

BRITISH ENERGY GENERATION LIMITED
DIRECTORS' REPORT AND
FINANCIAL STATEMENTS
for the year ended 31 March 2002

Company number 3076445



Directors and Advisers

British Energy Generation Limited

DIRECTORS

Dr Robin Jeffrey (Chairman)
Keith Lough
Gordon Boyd
Jeremy Western
Andrew Spurr
Sir Robert Hill
Philip Blackburn
David Gilchrist

SECRETARY

Robert Armour

REGISTERED OFFICE

Barnett Way
Barnwood
Gloucester
GL4 3RS

AUDITORS

PricewaterhouseCoopers
Erskine House
68 - 73 Queen Street
Edinburgh
EH2 4NH

SOLICITORS

Clifford Chance
200 Aldersgate Street
London
EC1A 4JJ

British Energy Generation Limited
Directors' Report
for the year ended 31 March 2002

FINANCIAL STATEMENTS

The Directors present their annual report and financial statements for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The Company's principal activity is the generation and sale of electricity. Both the level of business and the year end financial position were satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future.

RESULTS AND DIVIDENDS

The results for the Company are set out in the Profit and Loss Account on page 7. The Directors do not recommend the payment of a final ordinary dividend (2001: nil). The retained loss for the year of £76m was transferred to reserves.

RESEARCH AND DEVELOPMENT

During the year the Company invested £12m in research and development (2001:£12m). This is primarily scientific and engineering research activity which is directed towards securing further improvements in the reliability, performance and safety of its generating business and related activities.

DIRECTORS

The Directors of the Company at 31 March 2002 are listed on page 2.

The interests of the Directors in shares of British Energy plc are detailed in the accounts of that company, except for those of George Jenkins, Gordon Boyd, Jeremy Western, Philip Blackburn and Andrew Spurr which are detailed below. George Jenkins resigned as a Director of the Company on 4 June 2001. Michael Kirwan resigned as a Director of the Company on 20 September 2001. Philip Blackburn was appointed a Director of the Company on 4 June 2001, Keith Lough was appointed as a Director of the Company on 20 September 2001, and Jeremy Western and Gordon Boyd were appointed Directors of the Company on 1 November 2001.

Ordinary Shares

	2002	2001
George Jenkins	24	12,463
Gordon Boyd	-	-
Jeremy Western	8,233	-
Philip Blackburn	-	-
Andrew Spurr	-	-

George Jenkins holds 120 'A' shares (2001:120) in British Energy plc.

	At 1 April 2001	Granted	Exercised	At 31 March 2002	Option exercise price	Date from when exercisable	Expiry date
Executive Share Options							
George Jenkins	11,538	-	-	-	2.60	12/08/2000	11/08/2004
	71,154	-	-	-	2.60	15/07/2000	11/08/2007
	23,724	-	-	-	5.08	29/06/2001	28/06/2005
	29,575	-	-	-	5.30	25/06/2002	24/06/2006
	52,666	-	-	-	2.41	14/07/2003	13/07/2007
	<u>188,657</u>	<u>-</u>	<u>-</u>	<u>-</u>			
George Jenkins Share Options lapsed following his resignation as at 4 June 2001.							
Andrew Spurr	11,538	-	-	11,538	2.60	15/07/2000	14/07/2004
	16,538	-	-	16,538	2.60	15/07/2000	14/07/2004
	11,170	-	-	11,170	5.08	29/06/2001	28/06/2005
	19,700	-	-	19,700	5.30	25/06/2002	24/06/2006
	33,754	-	-	33,754	2.41	14/07/2003	13/07/2007
	<u>92,700</u>	<u>-</u>	<u>-</u>	<u>92,700</u>			

British Energy Generation Limited
Directors' Report
for the year ended 31 March 2002

DIRECTORS (continued)

	At 1 April 2001	Granted	Exercised	At 31 March 2002	Option exercise price	Date from when exercisable	Expiry date
Gordon Boyd	11,538	-	-	11,538	2.60	15/07/2000	14/07/2007
	18,154	-	-	18,154	2.60	15/07/2000	14/07/2004
	11,016	-	-	11,016	5.08	29/06/2001	28/06/2005
	20,346	-	-	20,346	5.30	25/06/2002	24/06/2006
	35,233	-	-	35,233	2.41	14/07/2003	13/07/2007
	<u>96,287</u>	<u>-</u>	<u>-</u>	<u>96,287</u>			
Jeremy Western	11,538	-	-	11,538	2.60	15/07/2000	14/07/2007
	14,760	-	-	14,760	2.60	15/07/2000	14/07/2004
	10,899	-	-	10,899	5.08	29/06/2001	28/06/2005
	22,533	-	-	22,533	5.30	25/06/2002	24/06/2006
	34,414	-	-	34,414	2.41	14/07/2003	13/07/2007
	<u>94,144</u>	<u>-</u>	<u>-</u>	<u>94,144</u>			
Philip Blackburn	10,000	-	-	10,000	2.60	15/07/2000	14/07/2007
	1,012	-	-	1,012	3.95	13/11/2000	12/11/2007
	10,120	-	-	10,120	3.95	13/11/2000	12/11/2004
	10,224	-	-	10,224	5.08	29/06/2001	28/06/2005
	18,227	-	-	18,227	5.30	25/06/2002	24/06/2006
	37,543	-	-	37,543	2.41	14/07/2003	13/07/2007
	<u>87,126</u>	<u>-</u>	<u>-</u>	<u>87,126</u>			

Exercise of these options is conditional on the achievement of an average annual growth in earnings per share of 3% per year ahead of inflation over three consecutive years.

