Registered no: 05109213

# Constellation Energy Commodities Group Limited

## Directors' Report and Financial Statements

## For the year ended 31 December 2008

# Constellation Energy Commodities Group Limited

## Directors' report for the year ended 31 December 2008

The directors present their annual report and the audited financial statements of Constellation Energy Commodities Group Limited (the "Company") for the year ended 31 December 2008.

**Principal activities**
The Company's principal activity during the year was the performance of services under an Administrative Services Agreement (the "Agreement") with Constellation Energy Commodities Group, Inc. ("CECG US", a United States affiliated Company) relating to the purchase and sale of coal, power, emissions, freight, and natural gas by CECG US. In addition, the Company began to undertake small purchases and sales of power in its own name in France and in Spain through its Spanish Branch.

**Review of business and future developments**
The Company filed financial statements for the year ended 31 December 2007 and prepared these financial statements for the year ended 31 December 2008.

*Principal activities*
The Company was formed for the purpose of providing administrative services to CECG US in relation to its conduct of a commodity wholesale marketing business. Under the Administrative Services Agreement ("ASA"), the Company earns an administration fee from CECG US based on its operating costs.

On 5 November 2007, the Company established Constellation Energy Commodities Group Limited (Surcursal en Espana) ("Spanish Branch"), a branch in Spain, in order to transact in Spanish power auctions. In March 2008, the Company began to undertake small purchases and sales of Spanish power through its Spanish Branch.

In addition, on 26 June 2008, the Company acquired a uranium trading business through the purchase of the entire share capital of Nufcor International Limited ("Nufcor") from First Rand and Anglo Gold Ashanti for a purchase price of $104.9 million. The purchase was financed through equity and shareholder loans from the Company's immediate parent.

*Market Conditions*
During the last year, two events significantly influenced our business environment: the collapse of the credit markets and the extreme volatility in the energy markets. Throughout 2008, volatility in the financial markets intensified, leading to dramatic declines in equity prices and substantially reducing liquidity in the credit markets. Most equity indices declined significantly, the cost of credit default swaps and bond spreads increased substantially, and credit markets effectively ceased to be accessible for all but the most highly rated borrowers.

Due to the market conditions described above, the ultimate parent of the Company, Constellation Energy Group, Inc. ("CEG"), announced its intent to divest its international operations including the sale of the shares in Nufcor and the portfolio of international commodity contracts owned by CECG US in August 2008. In January 2009, CECG US and the Company entered into definitive agreements to sell the international commodity contracts portfolio and the shares in Nufcor, respectively. Upon these sales, the Company would reduce its operations through the course of 2009 as the services required under the Administrative Services Agreement diminished.

*Financial performance*
Other operating income earned in connection with the ASA increased in large part due to the increase in staff costs for 2008. The ASA is directly correlated with the costs of the entity. Total staff costs increased to £23.8 million in 2008 from £19.0 million in 2007. Other staff related costs, such as travel and training increased as well with the increase in headcount. Additionally, there were impairment losses of £48.9 million in 2008 primarily related to the sale of Nufcor, the onerous lease provision, and the write off of fixed assets.

*Key performance indicators*
The key performance indicators used by management to measure performance are: administrative and other operating costs and other operating income.

## Directors' report for the year ended 31 December 2008 (Continued)

**Review of business and future developments (continued)**

*Financial position*

At 31 December 2008, the Company had net debt of £48.2 million (2007: net funds of £0.6 million), consisting of a cash balance of £0.9 million (2007: £0.6 million) and intercompany debt of £49.2 million (2007: nil). The debt represents amounts due to related parties in connection with the purchase of Nufcor in June 2008.

*Future Developments*

The directors have given consideration to the recent instability in the financial markets. As stated above, the ultimate parent has announced its intent to sell its international commodities business and all outstanding shares in Nufcor. The ultimate parent has confirmed its intention to guarantee its operations for the next year through 31 December 2010, along with honouring its commitment under the ASA.

The Company's operations will be significantly reduced after CECG US's decision to sell the majority of its international commodities operations and all outstanding shares of Nufcor. The Company intends to develop further and grow its existing activities, subject to the continued support of any new shareholder should there be a change in ultimate parent undertaking (refer to Note 21 to the financial statements).

**Results and Dividends**

The Company's loss for the financial year of £42,583,000 (profit for the year ended 2007: £1,752,000) will be transferred to reserves. The directors do not recommend the payment of a dividend for the year (2007: £nil).

