

Registered Number 3782700

EGGBOROUGH POWER LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007



Registered Office

Barnett Way
Barnwood
Gloucester
GL4 3RS

Eggborough Power Limited

Directors and Advisers

DIRECTORS

| | |
|--------------------|------------------------------|
| Robert Armour | |
| Stephen Billingham | |
| Bill Coley | (appointed 30 October 2006) |
| Neil O'Hara | |
| Paul Tomlinson | (appointed 30 October 2006) |
| Peter Wakefield | (appointed 13 November 2006) |

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

Eggborough Power Limited Directors' Report

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

PRINCIPAL ACTIVITY, REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The principal activity of the Company is the generation of electricity on demand to complement the electricity generated by the Group's fleet of nuclear power stations. The Company's results have been prepared under the revised Capacity Tolling Agreement (CTA) under which British Energy Power and Energy Trading Limited, a fellow subsidiary company, reimburses the Company for its qualifying capital expenditure, operating and maintenance costs.

It is the intention of the Directors that the Company will continue to operate its coal-fired power station.

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

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.

EGGBOROUGH LEGAL PROCEEDINGS

During the year ended 31 March 2007, British Energy Power and Energy Trading Limited, Eggborough Power (Holdings) Limited and Eggborough Power Limited instigated legal proceedings against Credit Suisse, in connection with the lending banks' options to acquire Eggborough in 2010. On 19 June 2007, British Energy Group plc announced that it had been successful in this court action. The outcome preserves the effect of British Energy Group plc's pre-emption rights, should the lending banks seek to sell or transfer their option rights to a third party before 31 March 2010. The Eggborough banks have requested leave to appeal.

KEY PERFORMANCE INDICATORS

The Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of Eggborough Power Limited. The development, performance and position of Eggborough's coal-fired power station 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 18.

RESULTS AND DIVIDENDS

The result for the year is set out in the profit and loss account on page 7. The Company's loss for the year of £9m (2006: £32m) was transferred to reserves.

The Directors do not recommend the payment of a dividend (2006: £nil).

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 no trade creditors at 31 March 2007 (2006: £nil).

CHARITABLE AND POLITICAL DONATIONS

The Company made charitable donations during the year of £15,287 (2006: £1,955) in support of the community. No political donations were made during the year (2006: £nil).

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.

Eggborough Power Limited Directors' Report

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 that 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 September 2007 and signed on its behalf by



ROBERT ARMOUR
Director

Eggborough Power 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 those 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. Further details of the basis of preparation of the financial statements are set out in note 1

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

Eggborough Power Limited
Independent Auditors' Report to the Members of Eggborough Power Limited
for the year ended 31 March 2007

We have audited the financial statements of Eggborough Power Limited for the year ended 31 March 2007 which comprise the profit and loss account, the statement of total recognised gains and losses, the note of historical cost profit 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 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

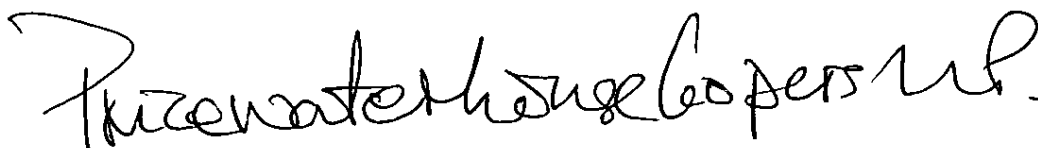
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, 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 loss 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 September 2007

Eggborough Power Limited
Profit and Loss Account
for the year ended 31 March 2007

| | Note | 2007 £m | 2006 £m |
|---|------|------------|------------|
| Turnover | 2 | 90 | 84 |
| Operating costs | 3 | (92) | (86) |
| Operating loss on ordinary activities before taxation | | (2) | (2) |
| Financing charges | 6 | (10) | (9) |
| Loss on ordinary activities before taxation | | (12) | (11) |
| Taxation | 7 | 3 | (21) |
| Loss for the financial year | 19 | (9) | (32) |

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

| | Note | 2007 £m | 2006 £m |
|--|------|------------|------------|
| Loss for the year | | (9) | (32) |
| Impairment reversal of fixed asset valuation | 8 | 10 | 9 |
| Deferred tax on impairment reversal of fixed asset valuation | | (3) | (3) |
| Actuarial gain | 17 | 2 | 1 |
| Deferred tax on actuarial gain | | (1) | - |
| Total recognised gains and losses relating to the year | | (1) | (25) |

