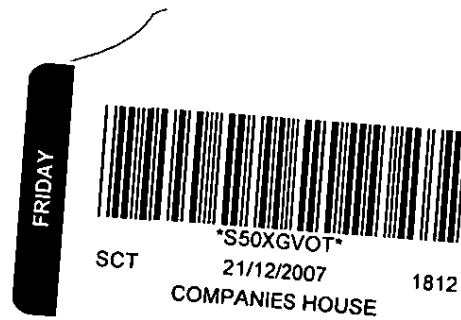


Company Number 3076445

BRITISH ENERGY GENERATION LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007



Registered Office

Barnett Way
Barnwood
Gloucester
GL4 3RS

British Energy Generation Limited

Directors and Advisers

DIRECTORS

Robert Armour	(appointed 12 February 2007)
Chris Bakken	(appointed 12 February 2007)
Stephen Billingham	
Bill Coley	
Peter Prozesky	(appointed 12 February 2007)
Andrew Spurr	
Matthew Sykes	(appointed 12 February 2007)
Peter Wakefield	
Roy Anderson	(resigned 17 November 2006)
Sir Robert Walmsley	(resigned 11 February 2007)
Peter Webster	(resigned 16 October 2006)
Jeremy Western	(resigned 11 February 2007)

COMPANY SECRETARY

Robert Armour

REGISTERED OFFICE

Barnett Way
Barnwood
Gloucester
GL4 3RS

AUDITORS

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

SOLICITORS

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

British Energy Generation Limited Directors' Report

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2007

PRINCIPAL ACTIVITIES, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Company's principal activity is the generation and sale of electricity

It is the intention of the Directors that the Company will continue to develop its current principal activity

References to the Group are to British Energy Group plc, the ultimate holding company of British Energy Generation Limited, and its subsidiaries including this Company. References to 'British Energy' are to British Energy Group plc

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the Company's strategy are subject to a number of risks. A discussion of these risks and uncertainties, in the context of the Group as a whole, is provided in the Financial Review on pages 12 to 21 of the Group's Annual Report and Accounts for the year ended 31 March 2007, which does not form part of this report

KEY PERFORMANCE INDICATORS

The Company's Directors believe that analysis using key performance indicators for the Company is not necessary because the development, performance and position of the Company's trading activities including performance against Group wide key performance indicators is discussed within the Chief Executive's Business Review on pages 6 to 11 of the Group's Annual Report and Accounts for the year ended 31 March 2007, which does not form part of this report

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's financial risk management objectives and policies, including policies for hedging transactions, are discussed in the Group's Annual Report and Accounts for the year ended 31 March 2007 in the Risk Management Section on pages 17 to 19 of the Financial Review, which does not form part of this report

SHARE CAPITAL

Details of the Company's share capital are included at note 20

RESULTS AND DIVIDENDS

The result for the year is set out in the profit and loss account on page 7. The profit for the year of £195m (2006: £482m) was transferred to reserves

The Directors do not recommend the payment of a dividend (2006: £641m)

EVENTS AFTER THE BALANCE SHEET DATE

The Group made announcements on 22 October 2007 and 6 November 2007 and released its interim results on 13 November 2007, which included details on the Company's plant and output. Further announcements in respect of plant and output and station life extensions were made on 21 November 2007 and 11 December 2007 respectively. Full details are set out in note 25

RESEARCH AND DEVELOPMENT

During the year the Company spent £13m on research and development (2006: £12m) and these costs have been expensed within Materials and Services in the profit and loss account. This is primarily scientific and engineering research activity that is directed towards securing further improvements in the reliability, performance and safety of the Company's generating business and related activities

DIRECTORS

The Directors of the Company throughout the year and at 31 March 2007 are listed on page 2

POLICY ON PAYMENT OF CREDITORS

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. The Company had trade creditors amounting to £67m (2006: £62m) at 31 March 2007. Suppliers to the Group were paid within an average of 57 days for the financial year (2006: 56 days). For the purpose of this analysis supplier purchases exclude payments to British Nuclear Fuels plc (BNFL), the Company's principal supplier, which are generally made against an agreed contract profile

CHARITABLE AND POLITICAL CONTRIBUTIONS

The Company made charitable donations during the year of £59,006 (2006: £46,896) in support of the community. No political donations were made during the year (2006: £nil)

British Energy Generation Limited Directors' Report

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.

The Group operates a Share Incentive Plan, which is an all-employee performance related share scheme. More details of the Share Incentive Plan, and the Group's other share schemes, are set out in the Group's Annual Report and Accounts for the year ended 31 March 2007.

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 2. Having made enquiries of fellow Directors and of the auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their Report of which the auditors are unaware, and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the auditors are aware of that information.

This report was approved by the Board of Directors on 20 December 2007 and signed on its behalf by



ROBERT ARMOUR
Director

British Energy Generation Limited
Statement of Directors' Responsibilities
for the year ended 31 March 2007

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

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, 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 confirm that they have complied with the above requirements in preparing the financial statements

The Directors are responsible for keeping 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

British Energy Generation Limited
Independent Auditors' Report to the Members of British Energy Generation Limited
for the year ended 31 March 2007

We have audited the financial statements of British Energy Generation Limited for the year ended 31 March 2007 which comprise the profit and loss account, the statement of total recognised gains and losses, 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

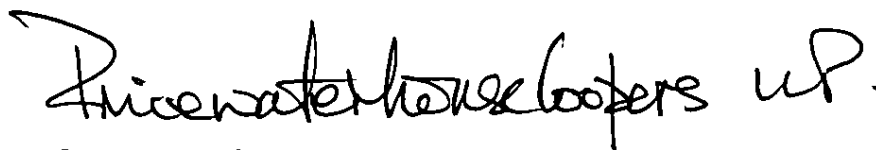
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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.