**Financial Instruments**

The Company's financial instruments comprise cash, forward sales and purchase contracts, and various items such as trade debtors and trade creditors that arise directly from its operations. All assets and liabilities are recorded at fair value. As of 31 December 2008, there were no financial instruments reported on the Company's balance sheet.

**Risks and Risk Management**

The company's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, and liquidity risk. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs. The Company attempts to mitigate risks that may affect its future performance through a process of identifying, assessing, reporting and managing material risks.

The three principal risks to which the Company is exposed are market price risk, counterparty credit risk and liquidity risk. Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department. The department has a policy and procedures manual that sets out specific guidelines to manage price risk, credit risk and circumstances where it would be appropriate to use financial instruments to manage these.

*Price risk*

The company is exposed to commodity price risk as a result of its operations. However, given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature. The company has no exposure to equity securities price risk as it holds no listed or other equity investments.

*Credit risk*

The Company's sales of power products expose the Company to the risk of non-payment by a counterparty. All transactions that give rise to credit risks above pre-determined limits require approval by the Commitments Committee, and where exposures are substantial, approval by the Board of CECG US is also required. The credit risk associated with all open transactions are monitored and reported on a daily basis.

## Directors' report for the year ended 31 December 2008 (Continued)

**Risks and Risk Management (continued)**
*Liquidity risk*
At certain times the Company holds proprietary positions and forward positions in power. The Company monitors its forward cash flows on a weekly basis to ensure that it will have necessary liquidity in place to fund its positions and to meet its financial obligations.

The directors have given consideration to the recent instability in financial markets and they do not believe that this instability has any material impact on the company's present or future activities nor affects the going concern assumption used to prepare the financial statements.

**Directors**
The directors who held office during the year and up to the date of signing the financial statements were:

| | |
|---|---|
| Stuart Rubenstein | |
| Martin Hunter | |
| George Persky | Resigned 11 November 2008 |
| Felix Dawson | Resigned 2 May 2008 |

**Directors' Indemnities**
The Company maintains liability insurance for its directors and officers. Following shareholder approval, the Company has also provided an indemnity for its directors and the secretary, which is a qualifying third indemnity provision for the purposes of the Companies Act of 1985.

**Events after the balance sheet date**
In January 2009, CECG US entered into a definitive agreement to sell a majority of its international commodities portfolio. As a consequence, the services required from the Company would decrease significantly up to and through the date of sale. CECG US completed this transaction on 23 March 2009 and the Company recognized workforce reduction costs of £6.8 million in connection with CECG US's decision to sell the majority of its international commodities portfolio during 2009.

On 30 June 2009, the Company completed the sale of Nufcor (a uranium market participant that provides marketing services to uranium producers, utilities and an investment fund in the North American and European markets), receiving cash proceeds of approximately £28.4 million (USD $46.7 million, including a working capital adjustment of USD $3.7 million) and recorded a £37.9 million (USD $50.2) million loss on this sale.

As part of the Nufcor sale, the Company provided standard tax indemnities under the tax deed associated with the sale. Also as part of the sale, Nufcor addressed potential historical US state tax liabilities through a series of tax return filings, ruling requests and voluntary disclosure agreements ("VDA's") with the five US states within which transactions occurred. The particular state taxes involved were franchise, income taxes and related taxes as well as sales tax. In relation to the sales tax exposures, Nufcor obtained representation letters from the majority of its counterparts establishing that the transactions were of a nature that should be exempt from sales tax. All historical franchise taxes were paid amounting to approximately $110k and all income tax returns were nil liabilities due to the effect of federal tax treaty protections.

Due to the sales tax exposures being subject to ruling requests to confirm that the non-contemporaneous collection of the representation letters in lieu of actual resale certificates and the fact that the counterparties themselves were not registered in the respective states, the purchaser required a parent company guarantee ("PCG") from the ultimate parent company, CEG. That PCG was capped at $188 million representing all open years for the sales tax exposure and related interest, given that penalties would be waived under the VDA's.

## Directors' report for the year ended 31 December 2008 (Continued)

**Events after the balance sheet date (continued)**
The Company has not booked any liability for these exposures as it believes that the ruling requests will be successful to confirm that based on the nature of the industry and the counterparties, that the transactions were for resale and thereby exempt from sales tax. In addition, should the Company be subject to any claims by the purchaser under the tax deed for these matters arising from transactions prior to it's ownership (which represents the vast bulk of the exposure), it should also be able to make an essentially mirror claim under the tax deed with the original vendors from which it purchased Nufcor.