Note of Historical Cost Profits and Losses
for the year ended 31 March 2007

| | 2007 £m | 2006 £m |
|---|------------|------------|
| Reported loss on ordinary activities before taxation | (12) | (11) |
| Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount | (1) | (1) |
| Historical cost loss on ordinary activities before taxation | (13) | (12) |
| Historical cost loss for the year after taxation | (10) | (33) |

The accompanying notes are an integral part of these financial statements

Eggborough Power Limited
Balance Sheet
as at 31 March 2007

| | Note | 2007 £m | 2006 £m |
|--|-------|--------------|--------------|
| Tangible fixed assets | 8 | <u>153</u> | <u>143</u> |
| Current assets | | | |
| Stocks | 9 | 12 | 12 |
| Debtors | 10 | | |
| amounts falling due within one year | | 326 | 183 |
| amounts falling due after more than one year | | 111 | 123 |
| Investments - liquid funds | | <u>6</u> | <u>6</u> |
| | | <u>455</u> | <u>324</u> |
| Creditors amounts falling due within one year | 12 | <u>(534)</u> | <u>(376)</u> |
| Net current liabilities | | <u>(79)</u> | <u>(52)</u> |
| Total assets less current liabilities | | 74 | 91 |
| Creditors amounts falling due in more than one year | 13 | (111) | (123) |
| Provisions for liabilities and charges | 15 | (30) | (30) |
| Deferred income | 16 | <u>(2)</u> | <u>(2)</u> |
| Net liabilities excluding retirement benefits liability | | <u>(69)</u> | <u>(64)</u> |
| Retirement benefits - liability | 17 | <u>(2)</u> | <u>(6)</u> |
| Net liabilities including retirement benefits liability | | <u>(71)</u> | <u>(70)</u> |
| Capital and reserves | | | |
| Called up share capital | 18/19 | 1 | 1 |
| Share premium | 19 | 56 | 56 |
| Revaluation reserve | 19 | 133 | 126 |
| Profit and loss account | 19 | <u>(261)</u> | <u>(253)</u> |
| Equity shareholders' deficit | | <u>(71)</u> | <u>(70)</u> |

The accompanying notes are an integral part of these financial statements

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



ROBERT ARMOUR
Director

Eggborough Power 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, modified to include the revaluation of certain fixed assets, and in accordance with accounting standards applicable in the United Kingdom. The Directors recognise that the Company has net liabilities recorded on its balance sheet, however they consider that it is appropriate to continue to prepare the financial statements of the Company on a going concern basis because of the following two reasons:

- ♦ the provisions of the revised Capacity and Tolling Agreement and the CTA global bond receivable (discussed further in note 10), which became effective on Restructuring of the Group on 14 January 2005. Under the revised Capacity and Tolling Agreement, British Energy Power and Energy Trading Limited, a fellow subsidiary company, has committed to reimburse the Company for its qualifying capital expenditure, operating and maintenance costs. This agreement is operational until 31 March 2010, unless an event of default occurs. The CTA global bond receivable is due from British Energy Holdings plc and the profile and value of the principal and interest receipts match the principal and interest payable to the Eggborough Banks under the Company's Amended Credit Agreement. From 14 January 2005, the Company has, and will continue to, immediately utilise all receipts under the CTA global bond receivable to fund the amounts payable to the Eggborough Banks, and
- ♦ the absence of a request for immediate repayment of the intercompany creditor balances due to other Group companies. The Directors recognise that the intercompany creditor amounts are repayable on demand, however, the Directors are confident that the repayment of the debt will not be requested in the foreseeable future.

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.

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

Turnover represents amounts receivable from British Energy Power and Energy Trading Limited under the revised Capacity and Tolling Agreement (CTA), net of value added tax. The amounts recognised as turnover principally relate to the reimbursement of the Company's power station operating and maintenance costs.

(iii) Fuel Costs

Fuel costs for oil are determined on a weighted average cost basis.