Sharesave Scheme

Gordon Boyd	<u>6,211</u>	<u>-</u>	<u>-</u>	<u>6,211</u>	1.36	01/09/2003	28/02/2004
Jeremy Western	<u>1,769</u>	<u>-</u>	<u>-</u>	<u>1,769</u>	1.95	01/09/2002	28/02/2003
	<u>8,636</u>	<u>-</u>	<u>-</u>	<u>8,636</u>	1.36	01/09/2005	28/02/2006
	<u>10,405</u>	<u>-</u>	<u>-</u>	<u>10,405</u>			
Philip Blackburn	<u>6,211</u>	<u>-</u>	<u>-</u>	<u>6,211</u>	1.36	01/09/2003	28/02/2004

POLICY ON PAYMENT OF CREDITORS

The Company supports the Prompt Payers' Code of the Confederation of British Industry. The Company's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of these terms and to abide by the agreed terms. At 31 March 2002 the Company had £17m of trade creditors which equates to 40 days value of supplier purchases for the financial year. The supplier purchases exclude payments to BNFL, the Company's principal supplier, which are made against an agreed contract profile.

CHARITABLE AND POLITICAL CONTRIBUTIONS

The Company made charitable donations of £40,000 (2001: £35,000). No political donations were made.

**British Energy Generation Limited
Directors' Report
for the year ended 31 March 2002**

EMPLOYEES

The Company is committed to involving employees in the business through a policy of communication and consultation. Arrangements have been established for the regular provision of information to all employees through briefings, staff conferences and well-established formal consultation procedures.

The Company is committed to its equal opportunities policies, which includes promoting training and career development for all employees. Full and fair consideration for all vacancies and opportunities will be given to men and women, people with disabilities and those from ethnic minorities, regardless of marital status, age, religion or sexual orientation. The policy is supported by a Code of Practice on harassment which recognises that all employees have the right to be treated with dignity and respect.

EUROPEAN ECONOMIC AND MONETARY UNION

Although the majority of British Energy's income and expenditure is denominated in sterling, it recognises that the European Economic and Monetary Union (EMU) could have a significant impact on its commercial activities in the long term. The Company has not entered into euro denominated transactions to any significant extent to date.

AUDITORS

A resolution proposing the re-appointment of PricewaterhouseCoopers as auditors will be put to the forthcoming Annual General Meeting.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company, and of the results of the Company, for that period.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to 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.

This report was approved by the Board of Directors on 14 May 2002 and signed on its behalf by:



Gordon Boyd
Director of Finance

INDEPENDENT AUDITOR'S REPORT
to the members of British Energy Generation Limited

We have audited the financial statements on pages 7 to 22.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

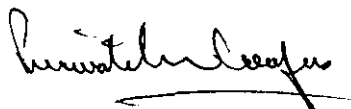
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 judgements 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Edinburgh
14 May 2002

British Energy Generation Limited
Profit and Loss Account
For the year ended 31 March 2002

	Notes	2002 Total £m	Exceptional Items (Note 1) £m	2002 Business Performance £m	2001 Business Performance (restated) £m	Exceptional Items (Note 1) £m	2001 Total (restated) £m
Turnover: continuing activities	3	1,041	-	1,041	1,327	-	1,327
Operating costs	4	(973)	-	(973)	(1,224)	75	(1,149)
Operating profit: continuing activities		68	-	68	103	75	178
Financing (charges)/credits							
- revaluation	7	(137)	(20)	(117)	(130)	5	(125)
Profit / (loss) on ordinary activities before taxation		(69)	(20)	(49)	(27)	80	53
Taxation on profit / (loss) on ordinary activities	8	(7)	-	(7)	(22)	(24)	(46)
Retained profit / (loss) for the financial year	23	(76)	(20)	(56)	(49)	56	(7)

The Company had no recognised gains or losses other than the (losses)/profits for the years.

There is no difference between the profit on ordinary activities before taxation and the retained (loss)/profit for the year stated above and their historical cost equivalents.

Notes 1 to 27 form part of these financial statements.