As a result of CEG's sale of its 50% interest in the shipping joint venture, the likelihood of collecting the management fee earned under the Commercial Management Agreement with the shipping joint venture is considered remote. Consequently, in 2008, we recorded a write off of this uncollectible accounts receivable of £0.6 million which represents 100% of the amounts owed to the Company under that agreement.

**Statement of directors' responsibilities in respect of the Annual Report and the financial statements**
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Disclosure of information to auditors**
Each of the persons who are a director at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

- Each director has taken all the steps that he/she ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act of 1985.

# Constellation Energy Commodities Group Limited

## Directors' report for the year ended 31 December 2008 (Continued)

**Independent auditors**
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

**By order of the Board**

Martin Hunter

**Martin Hunter**
**Director**
**Date: 30 October 2009**

# Constellation Energy Commodities Group Limited

## Independent auditors' report to the members of Constellation Energy Commodities Group Limited

We have audited the financial statements of Constellation Energy Commodities Group Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**
The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Independent auditors' report to the members of Constellation Energy Commodities Group Limited (continued)

**Opinion**
In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
**Chartered Accountants and Registered Auditors**
**West London**
**Date: 30 October 2009**

# Constellation Energy Commodities Group Limited

## Profit and loss account for the year ended 31 December 2008

| | Notes | Year ended 31 December 2008 £000's | Year ended 31 December 2007 £000's |
|---|---|---|---|
| Turnover | 1 | 1,890 | - |
| Cost of sales | | (2,132) | - |
| **Gross Margin** | | (242) | - |
| Administrative expenses | | (84,874) | (25,774) |
| Other operating income | 3 | 43,115 | 28,368 |
| **Operating (loss) / profit** | | (42,001) | 2,594 |
| Interest payable and similar expense | 4 | (794) | - |
| Interest receivable and similar income | 4 | 48 | 20 |
| **(Loss) / profit on ordinary activities before taxation** | | (42,747) | 2,614 |
| Tax credit / (charge) on profit on ordinary activities | 6 | 164 | (862) |
| **(Loss) / profit for the financial year** | | (42,583) | 1,752 |

All amounts are from continuing operations.

There is no material difference between the results of the profit and loss account stated above and their historical cost equivalents.

## Statement of total recognised gains and losses for the year ended 31 December 2008

| | | Year ended 31 December 2008 £000's | Year ended 31 December 2007 £000's |
|---|---|---|---|
| (Loss) / profit for the financial year | | (42,583) | 1,752 |
| Foreign currency translation gains | | 4,069 | - |
| Total recognised gains and losses relating to the year and since last annual report | 14 | (38,514) | 1,752 |

## Constellation Energy Commodities Group Limited

Company No, 5109213

### Balance Sheet as at 31 December 2008

| | Notes | 31 December 2008 £000's | 31 December 2007 £000's |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets, net | 7 | – | 3,969 |
| **Noncurrent assets** | | | |
| Investment in subsidiary | 8 | 28,396 | - |
| **Current assets** | | | |
| Debtors | 9 | 15,872 | 13,423 |
| Cash at bank and in hand | | 945 | 610 |
| **Total current assets** | | 16,817 | 14,033 |
| Current liabilities | | | |
| Creditors: amounts falling due within one year | 10 | (63,464) | (12,832) |
| **Net current (liabilities) / assets** | | (46,647) | 1,201 |
| **Net (liabilities) / assets** | | (18,251) | 5,170 |
| **Capital and reserves** | | | |
| Called up share capital | 13 | – | - |
| Capital contributions | 14 | 16,725 | 1,632 |
| Profit account | 14 | (34,976) | 3,538 |
| **Total equity shareholders' (deficit) / funds** | 15 | (18,251) | 5,170 |

The financial statements and notes on pages 10 to 20 form the financial statements and were approved by the board of directors on 30 October, 2009 and were signed on its behalf by:

Martin Hunter

**Martin Hunter**
**Director**

# Constellation Energy Commodities Group Limited

## Notes to the financial statements for the year ended 31 December 2008

### 1. Accounting Policies

**Basis of preparation**
These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

**Going concern**
The Financial Statements accompanying this report have been prepared on a going concern basis as, having made appropriate enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Following the sale of Nufcor, the Company provided tax indemnities to the purchaser representing all open years for the sales tax exposure and related interest in the event of a possible adverse decision by the US tax authorities in obtaining the required ruling requests or be unsuccessful in obtaining compensation from a mirror claim from the original vendor. The parent has given guarantees on behalf of the Company that it intends to provide operational and financial support to Constellation Energy Commodities Group Limited (CCG-UK) for a period of at least 12 months from the date of signing of the financial statements for the year ended 31 December 2008 as disclosed to Note 20.

