal Harbour
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To the Dealers and the Trustee

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AUDITORS

For the years ended 31 December 2015 and 2016

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London WC2N 6RH

AUDITORS

For the year commencing 1 January 2017

Deloitte LLP
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