EDF ENERGY NUCLEAR GENERATION LIMITED

REGISTERED NUMBER: 3076445

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2016

CONTENTS

Directors	Robert Guyler Brian Cowell Stuart Crooks Mark Gorry Jerry Haller Mark Hartley Gwen Parry-Jones David Mitchell Michael Harrison Andrew Goddard
Company secretary	Claire Gooding
Auditor	Deloitte LLP 2 New Street Square London EC4A 3BZ
Registered office	Barnett Way Barnwood Gloucester GL4 3RS

STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 December 2016.

Principal activity
The principal activity of EDF Energy Nuclear Generation Limited (the "Company") during the year continued to be the generation and sale of electricity. The Company will continue with these activities for the foreseeable future.

References to "the Group" are to EDF Energy Nuclear Generation Group Limited and its subsidiaries including this Company.

Review of the business
The profit for the year before taxation amounted to £896m (2015: £1,186m) and the profit after taxation amounted to £726m (2015: £974m).

The Group manages its operations on a business segment basis. For this reason, the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Group, which includes the Company, is discussed in the Group's Annual Report which does not form part of this report.

Principal risks and uncertainties
The future prospects of the Company are dependent on the continued safe and reliable operation of the nuclear power station fleet, and the market price for electricity in the United Kingdom.

The following is a discussion of the key risks facing the Company together with a summary of the Company's approach to managing those risks.

Market risk
Market risk is the risk that changes in energy prices will adversely affect the profitability of the Company from normal business operations. The Company is exposed to this risk to the extent that contracts are not fixed or contracts are not delivered out of generation output. The Company sells its generation through a Transfer Pricing Mechanism linked to market prices. The forecast generation volumes and prices are fixed over a rolling three year time horizon and reduce from a fully contracted short-term position to an uncontracted position after three years.

Liquidity risk
Liquidity risk is the risk that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The Company's exposure to liquidity risk is reduced due to the significant net current asset position.

STRATEGIC REPORT (CONTINUED)

Financial risk
The Company is exposed to the financial risk of changes in foreign currency exchange rates. The Company keeps minimum levels of cash in foreign currency and uses foreign exchange forward contracts to hedge any significant exposure, other than contracts within the EDF SA Group.

Interest risk
Interest risk is the exposure to interest rate fluctuations on its borrowings. The Company's exposure to interest risk is reduced due to all interest being within the Group.

Credit risk
The Company's credit risk is primarily attributable to its debtors. The amounts presented on the balance sheet are net of allowance for doubtful receivables estimated by the Group's management based on prior experience and their assessment of the current economic environment. Credit risk is mitigated by the nature of the debtor balances owed, with these primarily due from other Group companies who are able to repay these if required.

Health & safety risk
The health and safety of all our employees, contractors, agency staff and the public is a key risk given the nature of the Company's business. To minimise this risk, the Company is committed to creating a culture that views safe working as the only way of working and to reviewing all our processes and procedures to ensure it delivers this. Training is provided to managers to ensure they understand their responsibility for the safety of the employees that they set to work. In addition, a confidential helpline has been set up for the use of anyone within the organisation to help eradicate unsafe practices and safeguard our employees.

Retirement benefit obligations risk
The Company has two defined benefit pension schemes. Low interest rates and changes in demographic factors have led scheme liabilities to grow at a faster rate than assets, resulting in actuarial deficits that have led to increased pension expense and cash contributions. The Company and the pension scheme trustees keep investment risk under review, concentrating on prudent asset allocation and liability hedging. A pension benefit reform has been implemented effective from 1 January 2016 to reduce the actuarial deficit and the required cash costs. See note 15 for more details of pension risks.

Cyber risk
Cyber security threats are increasing in magnitude, sophistication, and pace. The impact of a cyber security incident can significantly damage business operations, profit and brand. The Group has invested in technology to protect itself from such threats.

STRATEGIC REPORT (CONTINUED)

In addition, the Nuclear Liabilities Fund (NLF) receivable represents the Government indemnity provided to indemnify any potential future shortfall on NLF funding of qualifying uncontracted nuclear liabilities (including Pressurised Water Reactor (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 nuclear liabilities.

Also, the nuclear liabilities receivable represents the Government indemnity provided to cover services for spent Advanced Gas-cooled Reactor (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 nuclear liabilities.

Employee involvement
The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting their employment and on the various factors affecting the performance of the Company. This is carried out in a number of ways, including formal and informal briefings, departmental meetings and regular reports in staff newsletters and on the Group intranet.

Going concern
The Company has significant net current assets and is dependent on the continued cash flow generation from its nuclear power station fleet. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board on 4 September 2017 and signed on its behalf by:

....
David Mitchell
Director

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2016. Principal risks and uncertainties are discussed in the Strategic Report.

