

RESTRUCTURING

We completed our Restructuring on 14 January this year and shares in British Energy Group plc, the Group's new parent company, started trading on the London Stock Exchange on 17 January 2005.

The Restructuring involved the holders of British Energy plc's guaranteed bonds (the Bondholders), the banking syndicate who provided project finance for Eggborough power station (the Eggborough Banks), The Royal Bank of Scotland plc (RBS) and certain significant creditors (all of whom later transferred their interests to Deutsche Bank) (the Significant Creditors) compromising their claims against the British Energy Group in exchange for, amongst other things, the issue to those creditors of new bonds issued by British Energy Holdings plc (a wholly-owned subsidiary of the Company) (New Bonds) and new ordinary shares of the Company (New Shares).

As a part of the implementation of the Restructuring the Bondholders and RBS compromised their claims through a court-approved scheme of arrangement under section 425 of the Companies Act 1985. The Significant Creditors extinguished all, and the Eggborough Banks extinguished part, of their claims against the Group pursuant to various arrangements under the Creditor Restructuring Agreement entered into on 30 September 2003 and related documents which laid out the agreed terms of the Restructuring with Creditors.

In order to implement the Restructuring, British Energy plc cancelled its ordinary and A shares, and became a wholly-owned subsidiary of British Energy Holdings plc by means of a court-approved scheme of arrangement under section 425 of the Companies Act which required the approval of British Energy plc shareholders. British Energy plc obtained the approval of its ordinary and A shareholders at meetings held on 22 December 2004. The sanction of the court was obtained on 14 January 2005. British Energy plc was then re-registered as a private limited company named British Energy Limited.

As a result of the approval of the Members' Scheme, and subject to certain restrictions relating to non-UK shareholders, shareholders in British Energy plc were entitled to receive New Shares and warrants in the Company (the warrants entitle the holder to subscribe for New Shares within five years of the Restructuring) (Warrants).

Shareholders who validly completed and returned the relevant form(s) of election (referred to as a Shareholder Election) were entitled to receive 1.0 New Shares and 2.1 Warrants in British Energy Group plc for every 50 ordinary or A shares in British Energy plc held by them at 6.00pm on 13 January 2005.

For those shareholders who did not make a valid Shareholder Election, the relevant New Shares and Warrants were sold in the market at the best price reasonably obtainable and the net proceeds were remitted to the relevant shareholder. The average price for the New Shares and Warrants sold in this way was £2.55 for the New Shares and £1.62 for the Warrants.

British Energy plc indicated in earlier annual reports and the Prospectus, that its shareholders would suffer a very significant dilution of their interests as a result of the Restructuring. Under the terms of the Creditors' and Members' Schemes shareholders received 2.5% of the issued share capital of British Energy Group plc together with Warrants entitling shareholders to subscribe for shares within five years from the Restructuring Effective Date. However, it was the view of the Board that had it been unable to implement the Restructuring it may have been unable to meet its financial obligations as they fell due, in which case it may have had to take appropriate insolvency proceedings. Had this happened, it

was highly unlikely that there would have been any return to British Energy plc shareholders.

REQUISITIONED EGM AND DELISTING OF BRITISH ENERGY PLC'S ORDINARY SHARES, A SHARES AND AMERICAN DEPOSITORY RECEIPTS

On 3 September 2004 two groups of shareholders, together holding 10.22% of British Energy plc's ordinary shares (Polygon and Brandes), requisitioned an extraordinary general meeting of the Company (the Requisitioned EGM). We were, as a result, obliged under the Companies Act 1985 to call the Requisitioned EGM. One of the resolutions proposed by Polygon and Brandes would have had the effect, if passed, of requiring the Company to seek shareholder approval prior to applying for the cancellation of its listings in London and New York. If we had subsequently been required, under the terms of the Creditor Restructuring Agreement, to take steps to cancel the London listings of our shares, but could not have done so as a result of a failure to achieve such shareholder approval, the Company believed, having taken legal advice, that it would have been likely to have been in breach of the Creditor Restructuring Agreement.