The directors believe that it remains appropriate for the financial statements to be prepared on a going concern basis. In arriving at this view the directors have taken into account the availability of parent guarantees and cash funding.

**Basis of consolidation**
The company is a wholly-owned subsidiary of CECG International Holdings, Inc. ("CECG International") and is included in the consolidated financial statements of Constellation Energy Group, Inc. ("CEG") which are publicly available. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 228 of the Companies Act 1985.

**Turnover**
Turnover represents the change in fair value of sales of power in its own name in France and in Spain through its Spanish Branch. The Company has entered into a small number of sales of power in these jurisdictions. These transactions resulted in the Company recognizing turnover of approximately £1,890,000 in 2008 (2007: nil). These power sales are typically derivatives. See the Derivative Policy below for accounting treatment.

**Other operating income**
Other operating income represents the income earned under the Administrative Services Agreement (the "ASA") with CECG US relating to the purchase and sale of commodities by CECG US. Under the Agreement, the Company earns an administrative fee from CECG US based on the Company's operating costs. The Company does not undertake any purchases or sales of commodities in its own name under the ASA and is, consequently, not exposed to any risk of loss on that activity. Operating income is recognised in accordance with the administrative fee earned under the Agreement and arises entirely in the United Kingdom.

As a result of the acquisition of Nufcor on 26 June 2008, the Company began providing administrative services to Nufcor and its subsidiaries with all Nufcor employees having transferred to the Company at that point. The services charged by the Company to Nufcor were not subject to the administrative services fee charged to CECG US under the ASA.

Additionally, the Company continued to provide services under a commercial management agreement with Bulk Energy Transport Holdings, Ltd ("BETHL"), a shipping joint venture for the commercial management of six dry bulk vessels for which CEG had a beneficial 50% ownership interest.

## Notes to the financial statements for the year ended 31 December 2008 (Continued)

**1. Accounting Policies (continued)**

**Investments**
Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment.

**Derivative Policy**
We account for derivative instruments in accordance with FRS 25, *Financial Instruments: Disclosure and Presentation* ("FRS 25") and FRS 26, *Financial Instruments: Recognition and Measurement* ("FRS 26"). FRS 26 requires mark-to-market as the default accounting treatment for all derivatives unless they qualify, and we specifically designate them, for one of the other accounting treatments. We have not designated any derivative instruments in 2008 and, thus, have applied the mark-to-market accounting treatment to all derivatives. We have applied mark-to-market accounting for risk management and trading activities because changes in fair value more closely reflect the economic performance of activity.

**Tangible fixed assets**
Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the cost attributable to bringing the asset to its working conditions for its intended use. Depreciation is calculated to write off the cost of tangible fixed assets, less their residual values, over their expected economic useful lives using the straight line basis. The expected useful economic lives of the assets to the business are reassessed periodically in the light of experience. In 2008, as a result of the 2009 sale of CECG US's international commodities portfolio and the sale of Nufcor by the Company, the fixed assets were impaired.

Straight line annual rates of depreciation most widely used are:

| **Category:** | **Estimated Useful Lives:** |
|---|---|
| Plant and machinery | 3 – 6 Years |
| Leasehold improvements | 15 Years |

**Deferred tax**
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

**Foreign currencies**
Monetary assets and liabilities expressed in foreign currencies are remeasured into sterling at rates of exchange ruling at the date of the balance sheet or at the agreed contractual rate. Transactions in foreign currencies are converted to sterling at the rate ruling at the date of the transaction.

**Pensions**
The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge disclosed in note 14 represents contributions payable by the Company to the fund.

## Notes to the financial statements for the year ended 31 December 2008 (Continued)

**1. Accounting Policies (continued)**

**Operating leases**
Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term. At 31 December 2008, the Company had operating leases for commercial office space as disclosed within note 18.

**Share based payment**
Under our long-term incentive plans, the Company has granted service-based restricted stock of CEG to key employees. We discuss these awards in note 17 to the financial statements.

Under FRS 20 "Share based payment," the Company recognizes compensation costs equal to the market value of the shares on the grant date rateably or in tranches (depending on if the award has cliff or graded vesting) over the period during which an employee is required to provide service in exchange for the award, which is typically a three year service period. The Company uses a forfeiture assumption to estimate the number of awards that are expected to vest during the period, and ultimately true-up the estimated expense associated with vested awards. All awards were vested or were prorated at the termination date.

**Change in accounting policies**
During 2008, the Company adopted FRS 3, *Reporting Financial Performance* and FRS 17, *Retirement Benefits* for which there was no material impact to the financial statements.