Directors
The Directors who held office during the year were and subsequently, except as noted were as follows:

Robert Guyler

Brian Cowell

Stuart Crooks

Mark Gorry

Jerry Haller

Mark Hartley

Gwen Parry-Jones

David Mitchell

Michael Harrison

Phillippe Bordarier (resigned 21 January 2016)

Andrew Goddard (appointed 31 October 2016)

Dividends
The Directors do not recommend payment of a dividend (2015: £nil).

Employees
The Company's policies and procedures relating to Health and Safety at work continues to exceed the requirements of current legislation and are kept under constant review to ensure a safe and healthy working environment for all employees.

Equal opportunities
The Company is fully committed to ensuring that all current and potential future employees and customers are treated fairly and equally, regardless of their gender, marital status, disability, race, colour, nationality or ethnic origin in accordance with the appropriate legislation and Government guidelines. The Company provides equal opportunities for employment, training and development, having regard to particular aptitudes and abilities. In the event of employees becoming disabled during employment, where possible, assistance and retraining is given so that they may attain positions compatible with their ability.

Political donations
The Company made no political donations in the current year (2015: £nil).

Future developments
The future developments of the Company are outlined in the Principal Activity section of the Strategic Report.

Directors' liabilities
The Company has made qualifying third party indemnity provisions for the benefit of its Directors during the year and these remain in force at the date of this report.

DIRECTORS' REPORT (CONTINUED)

Disclosure of information to the auditor

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

This confirmation is given and should be interpreted in accordance with the provision of s.418 of the Companies Act 2006.

Reappointment of auditor

It is noted that Deloitte LLP as appointed by the members, are deemed to be re-appointed as the Auditor to the Company for the financial year ending 31 December 2017 in accordance with the provisions of Section 487(2) of the Companies Act 2006 and that the Directors have been authorised to fix the remuneration of the auditor.

Approved by the Board on 4 September 2017 and signed on its behalf by:

....

David Mitchell
Director

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether UK 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 keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EDF ENERGY NUCLEAR GENERATION LIMITED

We have audited the financial statements of EDF Energy Nuclear Generation Limited for the year ended 31 December 2016, which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EDF ENERGY NUCLEAR GENERATION LIMITED (CONTINUED)

Opinion on the financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Timothy Biggs (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

London, United Kingdom

4 September 2017

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £ m	2015 £ m
Revenue	4	3,114	3,225
Fuel, energy and related purchases	5	(694)	(554)
Gross margin		**2,420**	2,671
Materials and contracting costs		(349)	(440)
Personnel expenses	6	(487)	(490)
Other operating expenses		(186)	(182)
Operating profit	7	**1,398**	1,559
Depreciation and amortisation		(437)	(394)
Gains arising on pension benefit reform		-	93
Profit before taxation and finance costs		**961**	1,258
Investment income	8	558	400
Finance costs	9	(623)	(472)
Profit on ordinary activities before taxation		**896**	1,186
Taxation	11	(170)	(212)
Profit for the year		**726**	974

The above results were derived from continuing operations in both the current and preceding year.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £ m	2015 £ m
Profit for the year	726	974
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of post-employment benefit obligations	336	4
Income tax effect	(58)	-
Total comprehensive income	1,004	978

The income tax effect on defined benefit pensions includes a deferred tax charge of £65m (2015: £8m) and a current tax credit of £7m (2015: £8m).

BALANCE SHEET
AT 31 DECEMBER 2016

	Note	2016 £ m	2015 £ m
Non-current assets			
Intangible assets	12	17	18
Property, plant and equipment	13	2,803	2,667
NLF and Nuclear Liabilities receivable	14	7,224	6,339
Post-employment benefit asset	15	451	89
		10,495	9,113
Current assets			
Inventories	16	2,086	2,020
Trade and other receivables	17	3,048	2,362
NLF and Nuclear Liabilities receivable	14	262	311
		5,396	4,693
Total assets		15,891	13,806
Current liabilities			
Other liabilities	18	(701)	(715)
Borrowings	19	(591)	(569)
Current tax liability		(70)	(114)
		(1,362)	(1,398)
Net current assets		4,034	3,295
Total assets less current liabilities		14,529	12,408
Non-current liabilities			
Other liabilities	18	(989)	(1,105)
Long-term provisions	20	(7,571)	(6,374)
Deferred tax liability	22	(339)	(303)
		(8,899)	(7,782)
Total liabilities		(10,261)	(9,180)
Net assets		5,630	4,626

BALANCE SHEET
AT 31 DECEMBER 2016 (CONTINUED)

	Note	2016 £ m	2015 £ m
Capital and reserves			
Called up share capital	24	-	-
Share premium reserve		72	72
Profit and loss account		5,558	4,554
Shareholders' funds		5,630	4,626

The financial statements of EDF Energy Nuclear Generation Limited (registered number 3076445) on pages 8 to 41, were approved by the Board and authorised for issue on 4 September 2017 and signed on its behalf by:

....