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 March 2007 and of its profit for the year then ended,
- 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
Chartered Accountants and Registered Auditors
Edinburgh

20 December 2007

British Energy Generation Limited
Profit and Loss Account
for the year ended 31 March 2007

	Notes	2007 £m	2006 £m
Turnover			
Continuing activities			
- Ongoing	2	2,132	1,416
- Acquisition	2	-	419
	2	<u>2,132</u>	<u>1,835</u>
Operating costs before exceptional items	3	(1,682)	(1,250)
Exceptional operating items	3	(34)	54
Operating costs after exceptional items	3	<u>(1,716)</u>	<u>(1,196)</u>
Operating profit			
Continuing activities			
- Ongoing		416	609
- Acquisition		-	30
		<u>416</u>	<u>639</u>
Financing (charges)/credits			
Net revaluation charges	7	(17)	(11)
Net interest	7	<u>21</u>	<u>28</u>
		<u>4</u>	<u>17</u>
Profit on ordinary activities before taxation		<u>420</u>	<u>656</u>
Taxation	8	(225)	(174)
Profit for the financial year	21	<u>195</u>	<u>482</u>

Statement of Total Recognised Gains and Losses
for the year ended 31 March 2007

There were no recognised gains and losses other than those included in the profit and loss account above

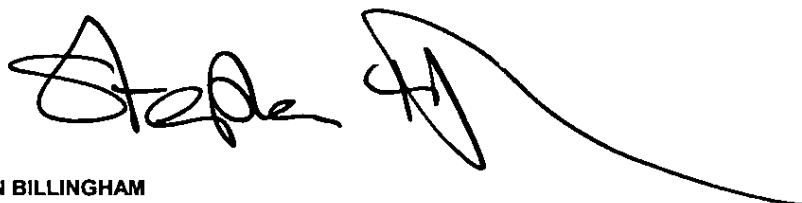
The accompanying notes are an integral part of these financial statements

British Energy Generation Limited
Balance Sheet
as at 31 March 2007

	Notes	2007 £m	2006 £m
Fixed assets			
Tangible assets	9	963	891
Investments	10	5	-
		<u>968</u>	<u>891</u>
Current assets			
Stocks	11	362	321
Debtors amounts falling due within one year	12	19,642	15,787
Debtors amounts falling due after more than one year	13	5,345	5,260
Investments – liquid funds		7	28
		<u>25,356</u>	<u>21,396</u>
Creditors amounts falling due within one year	14	<u>(20,221)</u>	<u>(15,957)</u>
Net current assets		<u>5,135</u>	<u>5,439</u>
Total assets less current liabilities		6,103	6,330
Creditors amounts falling due after more than one year	15	(2,222)	(2,259)
Provisions for liabilities and charges	16	(3,246)	(2,992)
Net assets		<u>635</u>	<u>1,079</u>
Capital and reserves			
Called up share capital	20/21	-	-
Share premium	21	72	72
Profit and loss account	21	563	1,007
Shareholders' funds	21	<u>635</u>	<u>1,079</u>

The accompanying notes are an integral part of these financial statements

The financial statements were approved by the Board of Directors on 20 December 2007 and signed on its behalf by



STEPHEN BILLINGHAM
Director

British Energy Generation Limited
Notes to the Financial Statements
for the year ended 31 March 2007

1 ACCOUNTING POLICIES

(i) Basis of Preparation

The financial statements are prepared under the historical cost convention and in accordance with accounting standards applicable in the United Kingdom

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates.

In accordance with FRS 18 – Accounting Policies, the Directors have reviewed the Company's accounting policies and confirm that they continue to be the most appropriate. 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 electricity prices, expected annual output, expected station operating costs, remaining station lives and discount rates. Estimates of output, costs and timing of associated cash flows, as well as the expected regulatory framework, are key factors used to apply the stated policies for long-term nuclear liabilities and decommissioning.

In accordance with FRS 1 (Revised) – Cash Flow Statements, a cash flow statement is not presented since the Company is a wholly owned subsidiary.

(ii) Turnover

The Company sells its output to a fellow subsidiary British Energy Power and Energy Trading Limited. Turnover represents sales of electricity and sales of other related goods. Turnover is shown net of value added tax and is recognised on an accruals basis.

Turnover includes miscellaneous income that comprises mainly services to Magnox in respect of shared sites.

(iii) Fuel Costs – Nuclear 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. All costs are capitalised into stock and 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 are capitalised into stock and subsequently charged to the profit and loss account in proportion to the amount of fuel burnt.

(iv) Fuel Costs – Nuclear Back End

AGR

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

- (a) a cost per tonne of uranium in AGR fuel, in respect of amounts payable on loading of fuel into any one of the AGR reactors, and
- (b) a rebate/surcharge against the cost mentioned in (a) above that is dependent on the out-turn market electricity price in the year and the amount of electricity generated in the year.

The loading related cost and the rebate/surcharge is capitalised into stock and 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. Back end fuel costs are capitalised into stock on loading and 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 2007

(v) Unburnt Fuel at Shutdown

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

(vi) Research and Development Expenditure

Expenditure on scientific and engineering research, preliminary studies and initiation of new technologies is categorised as research and charged to the profit and loss account as incurred.

(vii) Pensions and Other Post Retirement Benefits

The Company participates in a multi employer defined benefit plan. This plan is operated on a basis that does not enable individual companies to identify their share of the underlying assets and liabilities and in accordance with FRS 17 – Retirement Benefits (FRS 17), the Company accounts for its contributions to the plan as if it is a defined contribution plan.

(viii) NLF Funding Arrangements

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

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

The NLF has the right from time to time to convert all or part of the Cash Sweep Payment into convertible shares of British Energy Group plc (the NLF Conversion Right). On a full conversion, the NLF would hold up to 65% of the thereby enlarged equity share capital of that Company. However, the terms of the convertible shares include a limit on the voting rights of such shares equal to a maximum of 29.9% whilst held by the NLF.

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

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

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

(ix) Operating Leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(x) Tangible Fixed Assets and Depreciation

Fixed assets comprise assets acquired or constructed by the Company. Expenditure of a capital nature incurred to improve operational performance or to improve safety in order to meet increased regulatory standards is also capitalised. 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.

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

British Energy Generation Limited
Notes to the Financial Statements
for the year ended 31 March 2007

The carrying values of fixed assets are reviewed for impairment where there has been a trigger event by assessing the present value of estimated future cash flows and net realisable value compared with net book value. The calculation of estimated future cash flows is based on the Directors' best estimates of future prices, output and costs and is therefore subjective.

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 provisions for diminution in value, over their estimated useful lives.

The asset lives adopted are subject to regular review and for the year ended 31 March 2007 were

AGR power stations	25-35 years
PWR power station	40 years
Other buildings	40 years
Other plant and equipment	5 years

Overhaul costs, being the costs incurred in relation to statutory outages, are capitalised (in other plant and equipment) and depreciated over the period until the next statutory outage. For AGR power stations, this depreciation period is three years and for the PWR power station is 18 months.

Included within the power station category are strategic spares, which are carried at the lower of cost and net realisable value and depreciated over the life of the asset to which they relate.

(xi) Fixed Asset Investments

Investments in subsidiaries are initially recorded at the cost of shares allotted. Fixed asset investments are stated at cost less provisions for diminution in value. The carrying value of all fixed asset investments is regularly assessed for permanent impairment and provision made, if appropriate.

(xii) Stocks of Fuel and Stores

Stocks of fuel and stores are valued at the lower of cost and net realisable value. The nuclear fuel stock includes capitalised front end and back end costs including the rebate/surcharge but is reduced by the provision for unburnt fuel at shutdown (note 1 (v)).