Subsequently, after the notice to shareholders convening the Requisitioned EGM had been issued, Polygon announced that it would withdraw its support for, and would vote against the resolutions proposed at the Requisitioned EGM, and not further oppose the Restructuring. The Requisitioned EGM took place on 22 October 2004 and all of the resolutions were defeated.

When we announced on 23 September 2004 that the Requisitioned EGM would be held on 22 October 2004 we indicated that we would be applying to the United Kingdom Listing Authority (UKLA) to cancel the listings of our ordinary and A shares. As a consequence, the New York Stock Exchange (NYSE) suspended trading in British Energy plc's American Depository Receipts (ADRs) prior to the commencement of trading on 28 September 2004. At that time, the NYSE also instituted delisting proceedings. We appealed unsuccessfully against the NYSE's decision, and our ADRs were permanently delisted. The delisting from the NYSE does not affect our status as an SEC registrant under the US Securities Exchange Act 1934, or our periodic reporting obligations.

Since neither British Energy plc nor British Energy Group plc were able to satisfy the relevant listing criteria for the NYSE on admission of our shares to the London Stock Exchange (referred to as Admission), no new ADRs were issued on Admission. Holders of ADRs received the New Shares and/or Warrants to which they were entitled.

PRINCIPAL TERMS OF THE RESTRUCTURING

The principal elements of the Restructuring were as follows:

EGGBOROUGH ARRANGEMENTS

The Eggborough Banks were repaid approximately £37.5m (pursuant to a Letter of Credit issued by RBS) and replaced the balance of their existing secured and unsecured claims with a right to receive £150m under an amended credit agreement (the Amended Credit Agreement) on substantially the same payment terms as the New Bonds, together with £20m of New Bonds issued by British Energy Holdings plc, and 13.7% of the New Shares.

In addition, the Eggborough Banks were granted an option under which they may acquire the Eggborough Power Station in 2010 upon payment of £104m (subject to adjustment) and the cancellation of the outstanding payments under the Amended Credit Agreement at that time. The Eggborough Banks continue to benefit from the security they previously held and certain new securities.

THE NUCLEAR LIABILITIES FUND

Under new arrangements with the Secretary of State, the former Nuclear Decommissioning Fund was enlarged into and renamed the Nuclear Liabilities Fund or NLF, which will fund, subject to certain exceptions, the Group's qualifying uncontracted nuclear liabilities and qualifying decommissioning costs. The Secretary of State has agreed to fund such liabilities and costs to the extent that they exceed the assets of the NLF and, subject to certain exceptions, contracted liabilities for historic spent fuel. To the extent that there is any surplus remaining in the NLF, this amount will be paid to the Secretary of State. The Group is responsible for funding certain excluded or disqualified liabilities and will, in certain circumstances, be required to compensate or indemnify the NLF and the Secretary of State in relation to such liabilities. Our obligations under these arrangements with the Secretary of State are guaranteed by certain companies in the Group.

In consideration for the assumption of these liabilities by the Secretary of State and the NLF, British Energy Holdings plc issued £275m in New Bonds to the NLF. The Group will also now make the following payments to the NLF: (i) an annual contribution initially equal to 65% of the Group's adjusted net cash flow, adjusted for certain corporate actions but never to exceed 65% (the NLF Cash Sweep Payment); (ii) fixed decommissioning contributions equal to £20m per annum (indexed to RPI from March 2003 but tapering off as the nuclear power stations are currently scheduled to close); and (iii) £150,000 (indexed to RPI from March 2003) for every tonne of uranium in PWR fuel loaded into the Sizewell B reactor after the Restructuring Effective Date.