David Mitchell

Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital £ m	Share premium £ m	Retained earnings £ m	Total £ m
At 1 January 2015	-	72	3,576	3,648
Profit for the year	-	-	974	974
Other comprehensive income	-	-	4	4
At 31 December 2015	-	72	4,554	4,626
Profit for the year	-	-	726	726
Other comprehensive income	-	-	278	278
At 31 December 2016	-	72	5,558	5,630

NOTES TO THE FINANCIAL STATEMENTS

1 General information

EDF Energy Nuclear Generation Limited is a public company limited by shares. It is incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is shown on the contents page.

Basis of preparation
The Company meets the definition of a qualifying entity under Financial Reporting Standard 101 (FRS 101) "Reduced Disclosure Framework". These financial statements were prepared in accordance with Financial Reporting Standard 101 (FRS 101) "Reduced Disclosure Framework".

2 Accounting policies

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the asset. The financial statements are presented in pounds sterling as that is the currency for the primary economic environment in which the Company operates.

Summary of disclosure exemptions
The Company has taken advantage of the following disclosure exemptions under FRS 101:
a) The requirements of IFRS 7 Financial Instruments: Disclosures;
b) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
(i) paragraph 79(a)(iv) of IAS 1;
d) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
e) the requirements of IAS 7 Statement of Cash Flows;
f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
h) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
i) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

Where relevant, equivalent disclosures have been given in the group accounts which are available to the public as set out in note 28.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Going concern

As set out in the Strategic Report, after making enquiries, the Directors' have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities. Revenue is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the Company.

The Company recognises revenue when:
-The amount of revenue can be reliably measured;
-it is probable that future economic benefits will flow to the entity; and
-specific criteria have been met for each of the Company activities.

Finance income and costs policy

Finance costs of debt are recognised in the income statement over the term of such instruments, at a constant rate on the carrying amount.

Foreign currency transactions and balances

The functional and presentational currency of the Group is pounds sterling. Transactions in foreign currency are initially recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Taxation

Current tax

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Deferred tax
Deferred tax is provided or recognised in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax arising from (1) the initial recognition of goodwill, (2) the initial recognition of assets or liabilities in a transaction (other than in a business combination) that affects neither the taxable profit nor the accounting profit, or (3) differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future, is not provided for.

Deferred tax assets are recognised to the extent it is more likely than not that future taxable profits will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply for the period when the asset is realised or the liability is settled based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

Current tax and deferred tax for the year
Current tax and deferred tax are recognised in the income statement, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current tax and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment
Property, plant and equipment is stated at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

2 Accounting policies (continued)

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
AGR Power Stations	41 to 47 years
PWR Power Stations	40 years
Other buildings	30 years
Other plant and equipment	18 months to 5 years

No depreciation is charged on assets in the course of construction until the asset is brought into use.

Intangible assets

IT software

IT software is initially recognised at cost and is amortised on a straight-line basis over a useful economic life of 3-8 years.

Trade receivables

Trade receivables are amounts due from customers for sales of commodities, goods and services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using a weighted average method. .

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Leases

Rentals payable under operating leases are charged in the income statement on a straight-line basis over the lease term, even if payments are not made on such basis.

Impairment of non-financial assets

At each balance sheet date, the Company reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the investment.

Recoverable amount is the higher of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Defined benefit pension obligation
The Group operates two defined benefit pension schemes. The cost of providing benefits is determined using the Projected Unit Credit method with actuarial valuations being carried out at each balance sheet date. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs include current service, past service cost and gains or losses on curtailments and settlements which are included in personnel expenses. It also includes net interest expense which is included in finance costs.

The retirement benefit obligation recognised on the balance sheet represents the deficit or surplus in the Group's defined benefit schemes. Any surplus arising from this calculation is limited to the present value of any economic benefits available in the form of refunds from the scheme or reductions in future contributions to the schemes.

Pension surplus
The pension surplus is calculated by independent qualified actuaries, based on actual payroll data and certain actuarial assumptions. These actuarial assumptions are made to model potential future costs and benefits and include: life expectancy, rates of returns on plan assets, inflation, discount rate and expected retirement age. These assumptions are reviewed on an annual basis and may change based on current market data. Further information is available in the consolidated financial statements of EDF Energy Holdings Limited.

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 inventory and charged to the income statement in proportion to the amount of fuel burnt.