(xiii) NLF and Nuclear Liabilities Receivables

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

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

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

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

(xiv) Nuclear Liabilities

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

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

- a) **Back End Fuel Costs**
The treatment of back end fuel costs in the profit and loss account has been dealt with under the accounting policies for fuel costs above. These nuclear liabilities 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.

British Energy Generation Limited
Notes to the Financial Statements
for the year ended 31 March 2007

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 annum to take account of the timing of payments. Each year the financing charges in the profit and loss account include the revaluation of liabilities required to discharge one year's discount from provisions made in prior years and restate these provisions to current price levels.

(xv) Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Timing differences are differences between taxable profits and those stated in the financial statements. Deferred tax is measured, on an undiscounted basis, at the 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 assets are only recognised to the extent that it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

Deferred tax is recognised in the profit and loss account except to the extent that it is attributable to a gain or loss that is or has been recognised directly in the statement of total recognised gains and losses in which case the deferred tax is recognised directly in that statement.

(xvi) Liquid Funds

Cash which is placed on term deposits which mature more than one day after the end of the financial year or invested in commercial paper, is classified under current asset investments in the balance sheet.

(xvii) Share-based Payment

The Group has five share compensation schemes, the Share Incentive Plan, the Long Term Deferred Bonus Plan, the Deferred Incentive Plan, the Executive Share Option Plan 2004 and the Interim Bonus Plan. The Company accounts for these share compensation schemes in accordance with FRS 20 – Share-based Payment.

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

2 OUTPUT AND TURNOVER

The analysis of the output that is unaudited is as follows:

	2007 TWh	2006 TWh
Output	<u>51.2</u>	<u>55.8</u>

The analysis of turnover is as follows:

	2007 £m	2006 £m
Continuing activities		
Ongoing		
Electricity generation	2,128	1,404
Miscellaneous income	<u>4</u>	<u>12</u>
	<u>2,132</u>	<u>1,416</u>
Acquisition		
Electricity generation	-	419
Total turnover	<u>2,132</u>	<u>1,835</u>

Ongoing electricity generation represents the sale of electricity to British Energy Power and Energy Trading Limited (BEPET). On 1 July 2005, British Energy Generation (UK) Limited transferred its trade and assets to the Company. For the year ended 31 March 2007, the turnover from this company is included in ongoing activities. From 1 July 2005 to 31 March 2006 it is shown within electricity generation acquisition. In both years it represents the sale of electricity to BEPET.

British Energy Generation Limited
Notes to the Financial Statements
for the year ended 31 March 2007

3 OPERATING COSTS

	2007 £m	2006 £m
Continuing activities		
Ongoing		
Fuel	283	207
Materials and services	631	343
Energy supply costs	49	36
Cash Sweep Payment (note 6)	305	79
Staff costs (note 4)	300	214
Depreciation	114	58
	<u>1,682</u>	<u>937</u>
Acquisition		
Fuel	-	82
Materials and services	-	131
Energy supply costs	-	11
Cash Sweep Payment (note 6)	-	26
Staff costs (note 4)	-	45
Depreciation	-	18
	<u>-</u>	<u>313</u>
Operating costs before exceptional items	<u>1,682</u>	<u>1,250</u>
Exceptional operating items		
Ongoing		
Staff costs (note 4)	34	32
Depreciation credits	-	(162)
	<u>34</u>	<u>(130)</u>
Acquisition		
Staff costs (note 4)	-	10
Depreciation charges	-	66
	<u>-</u>	<u>76</u>
	<u>34</u>	<u>(54)</u>
Operating costs after exceptional items	<u>1,716</u>	<u>1,196</u>
Analysis of exceptional operating items		
	2007 £m	2006 £m
Accelerated pension contributions	34	42
Fixed asset write up	-	(96)
Quinquennial Review impact on nuclear liabilities	8	1,028
Quinquennial Review impact on NLF receivable	(8)	(1,028)
	<u>34</u>	<u>(54)</u>

The exceptional operating costs of £34m are further explained as follows

- Accelerated pension contributions of £34m (2006 £42m) relate to the Company's share of the £40m (2006 £50m) accelerated pension contributions paid by the Group into the British Energy Generation Group pension scheme during the year ended 31 March 2007
- During the year ended 31 March 2007 decommissioning costs increased by £8m to reflect an increase in the level of estimated nuclear liabilities as a result of completion of the Quinquennial Review. This review was substantially completed in the year ended 31 March 2006, but still required final approval, which was received this year and resulted in the incremental £8m, which was in addition to the £1,028m recorded in 2006. As part of the Restructuring arrangements, the Company is indemnified by the Government for any future shortfall in NLF funding of qualifying nuclear liabilities and decommissioning costs, therefore the NLF receivable has also increased by £8m.

Exceptional operating credits amounting to £54m were reported for the year ended 31 March 2006. These amounts are further explained as follows

- Accelerated pension contributions of £42m, see above
- At 31 March 2006 the Directors reassessed the fixed asset carrying values, in line with the requirements of FRS 11 - Impairment of Fixed Assets and Goodwill, to determine whether any revisions to fixed asset carrying values were appropriate. The carrying value of the nuclear stations was calculated by discounting the expected future cash flows from continued use of the assets, having made appropriate assumptions regarding future operating performance. Following the review the carrying value of fixed assets was increased by £96m at 31 March 2006 to reflect reversal of previous impairment losses.

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- During the year ended 31 March 2006 the results of the Quinquennial Review to reassess the value of the nuclear liabilities was completed subject to final agreement with the Nuclear Decommissioning Authority (NDA) and the other regulators (Nuclear Installations Inspectorate, the Environment Agency and the Scottish Environment Protection Agency). Following the review, the level of estimated liabilities in December 2005 increased by £1,028m on a discounted basis. The Company will be indemnified by the Government for any future shortfall on NLF funding of qualifying uncontracted nuclear liabilities and qualifying decommissioning costs and therefore the increase in liabilities as is fully offset by a corresponding increase in the NLF receivable at that date.

	2007 £m	2006 £m
Operating costs are stated after charging		
Research and development	13	12
Operating lease costs - other	<u>5</u>	<u>5</u>

The auditors' remuneration for audit services was £364,000 (2006 £444,000) which was borne by British Energy Limited.