The NLF has the right from time to time to convert all or part of the NLF Cash Sweep Payment into convertible shares (the NLF Conversion Right). On a full conversion, the NLF would hold up to 65% of the thereby enlarged equity share capital of British Energy Group plc. However, the terms of the convertible shares include a limit on the voting rights attaching to such shares equal to a maximum of 29.9%. As set out in the Prospectus, for a period of six months following Restructuring, the Secretary of State for Trade and Industry agreed not to direct the NLF to exercise the NLF Conversion Right or to dispose of any share in the Company and at that time also confirmed there was no current intention to direct the NLF to exercise the NLF Conversion Right following the expiry of that six month period. This period expired on 14 July 2005 and the Government keeps all aspects of its financial interest in British Energy under regular review.

NEW BNFL CONTRACTS

On 31 March 2003 and 16 May 2003, we exchanged contracts with BNFL covering front-end and back end AGR fuel services respectively, which became fully effective on completion of the Restructuring.

The new arrangements provide an important partial hedge against electricity market price movements on approximately 50% of the Group's total nuclear output. The pricing provisions in the contracts are intended to enable us to reduce a proportion of our fuel costs which are fixed by providing for a discount when the market baseload price of electricity is below a specified amount and a surcharge when above this amount. As electricity prices have risen substantially since October 2003, we are now making additional payments to BNFL under the new arrangements for spent fuel management in the form of the surcharge referred to above. This will continue as long as electricity prices remain above £16.0/MWh but capped at £21.0/MWh (in 2002/03 monetary values and indexed to RPI).

STATE AID RESTRICTIONS ON OUR ABILITY TO OPERATE

On 24 September 2004, the Secretary of State received notification from the European Commission which confirmed that the giving of State Aid in connection with the Restructuring was compatible with the Common Market. As part of the State Aid approval, we have agreed with the Secretary of State to implement certain compensatory measures which will restrict our operations in a number of ways.

The State Aid approval allows the Government to fund the payment of: (a) liabilities related to the cost of management of spent fuel loaded into our AGR power stations prior to the Restructuring Effective Date up to a specified level; (b) the costs of certain other historic liabilities; and (c) any shortfall of the NLF relating to liabilities concerning decommissioning of our nuclear assets and certain uncontracted liabilities.

The key compensatory measures are that we will not, before 23 September 2010, own or acquire any rights of control over: (i) additional operational nuclear generating capacity in the European Economic Area (EEA) without the prior approval of the European Commission; or (ii) fossil-fuelled generating capacity in the EEA or large hydroelectric generating capacity in the UK, which in aggregate exceeds a capacity of 2,020 MW.

We have also been required to establish and maintain our existing nuclear generation activities, electricity direct supply business and electricity trading business in separate subsidiaries; not to allow our nuclear generation business to provide a cross-subsidy to our non-nuclear generation activities or any other business of the Group; and not, for a period of six years, to price our direct supply contracts below the prevailing wholesale price, save in exceptional market circumstances.

There are also certain restrictions on the conduct of our business, including our ability to pay dividends and restrictions on incurring expenditure, until we build up certain cash reserves. The intention is to allow us the flexibility to continue our existing business of generating and selling electricity and we are also permitted to trade electricity within Europe and to decommission our nuclear power stations (or those previously owned by us).

We do not believe that the restrictions on our expenditure under these arrangements prohibit spending on PiP (as currently envisaged) at the levels previously announced. However, our permitted annual capital expenditure aimed principally at securing life extensions is limited to £20m. This figure can be reviewed with DTI consent.

RELATIONSHIP WITH GOVERNMENT

Following the completion of the Restructuring, we are required to supply information to the Secretary of State and the NLF, including providing the Secretary of State with all the information reasonably needed to monitor the financial health of the Group. As a result of these requirements, the Company has agreed to provide both the Secretary of State and a DTI team with a variety of information including periodic reports on its business performance and strategic business plans. There are also regular meetings and communication between the Secretary of State and senior executives and the Board on a range of topics. Over time, the frequency and content of the reporting may be reviewed.