Pressurised Water Reactor ("PWR")
All front-end fuel costs are variable and are capitalised into inventory and subsequently charged to the charged to the income statement in proportion to the amount of fuel burnt.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

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 inventory and charged to the income statement 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 inventory on loading and charged to the income statement in proportion to the amount of fuel burnt.

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 for at the balance sheet date. The provision is based on a projected value per tonne of fuel remaining at closure, discounted back to the balance sheet date and recorded as a long term liability. The unwind of the discount each year is charged to the income statement. Any adjustment to the provision is recorded through fixed assets and depreciated over remaining station life. These are recorded as 'other liabilities' in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

NLF funding arrangements

Under the arrangements in place with the Secretary of State at the Restructuring Effective Date (RED), 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 all 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 within the Group.

In consideration for the assumption of these liabilities by the Secretary of State and the NLF, British Energy Bond Finance plc issued £275m in Bonds to the NLF at RED (which were subsequently redeemed in full following the acquisition of EDF Energy Nuclear Generation Group Limited by Lake Acquisitions Limited, a subsidiary of EDF S.A.). At RED, the Group (through the Company) also agreed to make the following payments to the NLF:

• an annual contribution (Cash Sweep Payment), calculated as a share of the group's adjusted net cash flow proportionate to the NLF's economic interest in the Company, adjusted for certain corporate actions but never to exceed 65% (Cash Sweep percentage);
• fixed decommissioning contributions equal to £20m per annum (indexed to RPI but tapering off based on the scheduled closure dates of the nuclear power stations in place at RED); and
• £150,000 (indexed to RPI) for every tonne of uranium in PWR fuel loaded into the Sizewell B reactor after RED.

The NLF had a right to convert the Cash Sweep Obligation at any point in time into convertible shares of EDF Energy Nuclear Generation Group Limited (the ultimate parent company at the time). The settlement of the obligation occurred in two tranches in June 2007 and January 2009 via EDF Energy Nuclear Generation Group Limited issuing convertible shares to the NLF. Under the Amended and Restated Contribution Agreement dated 5 January 2009, the NLF is no longer entitled to any Cash Sweep Payment.

The fixed decommissioning obligations of circa £20m per annum have been recorded as a liability on the balance sheet at their discounted value 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 income statement include the revalorisation of NLF liabilities required to discharge one year's discount from the liability.

PWR fuel loaded after RED 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 is matched against back end fuel costs as the loaded tonnes are burned in the PWR reactor.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

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.

In principle, 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 nuclear liabilities. The nature of the process, whereby the Company claims back from the NLF for qualifying liabilities, can cause minor timing differences between the receivable and the nuclear liabilities at the balance sheet date.

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 nuclear 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 which takes account of the timing of payments. Each year the financing charges in the income statement include the revalorisation of these receivables required to match the revalorisation of the nuclear liabilities.

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 the Company's 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 and provisions are made in respect of the following:

a) Back end fuel costs

The treatment of back end fuel costs in the income statement has been dealt with under the accounting policies for fuel costs previously. Back end 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 liabilities are based on long-term cost forecasts which are reviewed regularly and adjusted where necessary, and are included within provisions.

2 Accounting policies (continued)

Nuclear liabilities (continued)

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.

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 which takes account of the timing of payments. Each year the financing charges in the income statement 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.

3 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, some critical accounting judgements have been applied by management and some balances are based on estimates.

Decommissioning and spent nuclear fuel provisions

The financial statements include provision for the full cost of decommissioning the Company's nuclear power stations, as agreed with the Nuclear Decommissioning Authority (NDA) on a regular basis. 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. Expected future costs of decommissioning are monitored to ensure that the provision remains at an adequate level. The discount rate is assessed on an annual basis for appropriateness. Further information about decommissioning and spent nuclear fuel provisions can be found in note 20.

Pension surplus

The pension surplus is calculated by independent qualified actuaries, based on actual payroll data and certain actuarial assumptions. These actuarial assumptions are made to model potential future costs and benefits and include: life expectancy, rates of returns on plan assets, inflation, discount rate and expected retirement age. These assumptions are reviewed on an annual basis and may change based on current market data. Further information about pensions can be found in note 15.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Revenue

Revenue, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to the continuing activities of the sale of generated electricity and sales of other related goods and is recognised on an accruals basis.