Statement of Total Recognised Gains and Losses
For the year ended 31 March 2002

	2002 £m	2001 (restated) £m
Loss for the financial year	(76)	(7)
Prior year adjustment in respect of accounting policy changes:		
- deferred tax	(40)	-
Total recognised losses since last report	(116)	(7)

British Energy Generation Limited
Balance Sheet
as at 31 March 2002

	Notes	2002 £m	2001 (restated) £m
Fixed assets			
Tangible assets	9	<u>3,115</u>	<u>3,232</u>
Current assets			
Decommissioning fund	11	290	280
Stocks	12	350	406
Debtors	13	<u>155</u>	<u>167</u>
		795	853
Creditors: amounts falling due within one year	14	(423)	(569)
Net current assets		<u>372</u>	<u>284</u>
Total assets less current liabilities		3,487	3,516
Creditors: amounts falling due after more than one year	14	(1,534)	(1,553)
Provisions for liabilities and charges	16	<u>(1,587)</u>	<u>(1,521)</u>
Net (liabilities)/assets		<u>366</u>	<u>442</u>
Capital and reserves			
Called up share capital	21	-	-
Profit and loss account	22	<u>366</u>	<u>442</u>
Equity Shareholders' funds	23	<u>366</u>	<u>442</u>

The financial statements on pages 7 to 22 were approved by the Board of Directors on 14 May 2002 and signed on its behalf by:



Gordon Boyd
Director of Finance

Notes 1 to 27 form part of these financial statements.

British Energy Generation Limited
Notes to the Financial Statements
for the year ended 31 March 2002

1. BASIS OF PREPARATION

To assist shareholders to compare the underlying financial performance of the Company, "business performance" profit and loss account figures are shown which exclude exceptional items.

2 ACCOUNTING POLICIES

(i) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The Company has changed its accounting policy for deferred tax (2(xii) below) in accordance with the provisions of FRS19. The income recognised by the Company in respect of the long term rate of return of the decommissioning fund is unrealised and its recognition is a departure from one of the accounting principles set out in Schedule 4 of the Companies Act 1985. An explanation of this departure is given in note 2 (xiv) below.

The preparation of accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates.

The Company's results are consolidated within British Energy plc which produces publicly available financial statements which includes a cash flow statement. Accordingly the Company has elected to utilise the exemption provided by Financial Reporting Standard 1, Cash Flow Statements (Revised) and has not provided a cash flow statement.

In accordance with FRS18 the Directors have reviewed the Company's accounting policies and confirm that they continue to be the most appropriate. These policies are set out below. A number of the policies require the Company to use a variety of estimation techniques. Significant factors considered when assessing the carrying value of assets include future prices, expected annual output, remaining station lives and discount rates. Estimates of output, costs and the timing of associated cash flows are key factors used to apply the stated policies for long term nuclear liabilities and decommissioning.

(ii) Turnover

Turnover represents amounts receivable for sales of electricity and sales of other related goods and services, net of value added tax. The Directors consider there to be one class of business and one geographical market, that of the UK.

(iii) Fuel costs - front end

Advanced Gas Cooled Reactors ("AGR")

Front end fuel costs consist of the costs of procurement of uranium, conversion and enrichment services and fuel element fabrication. Fabrication costs comprise fixed and variable elements. The fixed element is charged to the profit and loss account as incurred and the variable element, other than for unburnt fuel at shutdown, is charged to the profit and loss account in proportion to the amount of fuel burnt.

Pressurised Water Reactor ("PWR")

All front end fuel costs are variable and, other than for unburnt fuel at shutdown, are charged to the profit and loss account in proportion to the amount of fuel burnt.

(iv) Fuel costs - back end

AGR

Spent fuel extracted from the reactors is sent for reprocessing and/or long term storage and eventual disposal of resulting waste products. Back end fuel costs comprise the estimated cost of this process at current prices discounted back to current value in respect of both the amount of irradiated fuel burnt during the year and an appropriate proportion of unburnt fuel which will remain in the reactors at the end of their lives. All back end fuel costs, other than for unburnt fuel at shutdown, are charged to the profit and loss account in proportion to the amount of fuel burnt.

PWR

Back end fuel costs are based on wet storage in station ponds followed by dry storage and subsequent direct disposal of fuel. Back end fuel costs comprise the estimated cost of this process at current prices discounted back to current value. All back end fuel costs, other than for unburnt fuel at shutdown, are charged to the profit and loss account in proportion to the amount of fuel burnt.

British Energy Generation Limited
Notes to the Financial Statements
for the year ended 31 March 2002

2 ACCOUNTING POLICIES (continued)

(v) Unburnt fuel at shutdown

Due to the nature of the fuel process there will be some unburnt fuel in the reactors at station closure. The front end and back end costs of this fuel are charged to the profit and loss account over the estimated useful life of each station on a straight line basis.

(vi) Research and development

Research and development expenditure is charged to the profit and loss account as incurred.

(vii) Pensions and Post Retirement Obligations

The Company continues to provide for UK pension costs in accordance with SSAP24. Contributions to the Company's defined benefit pension schemes are assessed by qualified actuaries and are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company. The capital cost of ex gratia and supplementary pensions is charged to the profit and loss account, to the extent that the arrangements are not covered by the surplus in schemes, in the accounting period in which they are granted. Differences between the amounts funded and the amounts charged to the profit and loss account are included in the balance sheet.