**2. Cash flow statement and related party disclosures**
The Company is a wholly-owned direct subsidiary of CECG International and ultimately a wholly-owned indirect subsidiary of CEG and is included in CEG's consolidated financial statements which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 "Cash Flow Statements" (revised 1996).

The Company is also exempt under the terms of FRS 8 "Related party disclosures" from disclosing related party transactions with entities that are a subsidiary of CEG or investees of CEG, as the consolidated CEG financial statements are publicly available.

**3. Operating (loss) / profit**

| | **Year ended 31 December 2008 £000's** | Year ended 31 December 2007 £000's |
|---|---|---|
| **Operating (loss) / profit is stated after charging/(crediting):** | | |
| Depreciation of owned tangible fixed assets (note 7) | **487** | 852 |
| Operating lease rentals - other | **782** | 1,131 |
| Auditors' remuneration for audit services | **35** | 23 |
| Impairment losses | **48,873** | - |
| Foreign exchange loss | **5,664** | 25 |
| Administrative Services Agreement income with CECG US | **(40,669)** | (28,350) |
| Administrative services agreement income with Nufcor | **(2,125)** | - |
| Commercial Management Agreement with BETHL | **(321)** | (43) |

# Constellation Energy Commodities Group Limited

## Notes to the financial statements for the year ended 31 December 2008 (Continued)

**4. Interest**

| | Year ended 31 December 2008 £000's | Year ended 31 December 2007 £000's |
|---|---|---|
| **Interest payable and similar expense** | **794** | - |
| **Interest receivable and similar income** | **48** | 20 |

**5. Employee information and directors' emoluments**

None of the directors received any emoluments for their services to the Company (2007: nil). They are remunerated by CECG US for their services to the group as a whole. It is not possible to apportion the amounts remunerated by CECG US.

| | Year ended 31 December 2008 £000's | Year ended 31 December 2007 £000's |
|---|---|---|
| Wages and salaries | **18,228** | 15,814 |
| Share based payment (note 17) | **2,820** | 1,298 |
| Social security costs | **2,040** | 1,348 |
| Other pension costs (note 16) | **726** | 521 |
| **Staff Costs** | **23,814** | 18,981 |

The average monthly number of persons (excluding executive directors) employed by the Company during the year was:

| **By Activity** | Year ended 31 December 2008 | Year ended 31 December 2007 |
|---|---|---|
| Administrative services | **94** | 71 |

**6. Tax credit / (charge) on (loss) / profit on ordinary activities**

| | Year ended 31 December 2008 £000's | Year ended 31 December 2007 £000's |
|---|---|---|
| **Current tax:** | | |
| UK corporation tax on profits for the year | **1,080** | 1,169 |
| Adjustments in respect of prior years | **(14)** | 18 |
| Total current tax | **1,066** | 1,187 |
| **Deferred tax:** | | |
| Origination and reversal of timing differences for the period (note 12) | **(1,244)** | (332) |
| Origination and reversal of timing differences in respect of prior years (note 12) | **14** | (18) |
| Total deferred tax | **(1,230)** | (350) |
| **Tax credit / (charge) on (loss) / profit on ordinary activities** | **(164)** | 837 |

The tax assessed for the year is higher (2007: higher) than the standard rate of corporation tax in the UK (28.5%).

## Notes to the financial statements for the year ended 31 December 2008 (Continued)

**6. Tax credit / (charge) on (loss) / profit on ordinary activities (continued)**
The differences are explained below:

| | **Year ended 31 December 2008 £000's** | Year ended 31 December 2007 £000's |
|---|---|---|
| **(Loss) / profit on ordinary activities before tax** | **(42,747)** | 2,614 |
| (Loss) / profit on ordinary activities multiplied by standard rate in the UK | **(12,183)** | 784 |
| Effects of: | | |
| Permanent differences | **12,019** | 53 |
| Timing differences | **1,244** | 332 |
| Adjustments in respect of prior years | **(14)** | 18 |
| Current tax charge for the year | **1,066** | 1,187 |

The main rate of UK corporation tax has fallen from 30% to 28.5% with effect from 1 April 2008. This did not have a significant effect on the deferred tax asset.