(iv) Pensions and Other Post Retirement Benefits

The Company provides for pension costs in accordance with FRS 17 - Post Retirement Benefits (FRS 17). Contributions to the Company's defined benefit pension scheme are assessed by qualified actuaries. Pension plan assets are measured using market values. Pension plan liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Any increase in the present value of the liabilities of the Company's defined benefit pension plan expected to arise from employee service in the period is charged against operating profit. The expected return on the plan's assets and the increase during the period in the present value of the plan's liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

(v) Tangible Fixed Assets and Depreciation, including Decommissioning Costs

The Company's principal fixed asset is the Eggborough power station and related strategic spares, which under FRS 11 is carried at the higher of value in use and net realisable value. As a result of the contractual arrangements which came into force on the completion of the Group's Restructuring, the asset is now carried at net realisable value, which is the discounted value of the total consideration that would be receivable on exercise of the options, as discussed in note 16 on deferred income. This carrying value is not adjusted for depreciation in the period to 31 March 2010, which is the potential exercise date of the options. Capital investment incurred post Restructuring is not recorded as a fixed asset to the extent that it is reimbursed by British Energy Power and Energy Trading Limited under the Capacity and Tolling Agreement, as it has no impact on the amount realisable through exercise of the options.

No depreciation has been charged since 14 January 2005 in line with the above accounting policy, however, the asset lives adopted were subject to regular review and for the year to 31 March 2007 were:

Coal power station

9 years

The costs of decommissioning the power station have been estimated on the basis of ongoing assessments of the processes and methods likely to be used for decommissioning. The estimate provided in note 15, is designed to reflect the costs of making the site available for alternative use.

Eggborough Power Limited
Notes to the Financial Statements
for the year ended 31 March 2007

(vi) Stocks of Stores and Spares

Stocks of stores and spares are valued at the lower of cost and net realisable value

(vii) 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.

(viii) 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.

(ix) Debt Instrument

All borrowings are stated at cost with issue costs being charged to profit and loss account on purchase. The interest payable on debt is charged to the profit and loss account over the life of the borrowing. Premiums and discounts arising on early repayment of borrowings are recognised in the profit and loss account as incurred and received.

2 TURNOVER

| | 2007 £m | 2006 £m |
|----------|------------|------------|
| Turnover | <u>90</u> | <u>84</u> |

All income is attributable to continuing activities in the United Kingdom

3 OPERATING COSTS

| | 2007 £m | 2006 £m |
|------------------------------|------------|------------|
| Operating costs | | |
| Fuel | 5 | 8 |
| Materials and services | 73 | 65 |
| Staff costs | <u>14</u> | <u>13</u> |
| Total operating costs | <u>92</u> | <u>86</u> |

The auditors' remuneration for audit services was £32,000 (2006: £41,000) which was borne by British Energy Limited

4 STAFF COSTS

a) Staff costs

| | 2007 £m | 2006 £m |
|--------------------------|------------|------------|
| Salaries | 11 | 10 |
| Social security costs | 1 | 1 |
| Pension costs (note 17) | <u>2</u> | <u>2</u> |
| Total staff costs | <u>14</u> | <u>13</u> |

Eggborough Power Limited
Notes to the Financial Statements
for the year ended 31 March 2007

b) Employee numbers

| | No | No |
|---|------------|------------|
| Average number of employees by category during the year was | | |
| Operations | <u>275</u> | <u>270</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 8 from the number reported in the Company accounts for the year ended 31 March 2006.

5 SUMMARY OF DIRECTORS' EMOLUMENTS

| | 2007 £000 | 2006 £000 |
|---|--------------|--------------|
| Total emoluments, including pension contributions | | |
| For management services | | |
| - salaries and other benefits | 1,374 | 1,151 |
| - performance related bonuses | 10 | 790 |
| - pension contributions | <u>102</u> | <u>80</u> |
| | 1,486 | 2,021 |
| - compensation for loss of office | - | 654 |
| | <u>1,486</u> | <u>2,675</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 the Directors are borne by the following companies: British Energy Limited, British Energy Power and Energy Trading Limited and Eggborough Power Limited, but are included in the above amounts. None of the Directors received emoluments for their services as Directors to this Company in the year ending 31 March 2007 (2006: £nil), since the services supplied to this Company are considered to be incidental to those supplied to the Group.