(viii) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the balance sheet. All differences are taken to the profit and loss account.

(ix) Tangible fixed assets and depreciation, including decommissioning costs

Fixed assets comprise assets acquired or constructed by the Company. Expenditure incurred to improve operational performance or to improve safety in order to meet increased regulatory standards is capitalised. Interest on major capital projects is included in the cost of the fixed asset from the date of cash settlement until the date of commissioning. Other expenditure, including that incurred on preliminary studies and on the initiation of new technologies not yet adopted, is charged to the profit and loss account as incurred.

Fixed assets (other than assets in the course of construction) are stated in the balance sheet at cost less accumulated depreciation. Accumulated depreciation includes additional charges made where necessary to reflect impairment in value. Impairment is assessed based on the present value of estimated future cash flows and net realisable value compared with net book value. Assets in the course of construction are stated at cost and not depreciated until brought into commission.

The charge for depreciation of fixed assets is based on the straight line method so as to write off the costs of assets, after taking into account exceptional provisions for diminution in value, over their estimated useful lives. Depreciation starts from the year following the year of expenditure except for power stations which are depreciated from the date of commissioning.

The asset lives adopted are subject to regular review and for the year ended 31 March 2002 were:

AGR power stations	25-35 years
PWR power station	40 years
Other buildings	40 years
Other assets	5-7 years

The estimated costs for decommissioning the Company's power stations are provided for when stations begin operating commercially, are capitalised as part of the cost of construction and are depreciated over the same lives as the stations. These estimated costs are discounted having regard to the timescale whereby work will take place over many years after station closure. The estimated costs include the demolition and site clearance of the stations' radioactive facilities and the management of waste.

(x) Fixed asset investments

Fixed asset investments are stated at cost less amortisation or provisions for diminution in value.

(xi) Stocks of nuclear fuel, stores and spares

Stocks of nuclear fuel, stores and spares are valued at the lower of cost and net realisable value. The nuclear fuel stock is reduced by the provision for unburnt fuel at shutdown (note 2 (v)). Strategic spares are amortised over the life of the asset to which they relate.

British Energy Generation Limited
Notes to the Financial Statements
for the year ended 31 March 2002

2 ACCOUNTING POLICIES (continued)

(xii) Deferred taxation

The Company makes full provision for deferred tax on all temporary timing differences which arise between its taxable profits and results as stated in the financial statements. The full amount of the provision is discounted using a discount rate similar to the current post tax rates of return on UK treasury gilts. The impact of the change in accounting policy is to increase the deferred tax provision and reduce profit and loss account reserves by £40m at 31 March 2001.

(xiii) Nuclear liabilities

In matching the costs of generating electricity against the income from sales, accruals are made in respect of the following:

(a) fuel costs - back end

The treatment of back end fuel costs in the profit and loss account has been dealt with in (iv) and (v) above. These accruals cover reprocessing and storage of spent nuclear fuel and the long term storage, treatment and eventual disposal of nuclear waste. They are based, as appropriate, on contractual arrangements or the latest technical assessments of the processes and methods likely to be used to deal with these obligations under the current regulatory regime. Where accruals are based on contractual arrangements they are included within creditors. Other accruals are based on long term cost forecasts which are reviewed regularly and adjusted where necessary, and are included within provisions.

(b) decommissioning of nuclear power stations

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

The provision established at the commencement of a power station's operating life is capitalised as part of the costs of the station.

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

(xiv) Decommissioning fund

The Company makes contributions into an independently administered fund to cover all costs of decommissioning nuclear power stations, except de-fuelling costs. The Company's annual contributions to the fund are assessed by qualified actuaries, taking into account the amount and timing of expected decommissioning costs and the periods until station closures. The value of the asset in the balance sheet represents the contributions made by the Company, together with an estimated actuarially determined long-term rate of return on the fund. The change in value arising from applying the estimated long-term rate of return is taken to the profit and loss account and disclosed as part of revalorisation.

The revalorisation of the decommissioning fund, which has been taken through the profit and loss account, is not a realised profit for the purposes of the Companies Act 1985 because the income is unrealised until the Company receives the related cash from the fund to reimburse decommissioning expenditure. The inclusion of this profit in the profit and loss account is a departure from the requirements of the Companies Act 1985. Revalorisation of the accrued decommissioning provision is charged to the profit and loss account each year and accordingly, in the opinion of the Directors, it is necessary to include the estimated annual long-term rate of return of the fund in the Company's profit and loss account in order for the financial statements to give a true and fair view.

The effect of the departure is to increase the reported profit before exceptional items for the year by £16m (2001: £14m) and net assets by £57m (2001: £61m). There are no tax consequences of this departure.

In the event that the net realisable value as indicated by the market value of the fund is lower than the value determined under the accounting policy set out above, the lower value is included in the Company accounts.