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2016 £ m	2015 £ m
Sales of goods and services	3,113	3,223
Other revenue	1	2
	3,114	3,225

5 Fuel, energy and related purchases

	2016 £ m	2015 £ m
Purchase of energy and grid costs	694	554

6 Personnel expenses

The aggregate payroll costs (including directors' remuneration) were as follows:

	2016 £ m	Restated 2015 £ m
Wages and salaries	345	347
Social security costs	40	35
Pension costs	102	108
	487	490

The average number of persons employed by the company is as follows:

	2016 No.	2015 No.
Average number of employees	5,667	5,746

7 Operating profit

In 2016 an amount of £316,538 (2015: £468,552) was paid to Deloitte LLP for audit services. This charge was borne by another group company in both the current and prior year. In 2016 no non-audit services were provided to the Company (2015: £nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Investment income

	2016 £ m	2015 £ m
Other finance income	1	1
Interest receivable from other Group companies	40	36
Pension income receivable	193	184
Unwinding of discount on NLF and Nuclear Liabilities Receivables	324	179
	558	400

9 Finance costs

	2016 £ m	2015 £ m
Interest payable on loans from other Group companies	39	37
Other interest	1	1
Foreign exchange losses	2	9
Pension scheme interest	193	187
Unwinding of discount on provisions	64	59
Unwinding of discounting on Nuclear Liabilities	324	179
	623	472

10 Directors' remuneration

The Directors' remuneration for the year was as follows:

	2016 £m	Restated 2015 £m
Remuneration	1	2
Contributions to defined benefit pension schemes	0	0
	1	2

All Directors are employees of associated EDF Companies or Centrica plc.

No Director (2015: none) held any interests in the shares or debentures of the Company or the EDF S.A. Group that are required to be disclosed under the Companies Act 2006.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Directors' remuneration (continued)

During the year the number of Directors who were receiving benefits and share incentives was as follows:

	2016 No.	Restated 2015 No.
Accruing benefits under defined benefit pension scheme	4	4

In respect of the highest paid director:

	2016 £m	Restated 2015 £m
Remuneration	0	0
Contributions to defined benefit pension schemes	0	0
	0	0

11 Tax

(a) Tax charged in the income statement

	2016 £ m	2015 £ m
Current taxation		
UK corporation tax charge on profits made in the year	201	239
Adjustments in respect of previous years' reported tax (credits)	(2)	(6)
Total current tax charge for the year	199	233
Deferred taxation		
Current year (credit) / charge	(14)	4
Adjustments in respect of previous years' reported tax charges	-	2
Effect of decreased tax rate on opening balance	(15)	(27)
Total deferred tax (credit) for the year	(29)	(21)
Income tax charge reported in the income statement	170	212

(b) The tax on profit before tax for the year is lower (2015: lower) than the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%).

The charge for the year can be reconciled to the profit in the income statement as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Tax (continued)

	2016 £ m	2015 £ m
Profit before taxation	896	1,186
Tax at the UK corporation tax rate of 20.00% (2015: 20.25%)	179	240
Effect of:		
Other non-deductible expenses and non-taxable income	6	3
Current year effect of deferred tax rate change	2	-
Decreased tax rate on opening deferred tax balance	(15)	(27)
Adjustment to prior-year corporation tax (credit)	(2)	(6)
Adjustment to prior-year deferred tax charge	-	2
Tax charge reported in the income statement	170	212

(c) Other factors affecting the tax charge for the year:

The accounting for deferred tax follows the accounting treatment of the underlying item on which deferred tax is being provided and hence is booked within equity if the underlying item is booked within equity.

In the current year a deferred tax charge of £65m (2015: £8m) has been recognised in equity in respect of pension movements.

A current tax credit of £7m (2015: £8m) has also been recognised in equity in respect of pension movements.

Changes to the main rate of corporation tax were announced in Finance (No. 2) Act 2015. These comprised a reduction in the main rate of corporation tax for the financial year beginning 1 April 2017 from 20% to 19% and a further reduction for the financial year beginning 1 April 2020 from 19% to 18%.

Finance Act 2016 announced a reduction in the main rate of corporation tax for the financial year beginning 1 April 2020 from 18% to 17%.

The closing deferred tax balance at 31 December 2016 has been calculated at 17.4% (31 December 2015: 18.3%). This is the average tax rate at which the reversal of the net deferred tax liability is expected to occur.

12 Intangible assets

	IT software £ m	Total £ m
Cost or valuation		
At 1 January 2016	134	134
Transfers from property, plant & equipment (note 13)	7	7
At 31 December 2016	141	141
Amortisation		
At 1 January 2016	116	116
Amortisation charge	8	8
At 31 December 2016	124	124
Carrying amount		
At 31 December 2016	17	17
At 31 December 2015	18	18

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Property, plant and equipment

	Other land and buildings £ m	Other plant and equipment £ m	Power stations £ m	Total £m
Cost				
At 1 January 2016	39	1,002	11,343	12,384
Additions	-	418	-	418
Disposals	-	(166)	(40)	(206)
Transfers to intangible assets (note 12)	-	(218)	211	(7)
Write back of provision for unburnt fuel at station closure	-	-	154	154
At 31 December 2016	39	1,036	11,668	12,743
Depreciation				
At 1 January 2016	20	542	9,155	9,717
Charge for the year	-	235	194	429
Eliminated on disposal	-	(166)	(40)	(206)
At 31 December 2016	20	611	9,309	9,940
Carrying amount				
At 31 December 2016	19	425	2,359	2,803
At 31 December 2015	19	460	2,188	2,667