**7. Tangible assets**

| | Leasehold Improvements £000's | Plant, and Machinery £000's | Total £000's |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2008 | 2,817 | 1,743 | 4,560 |
| Additions | 285 | 203 | 488 |
| Disposals | **(3,102)** | **(1,946)** | **(5,048)** |
| **At 31 December 2008** | **-** | **-** | **-** |
| **Accumulated Depreciation** | | | |
| At 1 January 2008 | 46 | 545 | 591 |
| Charge for the year | 104 | 383 | 487 |
| Disposals | **(150)** | **(928)** | **(1,078)** |
| **At 31 December 2008** | **-** | **-** | **-** |
| Net book amount | | | |
| **At 31 December 2008** | **-** | **-** | **-** |
| At 31 December 2007 | 2,771 | 1,198 | 3,969 |

In connection with the intention to divest the international operations, the Company has impaired the assets. Although the divestiture will not take place until 2009, these assets will cease being used by the end of 2009.

## Notes to the financial statements for the year ended 31 December 2008 (Continued)

**8. Investments in subsidiary undertaking**

| | **2008** |
|---|---|
| | **£000's** |
| **Cost** | |
| At 1 January 2008 | – |
| Purchase on 23 June 2008 ($104.9 million) | 52,912 |
| Purchase price adjustments | **(1,718)** |
| Revaluation | **18,142** |
| **At 31 December 2008** | **69,336** |
| | |
| **Impairment** | |
| At 1 January 2008 | – |
| Charge for the year | (40,940) |
| **At 31 December 2008** | **(40,940)** |
| | |
| Net book amount | |
| **At 31 December 2008** | **28,396** |
| At 31 December 2007 | – |

The Company has the following subsidiaries:

| **Name** | **% ownership of ordinary shares** | Country of incorporation | Principal Activity |
|---|---|---|---|
| Nufcor International Limited | 100 | UK | Trading of uranium and uranium related value-added services including U3O8, UF6, conversion and enrichment services |

On 26 June, 2008, the Company acquired Nufcor International Limited ("Nufcor"). Nufcor is a uranium market participant that provides marketing services to uranium producers, utilities and an investment fund in North American and European markets. The Company acquired 100% ownership for $102.8 million (£52.6 million), of which $104.9 million was paid in cash at closing. Subsequent to closing, we received $3.1 million back from the seller as a result of adjustments to Nufcor's net assets. As part of the purchase, the Company acquired $37.3 million in cash. At 31 December 2008, the investment in subsidiary account decreased to £28.4 million, which is equal to the sales price of the Nufcor assets as of 30 June, 2009.

**9. Debtors**

| | **31 December 2008 £000's** | 31 December 2007 £000's |
|---|---|---|
| Amounts owed by United States affiliate (CECG US) | **11,290** | 11,989 |
| Amounts owed by Nufcor | **2,125** | – |
| Other debtors | **285** | 690 |
| Deferred Tax (note 12) | **1,688** | 383 |
| Prepayments | **484** | 361 |
| | **15,872** | 13,423 |

The amounts owed by related parties are not interest bearing.

## Notes to the financial statements for the year ended 31 December 2008 (Continued)

**10. Creditors – amounts falling due within one year**

| | 31 December 2008 £000's | 31 December 2007 £000's |
|---|---|---|
| Corporation tax | **22** | 528 |
| Other taxation and social security | **1,273** | 984 |
| Accruals | **12,894** | 11,320 |
| Loans from affiliates | **49,131** | – |
| Accrued interest on loans from affiliates | **144** | – |
| | **63,464** | 12,832 |

Loans from affiliates include the intercompany debt component of the financing related to the Nufcor acquisition. Interest is accrued at the London Interbank Offered Rate (LIBOR) plus 35 basis points compounded quarterly and is payable on demand.

**11. Provisions**

*Onerous lease provision*

| | £000's |
|---|---|
| At 1 January 2008 | – |
| Additional provisions incurred during period | 4,588 |
| Amounts charged against provision | – |
| Unused amounts reversed during period | – |
| Increase during period as a result of time value of money | – |
| **At 31 December 2008** | **4,588** |

In 2008, the Company entered into a lease for office space for 16 years in London, UK with a break clause that can be exercised in 2018. In 2009, the Company will cease using the rights of the property in connection with sale of the international commodities operations.

In determining the value of the onerous lease provision, the fair value of the liability at the cease use date shall be determined based on the remaining lease rentals, adjusted for the effects of any prepaid or deferred items recognized under the lease, and reduced by estimated sublease rentals that could be reasonably obtained for the property, even if the entity does not intend to enter into a sublease. In order to determine the fair value of the sublet offset CEG's Real Estate team gathered current data specific to the London sublet market. The key terms identified associated with the actual occupied premises were as follows:

- Current prevailing market rent per sq ft of £38.50 representing a discounted rate of approximately 60% from the rent agreed at the time the original lease was signed back in 2007,
- A two year rent free period as an inducement for a tenant to enter into a lease covering the period through to the first break, and
- Full pass through of the service charges during the sublet period.