4 EMPLOYEE INFORMATION

(a) Staff costs	2007 £m	2006 £m
Salaries	220	189
Social security costs	23	20
Pension costs (note 19)	94	96
Amounts capitalised	(5)	(5)
Share-based payments	<u>2</u>	<u>1</u>
Total staff costs	<u>334</u>	<u>301</u>

(b) Employee numbers	2007 No	2006 No
Average number of employees by category during the year were		
Power stations	4,148	3,695
Engineering, technical and corporate support	<u>952</u>	<u>924</u>
	<u>5,100</u>	<u>4,619</u>

The basis for calculating the average number of employees has been modified in the year to include apprentices. This has increased the average number of employees for 2006 by 103 from the number reported in the Company accounts for the year ended 31 March 2006.

5 DIRECTORS' EMOLUMENTS

	2007 £000	2006 £000
Total emoluments, including pension contributions		
For management services		
- salaries and other benefits	2,201	2,262
- performance related bonuses	125	1,615
- pension contributions	<u>161</u>	<u>164</u>
	<u>2,487</u>	<u>4,041</u>
- compensation for loss of office	<u>1,100</u>	<u>654</u>
	<u>3,587</u>	<u>4,695</u>

Emoluments for those Directors who are also Directors of British Energy Group plc are detailed in the Remuneration Committee Report in the British Energy Group plc Annual Report and Accounts. Emoluments of all the Directors are borne by British Energy Limited or this Company but are included in the above amounts. None of the Directors received emoluments for their services as Directors to this Company in the year ended 31 March 2007 (2006 £nil) since the services supplied to this Company are considered to be incidental to those supplied to the Group. Non-group Directors were paid for their services as employees and not as Directors of the Company.

During the year, compensation for loss of office of £1,100,000 was paid to Roy Anderson, a former Director who resigned during the year. In the year ended 31 March 2006, compensation for loss of office of £654,000 was paid to Mike Alexander, a former Director who resigned in the year ended 31 March 2005.

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Retirement benefits accrue to 9 (2006: 7) Directors under a defined benefits scheme

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

	2007 £000	2006 £000
Emoluments	305	1,262
Pension contributions	18	27
	<u>323</u>	<u>1,289</u>
Compensation for loss of office	1,100	-
	<u>1,423</u>	<u>1,289</u>

6 CASH SWEEP PAYMENT

Under the terms of the Restructuring British Energy Group plc has an obligation to make payments to the NLF should certain criteria be met. As permitted by the Contribution Agreement, British Energy Group plc has agreed with this Company that it will make the required contributions on its behalf. The basis of the Cash Sweep Payment and cost, which is borne by this Company is as follows:

	2007 £m	2006 £m
Increase in cash (as per the consolidated statement of cash flows)	463	403
Decrease in restricted cash	(111)	(15)
Increase in restricted cash excluded from the Cash Sweep Payment	(1)	-
Decrease in restricted cash for Agreed Collateral Purposes	(112)	(15)
Other reconciling items	-	3
Increase in available cash	<u>351</u>	<u>391</u>
Payments to NLF	105	-
Transfer to Forecast Expenditure Reserve	22	(177)
Amounts received from issue or sale of ordinary shares	(6)	(9)
Cash required to be released/(retained) to meet Target Amount	<u>1</u>	<u>(43)</u>
Adjusted net cash flow	<u>473</u>	<u>162</u>
Weighted average payment percentage	<u>64.38%</u>	<u>64.74%</u>
Cash Sweep Payment	<u>305</u>	<u>105</u>

An accrual for the Cash Sweep Payment of £305m (2006: £105m) is included in creditors amounts falling due within one year (see note 14). Refer to note 25 for details of the Cash Sweep Payment of the year ended 31 March 2007.

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

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

	2007 £m	2006 £m
Cash required to be retained to meet Target Amount in prior periods	491	448
Base Target Amount	(490)	(490)
Incremental collateral in excess of £200m (see above)	-	(1)
Target Amount at 31 March	<u>(490)</u>	<u>(491)</u>
Cash required to be released/(retained) to meet Target Amount	<u>1</u>	<u>(43)</u>

Payments to NLF

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

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Forecast Expenditure Reserve

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

Weighted Average Payment Percentage

The weighted average payment percentage has decreased from 64.74% at 31 March 2006 to 64.38% at 31 March 2007, as a result of warrants in British Energy Group plc being exercised throughout the year and payment of the Cash Sweep in respect of the year ended 31 March 2006. The calculation is weighted to take account of the dates that the exercises of warrants took place during the year and the Cash Sweep Payment date.

Payment Percentage

The NLF Cash Sweep percentage is 64.04% at 31 March 2007 (2006 64.63%).

7 FINANCING CHARGES/(CREDITS)

	2007 £m	2006 £m
Net revaluation charges		
Revaluation of nuclear liabilities (see note 17)	413	174
Revaluation of nuclear liabilities receivable	(175)	(114)
Revaluation of NLF receivable	(238)	(60)
Revaluation of NLF liabilities	17	11
	<u>17</u>	<u>11</u>
Interest payable		
Other interest payable	1	-
Interest payable on amounts owed to group undertakings	596	303
	<u>597</u>	<u>303</u>
Interest receivable		
Other interest receivable	-	(1)
Interest receivable on amounts owed by group undertakings	(618)	(330)
	<u>(618)</u>	<u>(331)</u>
Net interest	<u>(21)</u>	<u>(28)</u>

Within revaluation of nuclear liabilities for the year ended 31 March 2006 is a credit of £48m and within revaluation of the NLF receivable is a charge of £48m in relation to the Group's decision to extend the accounting life of Dungeness B by ten years to 2018.

8 TAXATION

	2007 £m	2006 £m
Current tax		
UK corporation tax charge on profits for year	87	-
Deferred tax		
Charge for year on ordinary activities	136	198
Charge/(credit) for prior years on ordinary activities	2	(40)
Charge on exceptional items	-	16
Deferred tax charge for year	<u>138</u>	<u>174</u>
Tax charge on profit on ordinary activities	<u>225</u>	<u>174</u>

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

	2007 £m	2006 £m
Tax charge on profit at standard rate of 30%	126	197
Capital allowances for year in excess of depreciation	(19)	(53)
Utilisation of tax losses	(117)	(153)
Current year movement in deferred tax	(136)	(206)
Expenses not deductible for tax purposes	97	9
Current tax charge for year	<u>87</u>	<u>-</u>

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9 TANGIBLE FIXED ASSETS

	Power stations £m	Other land and buildings £m	Other plant and equipment £m	Total £m
Cost				
At 1 April 2006	10,233	32	326	10,591
Additions	81	-	105	186
Disposals	(1)	-	(16)	(17)
At 31 March 2007	10,313	32	415	10,760
Depreciation				
At 1 April 2006	9,425	23	252	9,700
Charge for the year	68	-	46	114
Disposals	(1)	-	(16)	(17)
At 31 March 2007	9,492	23	282	9,797
Net book value				
At 31 March 2007	821	9	133	963
At 31 March 2006	808	9	74	891

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

	2007 £m	2006 £m
Cost	2,296	2,296
Net book value	138	138

In the year ended 31 March 2006 the Directors reviewed the economic values of the Company's fixed assets and compared them to their book value. A discount rate of 9.5% was applied to the economic value review. As a result of this review, the value of the Company's fixed assets was increased by £96m. The background to the review is discussed more fully in note 3.