Retirement benefits accrue to 5 (2006: 3) 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 | 400 | 546 |
| Performance related bonus | - | 374 |
| Pension contributions | <u>27</u> | <u>27</u> |
| | 427 | 947 |

6 FINANCING CHARGES/(CREDITS)

| | 2007 £m | 2006 £m |
|---|------------|------------|
| Revaluation charge - unwind of one year's discount | - | 1 |
| Interest payable on bank loans | 9 | 10 |
| Interest payable on amounts owed to group undertakings | <u>29</u> | <u>18</u> |
| | 38 | 28 |
| Interest receivable on amounts owed by group undertakings | (27) | (19) |
| Expected return on assets in the pension scheme | (4) | (3) |
| Interest on pension scheme liabilities | <u>3</u> | <u>2</u> |
| | (1) | (1) |
| | <u>10</u> | <u>9</u> |

Eggborough Power Limited
Notes to the Financial Statements
for the year ended 31 March 2007

7 TAXATION

Tax charged to the profit and loss account

| | 2007 £m | 2006 £m |
|---|------------|-------------|
| Deferred tax credit/(charge) for the year | <u>3</u> | <u>(21)</u> |

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

| | 2007 £m | 2006 £m |
|--|------------|------------|
| Tax credit on loss at standard rate of 30% | (4) | (3) |
| Capital investment in period in excess of capital allowances | 3 | 4 |
| Movement in pension provision | - | (1) |
| Generation of tax losses not recognised | <u>1</u> | <u>-</u> |
| Current tax charge for year | <u>-</u> | <u>-</u> |

8 TANGIBLE FIXED ASSETS

| | Power station £m |
|--------------------------------------|---------------------|
| Valuation | |
| As at 1 April 2006 | 175 |
| Impairment reversal | 10 |
| As at 31 March 2007 | <u>185</u> |
| Depreciation | |
| As at 1 April 2006 and 31 March 2007 | <u>32</u> |
| Net book value | |
| As at 31 March 2007 | <u>153</u> |
| As at 31 March 2006 | <u>143</u> |

If land and buildings, within the power station, category had not been revalued they would have been included at the following amounts

| | 2007 £m | 2006 £m |
|----------------|------------|------------|
| Cost | 10 | 10 |
| Depreciation | <u>(3)</u> | <u>(3)</u> |
| Net book value | <u>7</u> | <u>7</u> |

Included within the power station category is freehold land with a cost of £105,000

As a result of the contractual arrangements, which came into force on the completion of the Group's Restructuring the power station asset is now carried at net realisable value, which is the value of the consideration that would be payable on exercise of the asset purchase option held over the Company's power station (as discussed in note 16), discounted at a rate of 7%. This discount rate is a long-term rate and is based on the Directors' assessment of the associated risk of the cash flows. This valuation is not adjusted for depreciation or capital expenditure investment, because they have no impact on the net realisable value (as discussed in note 1 (v))

9 STOCKS

| | 2007 £m | 2006 £m |
|-------------|------------|------------|
| Spares | 9 | 9 |
| Oil | 1 | 1 |
| Consumables | <u>2</u> | <u>2</u> |
| | <u>12</u> | <u>12</u> |

There is no material difference between the balance sheet value of stocks and their replacement value

Eggborough Power Limited
Notes to the Financial Statements
for the year ended 31 March 2007

10 DEBTORS

| | 2007 £m | 2006 £m |
|--|------------|------------|
| Amounts due from group undertakings | 312 | 170 |
| Amounts due from parent undertaking - CTA global bond receivable | 123 | 134 |
| Prepayments | 2 | - |
| Other taxes and social security | - | 2 |
| | <u>437</u> | <u>306</u> |

Included in the CTA global bond receivable is an amount of £111m which is due after more than one year (2006 £123m). The CTA global bond receivable bears interest at 7% and is repayable from British Energy Holdings plc.

Amounts due from group undertakings which originated post Restructuring bear interest at LIBOR plus 2% and are repayable on demand. Amounts due from fellow subsidiary undertakings which originated prior to Restructuring bear no interest and are repayable on demand.

11 DEFERRED TAXATION

| | 2007 £m | 2006 £m |
|--------------------------------|------------|------------|
| Accelerated capital allowances | 23 | 23 |
| Short term timing differences | (1) | (2) |
| Taxation losses | (1) | - |
| | <u>21</u> | <u>21</u> |
| Asset not recognised | 1 | - |
| Deferred tax liability | <u>22</u> | <u>21</u> |

| | £m |
|---|-----------|
| As at 1 April 2006 | 21 |
| Deferred tax (credit)/charge | |
| - disclosed in Profit and Loss Account | (3) |
| - disclosed in Statement of Total Recognised Gains and Losses | 4 |
| As at 31 March 2007 | <u>22</u> |

| | 2007 £m | 2006 £m |
|--|------------|------------|
| Included in | | |
| Retirement benefits (note 17) | (1) | (2) |
| Provisions for liabilities and charges (note 15) | 23 | 23 |
| | <u>22</u> | <u>21</u> |

No deferred tax asset has been recognised on the taxation losses because there is insufficient certainty that it would be recovered in the foreseeable future.