British Energy Generation Limited
Notes to the Financial Statements
for the year ended 31 March 2002

2 ACCOUNTING POLICIES (continued)

(xv) Financial instruments and derivatives

Financial instruments and derivatives are used to hedge interest rate, foreign exchange and trading risks. Profits and losses on financial instruments and derivatives are reported in the profit and loss account in the period in which the underlying hedging transactions are completed. Short term debtors and creditors have been excluded from the disclosures made under FRS13 – 'Derivatives and other financial instruments'.

3 TURNOVER

	2002 TWh	2001 TWh
Output	49.4	49.4
	2002 £m	2001 £m
Electricity generation	517	983
Direct supply sales	519	340
Miscellaneous income	5	4
Business performance turnover	1,041	1,327

Electricity generation represents the sale of electricity to British Energy Power & Energy Trading Ltd.

Direct supply sales represent the income generated from sales contracts with industrial and commercial customers.

4 OPERATING COSTS

	2002 Total £m	Exceptional Items £m	2002 Business Performance £m	2001 Business Performance £m	Exceptional Items £m	2001 Total £m
Fuel	253	-	253	233	(23)	210
Materials and services	253	-	253	344	-	344
Staff costs (note 5/18)	125	-	125	128	(52)	76
Depreciation	171	-	171	166	-	166
	802	-	802	871	(75)	796
Electricity purchases for direct supply sales	171	-	171	353	-	353
	973	-	973	1,224	(75)	1,149

During 2000/2001 the accounting lives of Heysham 1 and Hartlepool power stations were increased by five years from 30 years to 35 years. As a result of these life extensions there were one-off exceptional credits in that year of £23m to fuel costs and £5m to revaluation (note 7).

During April 2001 the House of Lords issued a ruling in favour of the National Grid Group in respect of the use of ESPS surplus to offset the costs of early retirement resulting from reorganisation or redundancy. On the basis of the House of Lords decision a provision of £52m was released as an exceptional credit to staff costs in the year ended 31 March 2001.

	2002 £m	2001 £m
Operating costs are stated after charging:		
Research and development	12	12
	£'000	£'000
Auditors' remuneration		
- statutory audit	131	117

British Energy Generation Limited
Notes to the Financial Statements
for the year ended 31 March 2002

5 EMPLOYEE INFORMATION

(a) Staff costs

	2002	2001
	£m	£m
Salaries	117	123
Social security costs	10	11
Pension costs (note 20)	(2)	(3)
Amortisation of share option costs	6	2
Amounts capitalised	(6)	(5)
Business performance staff costs	125	128
Exceptional item (note 4/18)	-	(52)
Total staff costs	125	76

(b) Employee numbers

Average number of employees during the year	3,104	3,234
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Average number of full time equivalent employees by category during the year were:

	Number	Number
Power Stations	2,550	2,648
Engineering, technical and corporate support	554	586
	3,104	3,234

6 SUMMARY OF DIRECTORS' EMOLUMENTS

	2002	2001
	£'000	£'000
Total emoluments, including pension contributions		
For management services:		
- salaries and other benefits	386	258
- performance related bonuses	97	60
- pension contributions	27	27
	510	345

The emoluments exclude those for directors who are also directors of British Energy plc. The emoluments for these directors are paid by British Energy plc and are detailed in the Remuneration Report in the group accounts.

The above amounts for remuneration include the following in respect of the highest paid director.

	2002	2001
	£'000	£'000
Emoluments	139	164
Pension contributions	11	14
	150	178

British Energy Generation Limited
Notes to the Financial Statements
for the year ended 31 March 2002

7 FINANCING CHARGES/(CREDITS)

	2002 £m	2001 £m
Revalorisation of nuclear liabilities:		
- changes in price levels	49	61
- discharge of one year's discount	84	83
	<u>133</u>	<u>144</u>
Revalorisation of decommissioning fund	(16)	(14)
Revalorisation charge before exceptional item	117	130
Exceptional item	20	(5)
Revalorisation charge	<u>137</u>	<u>125</u>

At 31 March 2002 the market value of the decommissioning fund (£290m) was lower than the value (£310m) that would have been derived from revalorising the cost of investment. As a result, an exceptional charge of £20m has been recognised to restate the decommissioning fund receivable to market value.

The exceptional revalorisation credit of £5m in 2001 results from the extension of the accounting lives at Heysham 1 and Hartlepool power stations.

8 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2002 £m	2001 (restated) £m
UK corporation tax on profits of the period	-	2
Adjustments in respect of previous periods	(11)	-
Deferred taxation on business performance profit before tax	-	-
Current Year	(9)	20
Prior Year	14	-
Origination and reversal of exceptional timing differences	-	24
Unwinding of discount	13	-
Deferred tax charge for the year (note 19)	18	44
Tax on profit / (loss) on ordinary activities	<u>7</u>	<u>46</u>

A reconciliation of the effective tax rate for the current year tax charge is set out below.