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 NLF and nuclear liabilities receivable

	2016 £ m	2015 £ m
Nuclear liabilities receivable	887	1,002
NLF receivable	6,337	5,337
Total non-current NLF and nuclear liabilities receivables	7,224	6,339
NLF receivable	75	112
Nuclear liabilities receivable	187	199
Total current NLF and nuclear liabilities receivables	262	311
Total NLF and nuclear liabilities receivables	7,486	6,650

The NLF receivable asset represents amounts that will be reimbursed by the NLF in respect of the qualifying nuclear liabilities recognised at the balance sheet date.

The nuclear liabilities receivable asset represents amounts due under the historical British Nuclear Fuels Limited contracts which will be reimbursed by the Government.

15 Pension and other schemes

Defined benefit pension schemes

EDF Energy Nuclear Generation Limited sponsors 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. The BEGG defined benefits plan is a multi-employer plan which is run on a basis that does not enable individual companies within the Group to identify their share of the underlying assets and liabilities. The Group closed its BEGG pension arrangements to new entrants with effect from 1 August 2012.

There is no contractual agreement or stated policy for charging the net defined benefit cost to other companies within the Group whose employees are members of the BEGG pension scheme. In accordance with IAS 19 (Revised 2011), these other Group companies recognise a cost equal to its contribution payable for the period, which is presented within personnel expenses in the income statement.

The Company also contributes to the EDF Energy Pension Scheme (EEPS), a defined benefit scheme, which is open for new employees. There is no stated policy to recharge the EEPS deficit back to the Company and therefore the Company solely accounts for its contributions to the plan within personnel expenses in the income statement.

Further details of the BEGG and EEPS pension schemes are disclosed in note 39 of the consolidated financial statements of EDF Energy Holdings Limited which are available as disclosed in note 28 below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 Pension and other schemes (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2016 £ m	2015 £ m
Fair value of scheme assets	6,382	5,081
Present value of scheme liabilities	(5,931)	(4,992)
Defined benefit pension scheme surplus	451	89

Scheme assets

Changes in the fair value of scheme assets are as follows:

	BEGG 2016 £ m	Total 2015 £ m
Fair value at start of year	5,081	5,109
Interest income on assets	193	184
Employer contributions	148	151
Member contributions	3	3
Benefits paid	(189)	(172)
Actuarial gain / (loss)	1,146	(194)
Fair value at end of year	6,382	5,081

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

	BEGG 2016 £ m	Total 2015 £ m
Present value at start of year	4,992	5,133
Current service cost	122	132
Interest cost	193	187
Member contributions	3	3
Past service cost	-	(93)
Actuarial (gain) / loss	810	(198)
Disbursements from scheme assets	(189)	(172)
Present value at end of year	5,931	4,992

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 Pension and other schemes (continued)

Amounts recognised in the income statement

	2016 £ m	2015 £ m
Amounts recognised in operating profit		
Current service cost	122	132
Past service cost	-	(93)
Recognised in arriving at operating profit	122	39
Amounts recognised in finance income or costs		
Interest (income) cost	193	187
Expected return on scheme assets	(193)	(184)
Recognised in other finance cost	-	3
Total recognised in the income statement	122	42

16 Inventories

	2016 £ m	2015 £ m
Raw materials and consumables	124	131
Unburnt nuclear fuel	1,877	1,588
Other nuclear fuel and uranium	85	301
	2,086	2,020

Cost of inventories recognised as expense during the year was £35m (2015: £31m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 Trade and other receivables

	2016 £ m	2015 £ m
Trade receivables	75	80
Amounts owed by other Group companies	2,965	2,235
Prepayments	6	44
Other debtors	2	3
	3,048	2,362

Interest of LIBOR +0.8% is charged on amounts owed by other Group companies. The balances are unsecured and are repayable on demand.

18 Other liabilities

	2016 £ m	2015 £ m
Trade payables	116	113
Accruals	219	307
Amounts owed to other Group companies	168	84
Nuclear liabilities (note 21)	187	199
NLF liabilities (note 21)	11	12
Total other liabilities due within one year	701	715
Nuclear liabilities (note 21)	887	1,002
NLF liabilities (note 21)	102	103
Total other liabilities due after more than one year	989	1,105

In 2016, no interest is incurred on amounts owed to other Group companies. In 2015, amounts owed to other Group companies bore interest based on a LIBOR rate of +0.8%. These amounts are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Borrowings

	2016 £ m	2015 £ m
Current loans and borrowings		
Bank overdrafts	6	22
Loans from other Group companies	585	547
	591	569

The loans from other Group companies relates to a loan from British Energy Bond Finance plc which accrues interest at 7% and is repayable on demand.