For five years following this review, the Company is required to review the initial projections in light of the actual cash flows. The review of the projections made in determining the prior year reversal of impairment losses has not identified any impairment issues, therefore no further reversals or impairment losses have been recognised in the year ended 31 March 2007.

10 FIXED ASSET INVESTMENTS

	Other Investments £m
Cost	
Additions	5
At 31 March 2007	5
Provision for diminution in value	
At 1 April 2006 and 31 March 2007	-
Net book value	
At 31 March 2007	5

Shares held by Abbey National AESOP Trust in British Energy Group plc are included within other investments as British Energy Generation Limited is deemed to be a sponsoring Company of the Trust. At 31 March 2007 the Trust held 714,070 (2006: nil) ordinary shares in British Energy Group plc at a cost of £4,956,505.

The Company owns 100% of the ordinary shares of International Nuclear Limited which has an authorised share capital of 1,000 £1 ordinary shares of which 2 are issued to British Energy Generation Limited. This company is dormant.

11 STOCKS

	2007 £m	2006 £m
Unburnt nuclear fuel in reactors	1,043	985
Provision for unburnt fuel at station closure	(807)	(783)
Net unburnt nuclear fuel in reactors	236	202
Other nuclear fuel and uranium stocks	83	89
Stores	43	30
	362	321

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12 DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £m	2006 £m
Nuclear liabilities receivable	195	186
Trade debtors	2	1
Other taxes and social security	46	42
Other debtors	3	30
Prepayments	24	1
Amounts due from group undertakings	19,372	15,527
	<u>19,642</u>	<u>15,787</u>

Amounts due from group undertakings bear interest and are repayable as follows

- Amounts due from group undertakings which originated prior to Restructuring bear no interest and are repayable on demand,
- Amounts due from group undertakings which originated post Restructuring bear interest at LIBOR plus 2% and are repayable on demand, and
- £143m (2006 £133m) of amounts due from group undertakings are due from British Energy Generation (UK) Limited. The debt originated on transfer of British Energy Generation (UK)'s trade and assets on 1 July 2005, it bears interest at 7.25% (2006 7.25%) and is repayable on demand

The nuclear liabilities receivable represents amounts due within one year under the historic BNFL contracts which are reimbursed by the Government. This matches the nuclear liabilities included in creditors falling due within one year.

13 DEBTORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2007 £m	2006 £m
Nuclear liabilities receivable	2,028	2,059
NLF receivable	3,246	2,992
Deferred tax (note 18)	71	209
	<u>5,345</u>	<u>5,260</u>

The nuclear liabilities receivable represents amounts due after more than one year under the historic BNFL contracts which will be reimbursed by the Government. This matches the nuclear liabilities included in creditors falling due after more than one year.

The NLF receivable asset in the balance sheet represents amounts that will be reimbursed by the NLF equal to the qualifying nuclear liabilities recognised at the balance sheet date. The balances recognised at 31 March 2007 and 31 March 2006 are receivable after more than one year and are restricted in their use. This matches the nuclear liabilities provision.

14 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £m	2006 £m
Nuclear liabilities (note 17)	195	186
NLF liabilities	22	21
Bank overdraft	3	3
Trade creditors	67	62
Other taxes and social security	-	9
Pensions	7	3
Cash Sweep Payment accrual (note 6)	305	105
Accruals	112	127
Corporation tax creditor	25	-
Amount due to group undertakings	19,485	15,441
	<u>20,221</u>	<u>15,957</u>

Amounts due to group undertakings bear interest and are repayable as follows

- Amounts originating prior to Restructuring bear no interest and are repayable on demand,
- Amounts originating post Restructuring bear interest at LIBOR plus 2% and are repayable on demand, and
- Amount due to British Energy Holdings plc of £315m (2006 £298m), originating on Restructuring, bears interest at 7% (2006 7%) and is repayable on demand

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15 CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2007 £m	2006 £m
Nuclear liabilities (note 17)	2,028	2,059
NLF liabilities	194	200
	<u>2,222</u>	<u>2,259</u>

16 PROVISIONS FOR LIABILITIES AND CHARGES

	2007 £m	2006 £m
Nuclear liabilities (note 17)	<u>3,246</u>	<u>2,992</u>

17 NUCLEAR LIABILITIES

	Back end fuel costs contracted £m	Back end Fuel costs uncontracted £m	Decomm- issioning £m	Total £m
At 1 April 2006	2,245	308	2,684	5,237
Charged to profit and loss account				
- revaluation (note 7)	175	24	214	413
- operating costs (note 3)	-	-	8	8
Loadings of PWR fuel	-	8	-	8
Payments in the year	(197)	-	-	(197)
At 31 March 2007	<u>2,223</u>	<u>340</u>	<u>2,906</u>	<u>5,469</u>

Nuclear liabilities are included in the balance sheet as follows

	2007 £m	2006 £m
Creditors		
- amounts falling due within one year	195	186
- amounts falling due after more than one year	2,028	2,059
Provisions for liabilities and charges	<u>3,246</u>	<u>2,992</u>
	<u>5,469</u>	<u>5,237</u>

Back End Fuel Costs Contracted

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

Back End Fuel Costs Uncontracted

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

Decommissioning

The costs of decommissioning the power stations have been estimated on the basis of on-going 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.

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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% real per annum to the balance sheet date and the amounts accrued to date

	Back end fuel costs contracted £m	Back end fuel costs uncontracted £m	Decomm- issioning £m	2007 Total £m	2006 Total £m
Undiscounted	2,811	2,672	9,017	14,500	14,001
Discounted	2,223	481	2,906	5,610	5,375
Accrued to date	2,223	340	2,906	5,469	5,237

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

Under the terms of the contracts with BNFL referred to above and in accordance with the projected pattern of payments for decommissioning and other liabilities, taking account of the decommissioning fund arrangements described in note 1(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	Decomm- issioning £m	2007 Total £m	2006 Total £m
Within five years	1,002	13	210	1,225	983
6 – 10 years	916	17	895	1,828	1,597
11 - 25 years	893	153	2,095	3,141	3,382
26 - 50 years	-	373	1,259	1,632	1,621
51 years and over	-	2,116	4,558	6,674	6,418
	2,811	2,672	9,017	14,500	14,001

18 DEFERRED TAXATION

	2007 £m	2006 £m
Accelerated capital allowances	(132)	(123)
Other long term timing differences	126	126
Short term timing differences	-	1
Corporation tax losses	-	128
ACT	77	77
Asset for deferred tax recognised	71	209
		£m
As at 1 April 2006		209
Deferred tax charge to profit and loss account		(138)
As at 31 March 2007		71

19 POST RETIREMENT BENEFIT OBLIGATIONS

British Energy Generation Limited contributes to the pension arrangement operated by British Energy Generation Group (BEGG) within the Electricity Supply Pension Scheme (ESPS). The ESPS is a defined benefit scheme, which is externally funded and subject to triennial actuarial valuation. Each pension group that participates in the ESPS is financially independent from the other groups. This defined benefits plan is a multi employer plan which is run on a basis that does not enable individual companies to identify their share of the underlying assets and liabilities. In accordance with FRS 17 the Company accounts for its contributions to the plan as if it were a defined contribution plan.