	2002 Tax terms £m	Percentage
Tax on profit at standard rate of 30%	(21)	30%
Deferred tax:		
Current year movement on discounted basis	9	(13%)
Unwinding of Discount	(13)	19%
Impact of discounting	33	(47%)
Prior year	(14)	20%
Total deferred tax	15	-
Expenses not deductible for tax purposes	6	(8%)
Current tax charge for year	<u>-</u>	<u>-</u>

British Energy Generation Limited
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9 TANGIBLE FIXED ASSETS

	Power Stations £m	Other Land and Buildings £m	Other plant and equipment £m	Total £m
Cost				
As at 1 April 2001	7,439	29	180	7,648
Additions	32	-	22	54
As at 31 March 2002	<u>7,471</u>	<u>29</u>	<u>202</u>	<u>7,702</u>
Depreciation				
As at 1 April 2001	4,298	22	96	4,416
Charge for the year	162	1	8	171
As at 31 March 2002	<u>4,460</u>	<u>23</u>	<u>104</u>	<u>4,587</u>
Net book value				
As at 31 March 2002	<u>3,011</u>	<u>6</u>	<u>98</u>	<u>3,115</u>
As at 31 March 2001	<u>3,141</u>	<u>7</u>	<u>84</u>	<u>3,232</u>

The net book value of tangible fixed assets includes the following amounts in respect of freehold land and buildings:

	2002 £m	2001 £m
Cost	1,762	1,762
Net book value	<u>925</u>	<u>962</u>

10 FIXED ASSET INVESTMENTS

	Total £m
Cost	
As at 1 April 2001	26
Repayment	-
As at 31 March 2002	<u>26</u>
Provision for diminution in value	
As at 1 April 2001	26
Credit for the year	-
As at 31 March 2002	<u>26</u>
Net book value	
As at 31 March 2002	<u>-</u>
As at 31 March 2001	<u>-</u>

Loans have been made to United Kingdom Nirex Limited to fund development expenditure for building an intermediate level nuclear waste repository. These loans have been fully provided for in the Company's financial statements.

The Company owns 100 per cent of the ordinary shares of NE Generation Limited and NE Limited. These companies are dormant.

British Energy Generation Limited
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11 DECOMMISSIONING FUND

	£m
As at 1 April 2001	280
Regular contributions	14
Revalorisation (see note 7)	16
Less Exceptional write-down to market value	(20)
As at 31 March 2002	<u>290</u>

The decommissioning fund asset in the balance sheet normally represents the contributions made by the Company, together with an estimated actuarially determined long-term post-tax real rate of return on the fund of 3.5% per annum. The change in value arising from applying the estimated long-term rate of return is taken to the profit and loss account as a revalorisation credit. The decommissioning fund asset is receivable in more than one year. The market value of the fund's investments at 31 March 2002 was £290m (2001: £280m). As a result of the market value being lower than the balance sheet carrying value an exceptional charge of £20m has been recognised in the accounts.

12 STOCKS

	2002 £m	2001 £m
Unburnt nuclear fuel in reactors	302	318
Provision for unburnt fuel at station closure	(183)	(173)
Net unburnt nuclear fuel in reactors	<u>119</u>	<u>145</u>
Other nuclear fuel	134	159
Stores	<u>97</u>	<u>102</u>
	<u>350</u>	<u>406</u>

13 DEBTORS

	2002 £m	2001 £m
Trade debtors	84	129
Other debtors	2	1
UK Corporation Tax	12	12
Prepayments	<u>57</u>	<u>25</u>
	<u>155</u>	<u>167</u>

14 CREDITORS

	2002 £m	2001 £m
Amounts falling due within one year		
Nuclear liabilities (note 17)	148	171
Trade creditors	17	17
Retentions	2	4
Other taxes and social security	4	34
Accruals	91	99
Amount due to group undertakings	<u>161</u>	<u>244</u>
	<u>423</u>	<u>569</u>
Amounts falling due after more than one year		
Nuclear liabilities (note 17)	<u>1,534</u>	<u>1,553</u>
	<u>1,534</u>	<u>1,553</u>

Amounts owed to group undertakings is unsecured and is repayable on demand.

British Energy Generation Limited
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15 FINANCIAL INSTRUMENTS AND DERIVATIVES

Derivative Financial Instruments

A summary of derivative financial instruments at 31 March 2002 is set out below.

	2002			2001		
	Contract principal amounts £m	Carrying value £m	Fair value £m	Contract principal amounts £m	Carrying value £m	Fair value £m
Foreign exchange forward contracts	5	-	1	38	-	2

The principal currency of the forward exchange contracts is US Dollars. The principal value of the contracts held in this currency is US\$8m (2001: \$47m). Other forward exchange contracts in 2000/2001 were held in Dutch Guilders (13m) and Deutschmarks (13m). The Company's outstanding forward exchange contracts mature in April 2002.