12 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2007 £m | 2006 £m |
|-------------------------------------|------------|------------|
| Amounts owed to parent undertakings | 419 | 298 |
| Amounts owed to group undertakings | 78 | 49 |
| Retentions | 1 | 1 |
| Accruals | 22 | 17 |
| Other taxes and social security | 2 | - |
| Bank loan (note 14) | 12 | 11 |
| | <u>534</u> | <u>376</u> |

£170m (2006 £161m) of amounts owed to parent undertakings represents amounts payable to Eggborough Power (Holdings) Limited at 31 March 2006 plus interest of £9m (2006 £9m) charged at LIBOR plus 1%.

Other amounts due to group undertakings which originated post Restructuring bear interest at LIBOR plus 2% and are repayable on demand. Amounts due to group undertakings which originated prior to Restructuring bear no interest and are repayable on demand.

Eggborough Power Limited
Notes to the Financial Statements
for the year ended 31 March 2007

13 CREDITORS AMOUNTS FALLING DUE IN MORE THAN ONE YEAR

| | 2007 £m | 2006 £m |
|---------------------|------------|------------|
| Bank loan (note 14) | <u>111</u> | <u>123</u> |

14 BORROWINGS

The Company's borrowings in the form of bank loans at 31 March 2007 were repayable as follows

| | 2007 £m | 2006 £m |
|-----------------------|------------|------------|
| Less than 1 year | 12 | 11 |
| Between 1 and 2 years | 13 | 12 |
| Between 2 and 5 years | 38 | 42 |
| Over 5 years | <u>60</u> | <u>69</u> |
| | <u>123</u> | <u>134</u> |

Total debt at 31 March 2007 comprises a long-term "project finance" loan of £123m (2006 £134m) secured on the coal-fired power station owned by the Company. The loan bears interest at 7% (2006 7%)

15 PROVISIONS FOR LIABILITIES AND CHARGES

| | Deferred taxation £m | Site restoration £m | Total £m |
|----------------------|----------------------------|---------------------------|-------------|
| As at 1 April 2006 | 23 | 7 | 30 |
| Taxation losses | (1) | - | (1) |
| Asset not recognised | <u>1</u> | <u>-</u> | <u>1</u> |
| As at 31 March 2007 | <u>23</u> | <u>7</u> | <u>30</u> |

The site restoration provision is to provide for all costs of the eventual decommissioning of Eggborough Power Station

16 DEFERRED INCOME

The deferred income recorded relates to consideration received for an option, the Asset Option, which was granted as part of the Restructuring. If exercised, subject to a number of conditions as summarised below, the option would enable the participants in the long-term "project finance" loan to acquire the Eggborough power station assets (Asset Option). In addition, British Energy has a pre-exemption right if the participants in the long-term "project finance" loan sell or transfer their options to a third party.

The option may be exercised at any time prior to 31 August 2009 following which the participants in the long-term "project finance" loan may acquire the assets of Eggborough Power Limited on 31 March 2010 in consideration of approximately £104m subject to certain adjustments depending on the condition of the power station and cancellation of the outstanding debt (currently estimated to be £83m) or at any time prior to 31 August 2009 on the occurrence of an event of default in consideration for a fee (which varies depending on the type of event of default) and the cancellation of the outstanding debt at such time.

The options, if unexercised, expire on 31 March 2010.

The deferred income will be realised upon the exercise or expiry of the options as described above.

17 POST RETIREMENT BENEFIT OBLIGATIONS

Eggborough Power Limited contributes to the pension arrangement operated by British Energy Combined Group (BECG) 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 most recent triennial valuation of the BECG 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 BECG scheme at 31 March 2007 is currently being undertaken, however the result of this valuation will not be finalised until later in 2007 and will be reflected in the financial statements for the year ended 31 March 2008.

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The Company contributed 19.7% (2006 19.7%) to the BECG 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 6% (2006 6%) to the BECG scheme. Members who participate in the salary conversion arrangements have their salaries reduced by 6% (2006 6%), these monies being paid to the BECG scheme as additional employer contributions.

The Company made additional employer contributions of £1m (2006 £1m) to the BECG scheme in the year and will continue to make additional employer contributions towards the funding deficiency, having regard to appropriate funding advice.