The most recent triennial valuation of the BEGG scheme was carried out at 31 March 2004 by the independent ESPS actuary. The valuation for accounting purposes has been carried out by a separate independent actuary using the projected unit method.

A formal triennial valuation of the BEGG pension scheme at 31 March 2007 is currently being undertaken. The result of this valuation will be finalised towards the end of the financial year ending 31 March 2008. Initial indications suggest that the actuarial mortality assumptions tables used in 2004 are likely to require updating following the triennial valuation.

The Company contributed 22.4% (2006 22.4%) to the BEGG pension scheme as employer's normal contributions for the year ended 31 March 2007. Members who do not participate in the salary conversion arrangement and who are required to pay employee contributions contribute 5% (2006 5%) to the scheme. Members who participate in the salary conversion arrangement have their salaries reduced by 5% (2006 5%), these monies being paid to the BEGG scheme as additional employer contributions. The Company's pension costs for the year ended 31 March 2007 were £94m (2006 £96m). There were £7m (2006 £3m) outstanding and no prepaid pension contributions at 31 March 2007 (2006 £nil).

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The Group paid additional employer contributions towards the BEGG scheme's funding deficiency of £60m for the year ended 31 March 2007 (2006 £69m). The £60m (2006 £69m) included £20m (2006 £19m) of agreed additional contributions and £40m (2006 £50m) of accelerated contributions. At the time of the last triennial valuation it was agreed that amounts totalling £20m for the year ending 31 March 2008 will be paid towards the funding deficiency of the BEGG scheme and that these additional contributions will rise to £50.3m for the year ending 31 March 2009 and remain at that level until the year ending 31 March 2017. The requirement for additional contributions will be reviewed as part of the next triennial valuation as at 31 March 2007.

The major assumptions used by the actuaries for the defined benefit plan were:

	2007	2006	2005
	% pa	% pa	% pa
Price inflation	3.00	2.75	2.75
Rate of general increase in salaries	4.50	4.25	4.25
Rate of increase of pensions in payment	3.00	2.75	2.75
Discount rate	5.40	5.00	5.50

The assets and liabilities of the scheme and the expected rates of return are:

	Rate of return %	Value at 31 March 2007 £m	Rate of return %	Value at 31 March 2006 £m	Rate of return %	Value at 31 March 2005 £m
Equities	8.30	1,285	7.90	1,410	8.20	1,097
Bonds	4.80	854	4.40	561	4.70	499
Property	6.55	272	6.15	253	6.45	212
Hedge funds	6.80	103	6.40	93	6.70	85
Others	5.00	107	4.00	98	4.00	41
Total market value of plan assets		2,621		2,415		1,934
Present value of plan liabilities		(2,675)		(2,614)		(2,271)
Pension liability before deferred tax		(54)		(199)		(337)
Related deferred tax asset		16		60		101
Net pension liability		(38)		(139)		(236)

The movement in the deficit during the year is analysed as follows:

	2007 £m	2006 £m
Deficit in plan at beginning of the year	(199)	(337)
Movement in year		
Current service cost	(64)	(50)
Past service cost	(9)	(4)
Other finance income	31	10
Profit before tax impact	(42)	(44)
Contributions	121	121
Actuarial return less expected return on post employment plan assets	4	305
Experience (losses)/gains arising on plan liabilities	(23)	(11)
Changes in assumptions (financial and demographic)	85	(233)
Variance between actuarial assumptions and actual experience	66	61
Deficit in the plan at the end of the year	(54)	(199)

20 CALLED UP SHARE CAPITAL

	2007 £	2006 £
Authorised		
1,000 (2006 1,000) ordinary shares of £1 each	1,000	1,000
One (2006 one) special rights redeemable preference share of £1	1	1
	<u>1,001</u>	<u>1,001</u>
Allotted, called up and fully paid		
1,000 (2006 1,000) ordinary shares of £1 each	1,000	1,000
One (2006 one) special rights redeemable preference share of £1	1	1
	<u>1,001</u>	<u>1,001</u>

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Special Rights Redeemable Preference Share of £1

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 and transferred to one or more of Her Majesty's Secretaries of State, another Minister of the Crown, the Solicitor for the affairs of Her Majesty's Treasury or any other person acting on behalf of the Crown, does not carry any rights to vote at general meetings, but entitles the holder to attend and speak at such meetings. The special share confers no rights to participate in the capital or profits of the Company beyond its nominal value. The consent of the holder of the special share is required for certain matters including the alteration or removal of the provisions in the Company's Articles of Association relating to the special share and to the limitations on shareholdings.

In addition, consent of the holder of the special share is required in relation to, amongst others, certain amendments to the Articles of Association of the Company. However, the holder of the special share will only be entitled to withhold consent to such an amendment if, in the holder's opinion, the matter in question would be contrary to the interests of national security. The Articles of Association include full details of these restrictions.

21 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share premium account £m	Profit and loss account £m	Total £m
As at 1 April 2005	72	524	596
Profit for the financial year	-	482	482
Share-based payments	-	1	1
As at 1 April 2006	72	1,007	1,079
Profit for the financial year	-	195	195
Share-based payments	-	2	2
Dividends paid	-	(641)	(641)
As at 31 March 2007	72	563	635

Under FRS 20 £2m (2006 £1m) has been credited to retained earnings in relation to the Share Incentive Plan.

22 CONTINGENT LIABILITIES

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

The Company has given a guarantee and indemnity to the Secretary of State for Trade and Industry and the Nuclear Liabilities Fund Limited along with a number of other group companies in respect of the Nuclear Liabilities Funding Agreement.

The Company has provided a debenture comprising fixed and floating charges to the Secretary of State for Trade and Industry and the Nuclear Liabilities Fund Limited along with a number of other group companies in respect of any decommissioning default payment.