The Company has discounted the nominal cash flows associated with the terms of the lease and the assumptions relating to the sublet offset from the cease use date, measured using the credit adjusted risk free rate.

# Constellation Energy Commodities Group Limited

## Notes to the financial statements for the year ended 31 December 2008 (Continued)

### 12. Deferred tax asset

| | 31 December 2008 £000's | 31 December 2007 £000's |
|---|---|---|
| Fixed asset and other timing differences | **753** | (57) |
| Short-term timing differences | **(13)** | 53 |
| Shared based payment timing differences | **948** | 413 |
| Total deferred tax asset | **1,688** | 409 |
| | | |
| At start of year | **409** | 59 |
| Change in deferred tax rate | **(26)** | – |
| Deferred to current tax reclass | **75** | – |
| Deferred tax credit in profit and loss account for year (note 6) | **1,230** | 350 |
| At end of year | **1,688** | 409 |

### 13. Called up share capital

| | 31 December 2008 £ | 31 December 2007 £ |
|---|---|---|
| **Authorised** | | |
| 100 shares of £1 each | **100** | 100 |
| **Allotted and fully paid** | | |
| 1 share of £1 each | **1** | 1 |

### 14. Reserve accounts

| | Capital Contributions £000's | Profit and loss reserve £000's |
|---|---|---|
| Loss for the financial year ended 31 December 2008 | **–** | **(42,583)** |
| Foreign currency translation gains | **–** | **4,069** |
| Capital contributions | **15,093** | **–** |
| 1 January 2008 | **1,632** | **3,538** |
| **31 December 2008** | **16,725** | **(34,976)** |

The capital contributions represent the shareholder equity component of the financing primarily related to the Nufcor acquisition of £12,273,000 as well as reflecting the accounting treatment required for cumulative share based payment awards made to employees £4,452,000.

**15. Reconciliation of movements in equity shareholder's funds**

| | 31 December 2008 £000's | 31 December 2007 £000's |
|---|---|---|
| Opening equity shareholder's funds | **5,170** | 2,120 |
| (Loss) / profit for the financial year | **(42,583)** | 1,752 |
| Foreign currency translation gains | **4,069** | – |
| Capital contributions | **15,093** | 1,632 |
| Reclassification of equity contribution to capital contributions | **–** | (334) |
| Closing equity shareholder's funds | **(18,251)** | 5,170 |

**16. Pension Commitments**

The Company operates a defined contribution benefit scheme. Under relevant employment agreements, the Company makes pension contributions of 10% of base salary to defined contribution plans. The contributions to the plans for the periods were £726,000 and £521,000 for the years ended 31 December 2008 and 31 December 2007, respectively. Pension contributions outstanding totalled £0 and £180,000 for the years ended 31 December 2008 and 31 December 2007, respectively.

**17. Share based payment**

CEG grants service based restricted stock to key employees. The stock vests to participants at various times ranging from one to five years if the service goals are met. In accordance with FRS 20, the Company accounts for service-based awards as equity awards, whereby it recognizes the fair value of the market price of the underlying stock on the date of grant to compensation expense over the service period either rateably or in tranches (depending if the award has cliff or graded vesting). In the event of an involuntary termination without cause, the award vests on a pro-rata basis as of the termination date.

The Company recorded compensation expense related to our restricted stock awards of £2,820,000 in 2008 (2007: £1,298,000). These restricted stock awards are accounted for as a contribution of capital from CECG International Holdings, Inc ("CECG International"). Summarized share information for the restricted stock awards is as follows:

| Grant date | **21/2/2008** | 22/2/2007 |
|---|---|---|
| Share price at grant date | **£48.85** | £38.53 |
| Number of employees | **28** | 19 |
| Shares granted | **35,151** | 64,735 |
| Vesting period (years) | **3** | 3 |

## Constellation Energy Commodities Group Limited

### Notes to the financial statements for the year ended 31 December 2008 (Continued)

**17. Share based payment (continued)**

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Number** | **Weighted average fair market value** | Number | Weighted average fair market value |
| Outstanding at 1 January | **73,266** | **£51.36** | 16,462 | £31.87 |
| Granted | **35,151** | **£48.85** | 64,735 | £38.53 |
| Forfeited | **(7,039)** | **£40.15** | (1,765) | £36.93 |
| Exercised | **(27,060)** | **£48.29** | (6,166) | £39.51 |
| Outstanding at 31 December | **74,318** | **£17.34** | 73,266 | £51.36 |
| Exercisable at 31 December | **–** | **–** | – | – |