A summary table of the net losses on derivative instruments is set out in the table below:

	2002 Unrecognised £m	2002 Deferred £m	2001 Unrecognised £m	2001 Deferred £m
Net losses on derivative instruments at 1 April 2001	2	(14)	(6)	(20)
Net losses arising in previous period included in current period profit and loss account	-	5	-	6
Net losses arising before 1 April 2001 not included in current period profit and loss account	2	(9)	(6)	(14)
Net gains/(losses) arising in current period not included in current period profit and loss account	(1)	2	8	-
Net losses on hedges at 31 March 2002	<u>1</u>	<u>(7)</u>	<u>2</u>	<u>(14)</u>
Of which:				
Net losses expected to be included in 2002/03 profit and loss account	1	(5)		
Net losses expected to be included in profit and loss accounts beyond 2002/03	-	(2)		

16 PROVISIONS FOR LIABILITIES AND CHARGES

	2002 £m	2001 (restated) £m
Nuclear liabilities (note 17)	1,194	1,127
Other provisions (note 18)	5	24
Deferred taxation (note 19)	388	370
	<u>1,587</u>	<u>1,521</u>

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17 NUCLEAR LIABILITIES

	Back end fuel costs contracted £m	Back end Fuel costs uncontracted £m	Decommissioning £m	2002 Total £m	2001 Total £m
As at 1 April 2001	1,724	464	663	2,851	2,859
Impact of asset life extensions	-	-	-	-	(28)
Charged to profit and loss account					
- operating costs	86	9	-	95	88
- revalorisation (note 7)	74	23	36	133	144
- exceptional items	-	-	-	-	(18)
Payments in the year	(203)	-	-	(203)	(194)
As at 31 March 2002	<u>1,681</u>	<u>496</u>	<u>699</u>	<u>2,876</u>	<u>2,851</u>

The year end balances of nuclear liabilities are included in the balance sheet as follows:

	2002 £m	2001 £m
Creditors:		
- amounts falling due within one year	148	171
- amounts falling due after more than one year	1,534	1,553
Provisions for liabilities and charges	<u>1,194</u>	<u>1,127</u>
	<u>2,876</u>	<u>2,851</u>

Fuel costs - back end

Accruals for AGR fuel services relating to spent AGR fuel are based on the terms of contracts with BNFL, most of which include fixed prices subject to indexation or the Company's estimates where no contracts exist. Provisions for services relating to the disposal of nuclear waste and the storage and disposal of PWR spent fuel are based on cost estimates derived from the latest technical assessments.

Decommissioning

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

Projected payment details

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

	Back end fuel costs contracted £bn	Back end fuel costs uncontracted £bn	Decommissioning £bn	2002 Total £bn	2001 Total £bn
Undiscounted	<u>3.7</u>	<u>3.2</u>	<u>3.5</u>	<u>10.4</u>	<u>10.3</u>
Discounted	<u>2.5</u>	<u>0.7</u>	<u>0.7</u>	<u>3.9</u>	<u>4.0</u>
Accrued to date	<u>1.7</u>	<u>0.5</u>	<u>0.7</u>	<u>2.9</u>	<u>2.9</u>

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

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17 NUCLEAR LIABILITIES (continued)

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

	Back end fuel costs contracted £m	Back end fuel costs uncontracted £m	Decommissioning £m	2002 Total £m	2001 Total £m
Within five years	831	76	66	973	1,015
6 – 10 years	923	121	142	1,186	1,215
11 – 25 years	1,330	343	264	1,937	2,005
26 – 50 years	382	331	56	769	772
51 years and over	195	2,310	-	2,505	2,475
	<u>3,661</u>	<u>3,181</u>	<u>528</u>	<u>7,370</u>	<u>7,482</u>

18 OTHER PROVISIONS

	Restructuring £m	Uninsured claims £m	2002 Total £m	2001 Total £m
As at 1 April 2001	24	-	24	95
Provided/(released) in the year	-	-	-	(58)
Payments in the year	(19)	-	(19)	(13)
As at 31 March 2002	<u>5</u>	<u>-</u>	<u>5</u>	<u>24</u>

The restructuring provision is a provision for redundancy and severance costs, based on the Company's existing restructuring programme.

During April 2001 the House of Lords ruled in favour of National Grid Group in respect of the use of pension scheme surplus to offset the costs of early retirement (see note 4). On the basis of this decision the provision of £52m held against the adverse outcome of the case was released in 2001.

19 DEFERRED TAXATION

	2002 £m	2001 (restated) £m
Accelerated capital allowances	727	440
Other long term timing differences	(63)	(61)
Short term timing differences	7	(9)
Corporation tax losses	(33)	-
Undiscounted provision for deferred tax	<u>638</u>	<u>370</u>
Discounted	(250)	-
Discounted provision for deferred tax	<u>388</u>	<u>370</u>
		2002 £m
As at 1 April 2001		330
Prior year adjustment		40
As at 1 April 2001 restated		<u>370</u>
Charge for the year (note 8)		18
As at 31 March 2002		<u>388</u>

The full potential liability for deferred tax has been calculated using the expected tax rate of crystallisation of 30% (2001: 30%).