The Company has given a guarantee in relation to the obligations of British Energy Holdings plc under a Trust Deed creating guaranteed bonds.

23 FINANCIAL COMMITMENTS

(i) Capital Commitments

	2007 £m	2006 £m
Capital expenditure contracted but not provided	19	30

(ii) Operating Lease Commitments

	2007 £m	2006 £m
Other operating leases expiring in		
In the second to fifth years inclusive	3	3
Later than five years	2	2
	5	5

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(iii) Other Contractual Commitments

Under contractual arrangements, the Company has the following nuclear fuel commitments at 31 March 2007

	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	Thereafter £m	Total £m
Commitments to purchase in the year	211	153	128	123	119	834	1,568

British Energy Group plc has a commitment to make the Cash Sweep Payment as described in note 1 (viii). As permitted by the Contribution Agreement, British Energy Group plc has agreed with this Company that it will make the required contribution on its behalf. The annual Cash Sweep Payment can only be determined after the end of the financial year and is contingent based on cash generation by the Group in the year. Therefore, it is only recognised and provided for when it becomes determinable. This Company has accrued £305m (2006 £105m) at 31 March 2007 in relation to the Cash Sweep Payment.

24 RELATED PARTIES

The Company has taken advantage of the exemption under FRS 8 – Related Party Disclosures, not to disclose related party transactions with fellow members of the Group. These transactions eliminate on consolidation in the Group financial statements.

The Company is a limited Company owned by British Energy Generation (UK) Limited and operates within an extensive contractual framework established as part of the Restructuring. The most significant contract, in terms of the limitations it places on the business, is the Contribution Agreement between the Secretary of State and British Energy Group plc. Within this contractual framework, British Energy Group plc is managed independently by the Board which continues to direct the finances and operating policies of the Group and is subject to the normal private sector disciplines, fiduciary duties and Companies Act requirements. The Directors consider British Energy Group plc as the Company's controlling party under the terms of FRS 8.

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

- HMG meets the Company's historic contracted nuclear liabilities to BNFL, a Government controlled body. The nuclear liabilities receivable is recognised on the balance sheet in relation to these liabilities and decreased from £2,245m at 31 March 2006 to £2,223m at 31 March 2007.
- The Company made fixed decommissioning funding contributions to the NLF of £22m (2006 £20m) and a payment of £6m (2006 £6m) in respect of PWR fuel loaded into Sizewell B reactor during the year. A further £1m (2006 £0.2m) was paid in respect of the Company's share of the NLF's administration costs.
- The Company made payments to BNFL of £295m (2006 £324m) during the year in respect of front and back end fuel costs. In addition, under the Government Indemnity in respect of historic nuclear liabilities, consideration of £197m (2006 £179m) was passed to BNFL in the year. The balance outstanding due to BNFL at the end of the year was £16m (2006 £26m). Amounts due to the Company by BNFL at 31 March 2007 under the Historic Liability Funding Agreement amounted to £2,223m (2006 £2,245m).
- British Energy Group plc is required to make Cash Sweep Payments to the NLF depending on certain criteria being met. As permitted by the Contribution Agreement, British Energy Group plc has agreed with this Company that it will make the required contributions on its behalf. Refer to note 6 for further details.

The Company has also had a number of material transactions in its normal course of business with other sponsored bodies and departments of HMG including HM Revenue and Customs.

25 NON-ADJUSTING POST BALANCE SHEET EVENTS

NLF Partial Conversion, Cash Sweep Payment Credit and Amortisation of Conversion Asset

As part of the Contribution Agreement made at the time of Restructuring, British Energy Group plc has an obligation to make annual Cash Sweep Payments to the Nuclear Liabilities Fund should certain criteria be met. As permitted by this Agreement, British Energy Group plc has agreed with British Energy Generation Limited that it will make the required contribution on its behalf. The annual Cash Sweep Payment was initially equal to 65% of the British Energy Group plc group's net cash flow, adjusted for certain items outlined in the Contribution Agreement. The NLF has the right to convert some or all of its entitlement to receive Cash Sweep Payments into convertible shares of British Energy Group plc and to sell those shares. On disposal, the convertible shares automatically convert into ordinary shares of British Energy Group plc. On full conversion, the NLF would hold up to 65% of the enlarged equity share capital of the British Energy Group plc.

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

In the financial statements of British Energy Generation Limited a conversion asset of £2,340m will also be recognised and a capital reserve of £2,340m. The conversion asset will be amortised over the estimated useful lives of the Company's power stations and the capital reserve will be reduced by the value of the amortisation charge.

Under the terms of the original Contribution Agreement, on a conversion by the NLF of part or all of its Cash Sweep Payment right, the NLF was entitled to both a Cash Sweep Payment on the part converted for the period up to conversion and any dividend from British Energy Group plc in respect of the same period on the shares arising from the conversion. British Energy Group plc obtained agreement from the NLF and the Secretary of State for Trade and Industry to an amendment to the Cash Sweep Payment right and Cash Sweep Payment percentage adjustment formula in relation to the partial conversion so as to ensure the principle of economic parity was maintained and to avoid an unintended dilution of the British Energy Group plc's equity shareholders' interests. As a result, the £305m accrued in these accounts for the Cash Sweep Payment due for the year ended 31 March 2007 was reduced by £134m to £171m to reflect the NLF's agreement to waive the proportion of the 2007 obligation due that was extinguished by the partial conversion in June 2007. The £134m reduction will be recognised as a credit in the profit and loss account in the 31 March 2008 financial statements, the remaining £171m obligation was paid in July 2007. In the event of further NLF conversions British Energy Group plc plans to seek similar agreements to maintain economic parity between the NLF and shareholders.

Boiler Issues

On 11 May 2007 and 14 May 2007 respectively, British Energy received permission from the NII to restart Reactor 4 at Hinkley Point B Nuclear Power Station and Reactor 4 at Hunterston B Nuclear Power Station. On 21 May 2007, British Energy received permission from the NII to restart Reactor 3 at Hinkley Point B Nuclear Power Station and Reactor 3 at Hunterston B Nuclear Power Station. The permission is for the return to service of all four units at around 70% load.

Boiler Closure Unit

On 22 October 2007, the Group made an announcement in respect of boiler closure units as follows:

Hartlepool Reactor 1 is currently undertaking a statutory outage. During planned inspection of its boiler closure units, an issue related to a wire winding has been identified which will delay the restart of this unit, originally scheduled for early November 2007.

As this issue may have implications for sister units at Hartlepool and Heysham 1, British Energy has taken a conservative decision to take two of these units (Hartlepool Reactor 2 and Heysham 1 Reactor 1) out of service for assessment and inspection. Heysham 1 Reactor 2 is currently on a refuelling outage and its return to service will be delayed. In all, four units are affected by this decision.