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 | Rate of Return | Value at 31 March 2006 | Rate of Return | Value at 31 March 2005 |
|---------------------------------------|----------------|------------------------|----------------|------------------------|----------------|------------------------|
| | % | £m | % | £m | % | £m |
| Equities | 8.30 | 47 | 7.90 | 44 | 8.20 | 30 |
| Bonds | 4.80 | 11 | 4.40 | 5 | 4.70 | 3 |
| Others | 5.00 | - | 4.00 | - | 4.00 | 3 |
| Total market value of plan assets | | 58 | | 49 | | 36 |
| Present value of plan liabilities | | (61) | | (57) | | (47) |
| Pension liability before deferred tax | | (3) | | (8) | | (11) |
| Related deferred tax asset | | 1 | | 2 | | 3 |
| Net pension liability | | (2) | | (6) | | (8) |

Movement in plan deficit is analysed as follows

| | 2007 | 2006 |
|--|------|------|
| | £m | £m |
| Deficit in plan at beginning of the year | (8) | (11) |
| Contributions paid | 4 | 3 |
| Current service cost | (2) | (2) |
| Other finance income | 1 | 1 |
| Actuarial gain | 2 | 1 |
| Deficit in the plan at the end of the year | (3) | (8) |

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The history of experience gains and losses is as follows

| | 2007 £m | 2006 £m | 2005 £m | 2004 £m | 2003 £m |
|--|------------|------------|------------|------------|------------|
| Consolidated statement of total recognised gains and losses | | | | | |
| Actual return less expected return on post employment plan assets | 1 | 7 | 1 | 5 | 7 |
| As % of plan assets at end of year | 2% | 14% | 3% | 16% | 30% |
| Experience (losses)/gains arising on plan liabilities | (1) | - | 1 | (4) | - |
| As % of plan liabilities at end of year | 2% | - | 2% | 10% | - |
| Changes in assumptions (financial and demographic) | 2 | (6) | (2) | (4) | - |
| As % of plan liabilities at end of year | 3% | 11% | 4% | 10% | - |
| Actuarial gain/(loss) recognisable in consolidated statement of total recognised gains and losses (before tax) | <u>2</u> | <u>1</u> | <u>-</u> | <u>(3)</u> | <u>7</u> |
| As % of plan liabilities at end of year | <u>3%</u> | <u>2%</u> | <u>-</u> | <u>7%</u> | <u>23%</u> |

18 CALLED UP SHARE CAPITAL

| | 2007 £m | 2006 £m |
|---|------------|------------|
| Authorised 1,000,001 (2006 1,000 001) ordinary shares of £1 each | <u>1</u> | <u>1</u> |
| Allotted, called up and fully paid 1,000,001 (2006 1,000,001) ordinary shares of £1 each | <u>1</u> | <u>1</u> |

19 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

| | Share capital £m | Share premium £m | Revaluation reserve £m | Profit and loss account £m | Total £m |
|--|------------------------|------------------------|------------------------------|-------------------------------------|-------------|
| As at 31 March 2005 | 1 | 56 | 120 | (222) | (45) |
| Loss for year | - | - | - | (32) | (32) |
| Impairment reversal of fixed asset valuation | - | - | 6 | - | 6 |
| Actuarial gain net of deferred tax | - | - | - | 1 | 1 |
| As at 31 March 2006 | <u>1</u> | <u>56</u> | <u>126</u> | <u>(253)</u> | <u>(70)</u> |
| Loss for the year | - | - | - | (9) | (9) |
| Impairment reversal of fixed asset valuation | - | - | 7 | - | 7 |
| Actuarial gain net of deferred tax | - | - | - | 1 | 1 |
| As at 31 March 2007 | <u>1</u> | <u>56</u> | <u>133</u> | <u>(261)</u> | <u>(71)</u> |

20 COMMITMENTS

At 31 March 2007, the Company had capital commitments of £1m (2006 £3m) The Company had no lease commitments

21 RELATED PARTIES

The Company has taken advantage of the exemption under FRS 8 – Related Parties not to disclose related party transactions with fellow members of the Group These transactions eliminate on consolidation in the Group financial statements The Company has not transacted with any other related parties during the year

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22 ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is Eggborough Power (Holdings) 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 plc can be obtained from the Company Secretary at British Energy Group plc or British Energy Holdings plc, Systems House, Alba Campus, Livingston, EH54 7EG