20 Provisions for liabilities

	Nuclear provision £ m	Provision for unburnt fuel £ m	Other provisions £ m	Total £ m
At 1 January 2016	5,404	966	4	6,374
Arising during the year	778	-	1	779
Provisions used	(50)	154	-	104
Increase (decrease) due to passage of time or unwinding of discount	259	55	-	314
At 31 December 2016	6,391	1,175	5	7,571

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 for at the balance sheet date. The provision is based on a projected value per tonne of fuel remaining at closure, discounted back to the balance sheet date and recorded as a long term provision. Any adjustment to the provision is recorded through property, plant and equipment and depreciated over remaining station life.

See note 21 for further information about the nuclear liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 Nuclear liabilities

Restructuring Agreements were originally entered into on 14 January 2005 as part of the restructuring of the former British Energy Group of companies (hereafter referred to as "the EDF Energy Nuclear Generation Group") carried out from 2002 under the authority of the UK Government in order to stabilise the financial situation of the EDF Energy Nuclear Generation Group.

By virtue of these restructuring agreements:

• The Nuclear Liabilities Fund ("NLF"), an independent trust set up by the UK Government as part of the restructuring, agreed (at the direction of the Secretary of State) to fund, to the extent of its assets: (i) qualifying uncontracted nuclear liabilities (including liabilities in connection with the management of spent fuel at the Sizewell B power station); and (ii) qualifying costs of decommissioning in relation to the existing nuclear power stations owned and operated by EDF Energy Nuclear Generation Limited;

• the Secretary of State agreed to fund: (i) qualifying uncontracted nuclear liabilities (including liabilities in connection with the management spent fuel at the Sizewell B power station) and qualifying costs of decommissioning, in each case in relation to the existing nuclear power stations owned and operated by EDF Energy Nuclear Generation Limited, to the extent that they exceed the assets of NLF; and (ii) subject to a cap of £2,185 million (in December 2002 monetary values, adjusted accordingly), qualifying contracted liabilities for the EDF Energy Nuclear Generation Group's spent fuel (including in particular liabilities for management of AGR waste from spent fuel loaded prior to 15 January 2005); and

• EDF Group is responsible for funding certain excluded or disqualified liabilities (mainly liabilities incurred in connection with an unsafe or careless operation of the power stations) and the potential associated obligations of its subsidiaries to the NLF and the Secretary of State are guaranteed by the principal members of the EDF Energy Nuclear Generation Group.

	Spent fuel	Radioactive waste	Decommissioning	Total
	£m	£m	£m	£m
At 1 January 2016	1,452	946	4,207	6,605
Unwinding of the discount	83	35	206	324
Operating costs	7	3	-	10
Updated cash flows	195	(363)	467	299
Payments in the period	(257)	-	-	(257)
Discount rate update	37	139	308	484
At 31 December 2016	1,517	760	5,188	7,465

21 Nuclear liabilities (continued)

Nuclear liabilities are included in the balance sheet as follows:

	2016	2015
	£m	£m
Other liabilities:		
- amounts due within one year	187	199
- amounts due after more than one year	887	1,002
Provision for liabilities	6,391	5,404
	7,465	6,605

Spent fuel
Spent fuel represents all costs associated with the ongoing storage and treatment of spent fuel and the products of reprocessing. Cash flows for AGR spent fuel services relating to fuel loaded into reactors up to RED are based on the terms of the Historic Liability Funding Agreement (HLFA) with BNFL. The pattern of payments within the HLFA is fixed (subject to indexation by RPI) at RED and will be funded by the Government under the Government indemnity.

Other cash flows in respect of spent fuel services relating to storage of AGR and PWR fuel are based on cost estimates derived from the latest technical assessments and are funded by the NLF.

Radioactive waste
Radioactive waste comprises the provision of services relating to the transport and disposal of waste arising from the decommissioning of PWR and AGR stations, and the transport and disposal of spent fuel and associated wastes. These liabilities are derived from the latest technical estimates and are funded by the NLF.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 Nuclear liabilities (continued)

Decommissioning
The costs of decommissioning the power stations have been estimated on the basis of ongoing 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 Group's decommissioning strategy. These liabilities are also funded by the NLF.

Updated cost estimates
During 2016, nuclear liabilities increased by £299m, reflecting latest cost estimates of the management of spent fuel and radioactive waste and of the deconstruction and decommissioning of the nuclear stations.