British Energy is currently assessing the return to service dates for these units. In determining these dates, British Energy will consider the potential to integrate any additional inspection work arising from the assessment within planned outages over the balance of the year.

The design of these boiler closure units is unique to Hartlepool and Heysham 1 power stations.

On 6 November 2007, the Group made a further announcement, as follows:

As disclosed on 22 October 2007, following the identification of an issue relating to a wire winding during planned inspection of boiler closure units at Hartlepool Reactor 1, the two units at Hartlepool and the two units at Heysham 1 remain out of service.

British Energy has subsequently undertaken partial inspections of the wire windings at Heysham 1 Reactor 1. Initial results from this inspection at Heysham 1 Reactor 1 identified a similar issue to that identified at Hartlepool Reactor 1, whereby one wire has failed as a result of corrosion. Inspections of Heysham 1 Reactor 2 have commenced, and inspections will commence at Hartlepool Reactor 2 shortly.

This is a legacy issue of the initial construction, identified during the course of baseline inspections. While this component of the plant was not originally designed to be inspected, improved technology and innovative inspection techniques have been developed which have now allowed inspection as part of the improvement programme.

British Energy is in the process of developing the methodology to secure the return to service of the units. This is a complex issue and a timetable for the return to service of these units can only be formed when inspections and a full assessment of the situation have been completed.

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On 13 November 2007 the Group announced its interim results which included the following update to the boiler closure units issue at Hartlepool and Heysham 1

During the statutory outage at Hartlepool Reactor 1, British Energy conducted a planned inspection of the BCUs. There are eight BCUs on each reactor, forming part of the reactor pressure boundary. Each BCU is pre-stressed with nine layers of wire windings, wound around its outer periphery. An issue related to one wire winding has been identified, which has delayed the restart of this unit, originally scheduled for November 2007. British Energy took the conservative decision to take the sister units at Hartlepool and Heysham 1 out of service, pending inspection and assessment.

British Energy has subsequently undertaken partial inspections of the wire windings at Heysham 1 Reactor 1. Initial results from this inspection at Heysham 1 Reactor 1 identified a similar issue to that identified at Hartlepool Reactor 1, whereby one wire has failed as a result of corrosion. Inspection of Heysham 1 Reactor 2 and Hartlepool Reactor 2 is in progress.

This is a legacy issue of the initial construction, identified during the course of inspections. While this component of the plant was not originally designed to be inspected, improved technology and innovative inspection techniques have been developed which have now allowed inspection as part of the improvement programme. The boiler closure units are unique to Hartlepool and Heysham 1 power stations.

British Energy is in the process of developing the methodology to secure the return to service of the units. This is a complex issue and a timetable and agreed programme of work for the return to service of these units can only be formed when inspections and a full assessment of the situation have been completed.

Action taken to manage the contract position has progressed well. British Energy has incurred a net cost of approximately £30m to date in connection with buybacks of power, and the Group may have to buy back further power if the stations are offline for the remainder of the financial year. British Energy continues to monitor the potential impact on financial performance for the remainder of the financial year.

On 21 November 2007 the Group made a further announcement in respect of the boiler closure units issue, as follows:

Inspections of Heysham 1 Reactor 2 have so far not shown any evidence of broken wires in the BCU. However, there is evidence from the radiographic inspections that are in progress that one wire is showing signs of thinning. This will likely place the Reactor in the same category as Hartlepool Reactor 1 and Heysham 1 Reactor 1 for a return to service safety case and/or remedial repairs.

Life extension of Hinkley Point B and Hunterston B power stations

On 11 December 2007 the Group made an announcement in respect of life extensions as follows:

British Energy announced that, having completed the necessary technical and economic evaluation and received the relevant external consents, it has decided to extend the lives of Hinkley Point B and Hunterston B power stations by five years to 2016. This decision extends the life of these stations for accounting purposes to 40 years. Further studies will be conducted by 2013 regarding the potential for additional life extension beyond 2016.

In April 2007, the 10-year Periodic Safety Reviews ('PSRs') for Hinkley Point B and Hunterston B were completed, covering the period to 2017, subject to completion of an agreed programme of work. The operation of these stations over their extended lives will be subject to the results of the continuing programme of inspection and assessment of the boilers and the core.

Hinkley Point B and Hunterston B are currently operating in a range around 60% load. Further boiler balancing work will be undertaken during planned outages over the next financial year directed at delivering approximately 70% load. At 70% load, life extension is economically viable at a power price of approximately £27/MWh. British Energy will consider, in due course, the technical and economic case to increase load above 70%, together with the additional investment requirements.

To enable Hinkley Point B and Hunterston B power stations to operate over their extended lives, British Energy expects to spend an additional £90m in excess of the current investment programme for these stations, over the three years commencing 1 April 2008.

In financial year 2007/08, British Energy expects total Group investment in plant projects, major repairs and strategic spares to be in the range £190m to £210m, excluding investment at Hinkley Point B and Hunterston B of £60m to £70m and excluding incremental expenditure on inspection and assessment of the Boiler Closure Units ('BCUs') at Hartlepool and Heysham 1 of around £20m.

In financial year 2008/09, Group investment in plant is expected to be in the range £200m to £215m for the fleet, excluding investment at Hinkley Point B and Hunterston B of £80m to £90m.

With immediate effect, staff costs associated with our performance improvement programme ('PIP staff costs') of £26m will now be treated as normal operating costs, and therefore are excluded from our definition of investment in plant.

The potential for life extensions at British Energy's other nuclear power stations will be considered in due course, subject to separate technical and economic evaluation, currently expected to be completed a minimum of three years before the scheduled closure date of each respective station.

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Deferred Taxation

On 21 March 2007, the Government announced its intention to reduce the corporation tax rate from 30% to 28% and phase out industrial buildings allowances, both with effect from 1 April 2008. These changes have not been reflected in the financial statements at 31 March 2007 because they are not considered to be substantively enacted at the balance sheet date. An estimate of the financial effect of these changes at 31 March 2007 is that it would decrease the net deferred tax liability by £48m to £23m.

26 ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is British Energy Generation (UK) Limited.

The Directors consider that the ultimate parent undertaking and controlling party is British Energy Group plc, which is the parent undertaking of the largest group to consolidate these financial statements. British Energy Holdings plc is the parent undertaking of the smallest group to consolidate these financial statements. Copies of the consolidated financial statements of British Energy Group plc and British Energy Holdings can be obtained from the Company Secretary at British Energy Group plc or British Energy Holdings plc, Systems House, Alba Campus, Livingston, EH54 7EG.