**18. Lease Commitments**

At 31 December 2008 and 2007, the Company had annual commitment under non-cancellable real estate leases expiring as follows:

| | **31 December 2008 £000's** | 31 December 2007 £000's |
|---|---|---|
| Within one year | **–** | – |
| Within two to five years | **–** | – |
| After five years | **1,605** | 1,516 |

**19. Subsequent Events**

In January 2009, CECG US entered into a definitive agreement to sell a majority of its international commodities portfolio. As a consequence, the services required from the Company would decrease significantly up to and through the date of sale. CECG US completed this transaction on 23 March 2009 and the Company recognized workforce reduction costs of £6.8 million in connection with CECG US's decision to sell the majority of its international commodities portfolio during 2009.

On 30 June 2009, the Company completed the sale of Nufcor (a uranium market participant that provides marketing services to uranium producers, utilities and an investment fund in the North American and European markets), receiving cash proceeds of approximately £28.4 million (USD $46.7 million, including a working capital adjustment of USD $3.7 million) and recorded a £37.9 million (USD $50.2) million loss on this sale.

As part of the Nufcor sale, the Company provided standard tax indemnities under the tax deed associated with the sale. Also as part of the sale, Nufcor addressed potential historical US state tax liabilities through a series of tax return filings, ruling requests and voluntary disclosure agreements ("VDA's") with the five US states within which transactions occurred. The particular state taxes involved were franchise, income taxes and related taxes as well as sales tax. In relation to the sales tax exposures, Nufcor obtained representation letters from the majority of its counterparts establishing that the transactions were of a nature that should be exempt from sales tax. All historical franchise taxes were paid amounting to approximately $110k and all income tax returns were nil liabilities due to the effect of federal tax treaty protections.

Due to the sales tax exposures being subject to ruling requests to confirm that the non-contemporaneous collection of the representation letters in lieu of actual resale certificates and the fact that the counterparties themselves were not registered in the respective states, the purchaser required a parent company guarantee ("PCG") from the ultimate parent company, CEG. That PCG was capped at $188 million representing all open years for the sales tax exposure and related interest, given that penalties would be waived under the VDA's.

**19. Subsequent Events (continued)**
The Company has not booked any liability for these exposures as it believes that the ruling requests will be successful to confirm that based on the nature of the industry and the counterparties, that the transactions were for resale and thereby exempt from sales tax. In addition, should the Company be subject to any claims by the purchaser under the tax deed for these matters arising from transactions prior to it's ownership (which represents the vast bulk of the exposure), it should also be able to make an essentially mirror claim under the tax deed with the original vendors from which it purchased Nufcor.

As a result of CEG's sale of its 50% interest in the shipping joint venture, the likelihood of collecting the management fee earned under the Commercial Management Agreement with the shipping joint venture is considered remote. Consequently, in 2008, we recorded a write off of this uncollectible accounts receivable of £0.6 million which represents 100% of the amounts owed to the Company under that agreement.

**20. Contingent liabilities**
The parent has given guarantees on behalf of the Company that it intends to provide operational and financial support to Constellation Energy Commodities Group Limited (CCG-UK) for a period of at least 12 months from the date of signing of the financial statements for the year ended 31 December 2008.

Under the terms of the Guarantee, and as part of the Nufcor sale, the Company provided standard tax indemnities under the tax deed associated with the sale. Also as part of the sale, Nufcor addressed potential historical US state tax liabilities through a series of tax return filings, ruling requests and voluntary disclosure agreements ("VDA's") with the five US states within which transactions occurred. The particular state taxes involved were franchise, income taxes and related taxes as well as sales tax. In relation to the sales tax exposures, Nufcor obtained representation letters from the majority of its counterparts establishing that the transactions were of a nature that should be exempt from sales tax. All historical franchise taxes were paid amounting to approximately $110k and all income tax returns were nil liabilities due to the effect of federal tax treaty protections.

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**21. Ultimate parent undertaking and controlling party**
The Company's immediate parent undertaking is CECG International whose immediate parent undertaking is Constellation Energy Resources, LLC, incorporated in the United States.

The parent undertaking of the smallest and largest group to consolidate these financial statements is CEG. Copies of CEG's consolidated financial statements can be obtained from the US Securities and Exchange Commission or the Company's website at www.constellation.com. The contents of this website are not part of this audit. The address for CEG is 750 East Pratt Street, Baltimore, Maryland, USA, 21202-3106.

The ultimate parent undertaking and controlling party is also CEG, incorporated in the United States.