Updated discount rate applicable to nuclear liabilities
During 2016, nuclear liabilities increased by £484m due to an update to the discount rate used in the present value calculation of the liabilities, following an assessment of long-term bond yield and inflationary assumptions. The revised discount rate as at December 2016 is 2.7% pre-tax real (2015: 3% pre-tax real).

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 to reflect the time value of money and the amounts accrued to date.

	Spent fuel	Radioactive waste	Decommissioning	2016 Total	2015 Total
	£m	£m	£m	£m	£m
Undiscounted	2,655	4,560	13,530	20,745	20,706
Discounted	1,645	804	5,188	7,637	6,710
Accrued to date	1,517	760	5,188	7,465	6,605

The difference 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 income statement over the remaining station lives since they relate to future use of fuel. A discount rate of 2.7% pre-tax real rate was applied during 2016, and a pre-tax real rate of 3.0% was applied during 2015.

Under the terms of the historical 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, the undiscounted payments in current prices are expected to become payable as follows:

21 Nuclear liabilities (continued)

	Spent fuel	Radioactive waste	Decommissioning	2016 Total	2015 Total
	£m	£m	£m	£m	£m
Within five years	801	1	149	**951**	968
6 – 10 years	514	4	1,404	**1,922**	1,318
11 – 25 years	505	235	4,438	**5,178**	5,042
26 – 50 years	114	343	1,363	**1,820**	1,970
51 years and over	721	3,977	6,176	**10,874**	11,408
	2,655	4,560	13,530	**20,745**	20,706

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period:

	Accelerated capital allowances	Short term timing differences	Pensions	Total
	£m	£m	£m	£m
At 1 January 2015	(323)	2	5	**(316)**
Credit/(charge) to income:				
- *current year*	9	-	(13)	**(4)**
- *adjustments in respect of previous years' reported tax charges*	(2)	-	-	**(2)**
- effect of decreased tax rate on opening liability	27	-	-	**27**
Credit/(charge) to equity:				
- *current year*	-	-	(8)	**(8)**
At 31 December 2015	**(289)**	**2**	**(16)**	**(303)**
Credit/(charge) to income:				
- *current year*	12	-	2	**14**
- effect of decreased tax rate on opening liability	14	-	1	**15**
(Charge) to equity:				
- *current year*	-	-	(65)	**(65)**
At 31 December 2016	**(263)**	**2**	**(78)**	**(339)**

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2016	Restated 2015
	£m	£m
Deferred tax liabilities	(339)	(303)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 Commitments

Capital Commitments
The total amount contracted for but not provided in the financial statements was £86.2m (2015: £87.9m).

Other financial commitments
Under contractual arrangements, the Company has the following nuclear fuel commitments at 31 December 2016.

	2017	2018	2019	2020	Thereafter	2016 Total	2015 Total
	£m	£m	£m	£m	£m	£m	£m
Commitments to purchase in the year	313	207	109	106	310	1,045	980

24 Share capital

Allotted, called up and fully paid shares

	2016 No.	2016 £	2015 No.	2015 £
Ordinary shares of £1 each	1,000	1,000	1,000	1,000
Special rights redeemable preference shares of £1 each	1	1	1	1
	1,001	1,001	1,001	1,001

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 Obligations under leases and hire purchase contracts

Operating leases

The total future value of minimum lease payments is as follows:

	2016 £ m	2015 £ m
Within one year	-	1
In two to five years	3	2
In over five years	6	6
	9	9

26 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 Business, Innovation and Skills and the Nuclear Liabilities Fund along with a number of other Group companies in respect of their compliance with, among other agreements, the Nuclear Liabilities Funding Agreement.

The Company has provided a debenture comprising fixed and floating charges to the Secretary of State for Business, Innovation and Skills and the Nuclear Liabilities Fund along with a number of other Group companies in respect of any decommissioning default payment.

27 Related party transactions

The Company has taken advantage of the exemption in FRS 101 Reduced Framework from disclosing transactions with other members of the group, which would otherwise be required for disclosure under IAS 24.

28 Parent undertaking and controlling party

British Energy Generation (UK) Limited holds a 100% interest in the Company and is considered to be the immediate parent company. EDF Energy Holdings Limited is the smallest group for which consolidated financial statements are prepared. Copies of that company's consolidated financial statements may be obtained from the registered office at 40 Grosvenor Place, Victoria, London, SW1X 7EN.

At 31 December 2016, Électricité de France SA, a company incorporated in France, is regarded by the Directors as the Company's ultimate parent company and controlling party. This is the largest group for which consolidated financial statements are prepared. Copies of that company's consolidated financial statements may be obtained from the registered office at Électricité de France SA, 22-30 Avenue de Wagram, 75382, Paris, Cedex 08, France.