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20 POST RETIREMENT BENEFIT OBLIGATIONS

British Energy Generation operates a pension arrangement within the Electricity Supply Pension Scheme (ESPS). The ESPS is a defined benefit scheme, which is externally funded and subject to triennial actuarial valuations. Each pension group that participates in the ESPS is financially independent from the other groups.

The most recent valuation of the scheme was carried out at 31 March 2001. The valuation for accounting purposes has been carried out by an independent actuary using the projected unit method. The principal assumptions adopted for this accounting valuation was that, over the long term, the investment rate of return would be 6 per cent per annum for benefits already accrued, and 6.5% for the return achieved on future contributions. The rate of salary increase would be 4 per cent per annum and the rate of pension increase would be 2.5 per cent per annum. Assets were taken at market value. At the date of the valuation, the market value of assets of the BEGG scheme was £1,918m. This represents 119% of the benefits that had accrued to members after allowing for expected future increases in earnings.

British Energy Generation contributes 10% to the scheme with contributing members contributing 5%. Any deficiency disclosed in the scheme following an actuarial valuation has to be made good by British Energy Generation.

The Company's pension cost for the year to 31 March 2002 was £nil (2001: £nil). At that date there was a prepayment of £32m (2001: £20m).

British Energy Generation has not implemented FRS17 'Retirement benefits' in the accounts to 31 March 2002. The disclosures required under the transitional arrangements within FRS17 are, however, set out below.

	£m
The fair value of the scheme's assets at 31 March 2002	1,815
The present value of scheme liabilities at 31 March 2002	<u>(1,767)</u>
Net pension asset	48
Related deferred tax liability	<u>(14)</u>
Net asset for post retirement benefits net of tax	<u>34</u>

The assets in the scheme, together with the expected long term rate of return, were

	Rate of Return %	Value at 31 March 2002
Equities	8.0	1,221
Bonds	5.3	412
Property	6.7	175
Other	4.75	7

The principal assumptions which were used to arrive at the present value of the scheme liabilities were as follows:

	%
Annual inflation rate	2.75
Annual rate of salary increase	4.25
Annual rate of pension increase	2.75
Annual discount rate for scheme liabilities	6.00

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21 CALLED UP SHARE CAPITAL

	2002 £	2001 £
Authorised		
99 (2001: 99) Ordinary Shares of £1 each	99	99
One special rights redeemable preference share of £1	1	1
	<u>100</u>	<u>100</u>
Allotted, called up and fully paid		
99 (2001: 99) Ordinary Shares of £1 each	99	99
One special rights redeemable preference share of £1	1	1
	<u>100</u>	<u>100</u>

The special rights redeemable preference share is redeemable at par at any time after 30 September 2006 at the option of the Secretary of State, after consulting the Company. This share, which may only be held by a Minister of the Crown or other person acting on behalf of HM Government, does not carry any rights to vote at general meetings, but entitles the holder to attend and speak at such meetings. The special share confers no right to participate in the capital or profits of the Company beyond its nominal value. Certain matters, in particular, the alteration of specific sections of the Articles of Association of the Company (including the Article relating to limitations that prevent a person having the right to have an interest in 15% or more of the voting share capital), require the prior written consent of the holder of the special share.

22 PROFIT AND LOSS ACCOUNT

	2002 £m	2001 (restated) £m
As at 1 April 2001	442	475
Retained (loss) / profit for the year	(76)	7
Prior Year Adjustment	-	(40)
As at 31 March 2002	<u>366</u>	<u>442</u>

The profit and loss account of the Company at 31 March 2002 includes £57m of unrealised profits (see note 2(xiv)) (2001: £61m).

23 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2002 £m	2001 (restated) £m
As at 1 April 2001	442	475
(Loss) / Profit for the financial year	(76)	7
Prior year adjustment	-	(40)
As at 31 March 2002	<u>366</u>	<u>442</u>

24 CONTINGENT LIABILITIES

The Company is involved in a number of claims and disputes arising in the ordinary course of business which are not expected to have a material effect on the Company's financial position. The Company gives certain indemnities and guarantees in respect of its subsidiary undertakings in the ordinary course of business. These indemnities and guarantees are not considered to be material and no losses are anticipated to arise.

25 FINANCIAL COMMITMENTS

	2002 £m	2001 £m
Capital expenditure contracted but not provided	<u>21</u>	<u>19</u>

In addition to the reprocessing commitments there are commitments for fuel purchases totalling £477m (2001: £479m) at current prices, over the next 10 years.

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26 ULTIMATE PARENT

The immediate parent undertaking of British Energy Generation Ltd is British Energy Generation (UK) Ltd. The results of British Energy Generation Ltd have been consolidated within the accounts of its ultimate holding Company, and ultimate controlling party, British Energy plc. Copies of the Group accounts are available from the Company Secretary at the registered office: British Energy plc, 3 Redwood Crescent, East Kilbride G74 5PR.

27 RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption under Financial Reporting Standard 8 not to disclose related party transactions with fellow members of the British Energy plc group. These transactions eliminate on consolidation in the Group accounts.