

BRITISH ENERGY GROUP PLC

FINANCIAL YEAR ENDED 31 MARCH 2007

Key Points

- While nuclear output for the financial year ended 31 March 2007 was disappointing, British Energy Group plc (British Energy) delivered an improvement in financial performance compared with the year ended 31 March 2006 (the prior year), benefiting from higher achieved electricity prices.

	Year ended 31 March 2007 (FY 2006/07)	Year ended 31 March 2006 (FY 2005/06)
Adjusted EBITDA* (£m)	1,221	846
Operating profit before NLF Cash Sweep Payment (£m)	1,099	740
Net profit before NLF Cash Sweep Payment (£m)	770	535

<i>Basic earnings per share</i>	81.5p	75.9p
<i>Adjusted earnings per share after taking account of NLF Cash Sweep economic interest at 64.04% (FY 2005/06: 64.63%)**</i>	48.2p	33.3p

- The results for the year reflect the benefit of higher achieved electricity prices with an operating margin increased to £17.1/MWh for the year from £9.2/MWh in the prior year.
- Realised price was £44.2/MWh for the year, up £12.2/MWh (38%) from the prior year.
- Unit operating costs increased to £27.1/MWh for the year from £22.8/MWh in the prior year, primarily from lower output and, to a lesser degree, from increases in controllable operating costs in line with previous guidance and boiler issues.
- Operating cash inflow was £751m for the year, up from £664m in the prior year. Net cash increased in the year by £463m to a net positive cash position of £674m. Cash and cash equivalents, restricted cash and other financial assets were £1,247m as at 31 March 2007 (£844m as at 31 March 2006) including collateral of £90m and cash held for margin calls of £51m.
- Discretionary accelerated pension contribution of £40m. Total deficit repair contributions to the pension fund, £61m for the year, resulting in a pension deficit as at 31 March 2007 of £65m (£215m as at 31 March 2006). Triennial actuarial review anticipated to be finalised towards the end of financial year 2007/08.
- Investment in plant projects, major repairs and strategic spares was £290m for the year (£283m in the prior year) excluding approximately £24m incurred in connection with boiler issues at Hinkley Point B and Hunterston B.
- Total output for the year was 58.4TWh (nuclear 51.2TWh, coal 7.2TWh), down from 68.4TWh for the prior year (nuclear 60.4TWh, coal 8.0TWh).
- Total output for the year was lower than the prior year primarily due to losses incurred in connection with boiler issues at Hinkley Point B and Hunterston B and repairs to cast iron pipework at Hartlepool. Nuclear unplanned capability loss factor was 23% for the year, up from 13% for the prior year.
- Periodic Safety Review assessment for Hinkley Point B and Hunterston B completed, subject to completion of an agreed programme of work. Economic and technical evaluation for life extension commenced. Decision expected by March 2008.
- Permission received from NII to restart the four units at Hinkley Point B and Hunterston B, following boiler inspections and repairs. Two units returned to service to date. Return to service of the remaining two units at around 70% load shortly. Undertaking an assessment regarding operation of these units at higher capacity. Working to achieve incremental improvements in operating capacity over the next two financial years.

- Eggborough delivered a very satisfactory performance, reflecting our ability to capture favourable dark spreads. As a consequence of LCPD, decision on mothballing one unit still under review.
- Base dividend of 13.6p per share, payable after the July 2007 AGM. Consider an additional dividend payable in February 2008, taking into account the Company's financial position at that time.
- Total output for the period to 20 May 2007 for the financial year 2007/08 was 7.1TWh (nuclear 6.6TWh, coal 0.4TWh) after total nuclear unplanned losses for the period to 20 May 2007 of 2.1TWh (being unplanned losses of 0.2TWh excluding boiler issues and unplanned losses of 1.9TWh due to boiler issues).
- The Company expects to continue to invest toward the higher end of the range £250m to £300m in financial year 2007/08. Investment in plant over the medium term is likely to be affected by the outcome of the Company's boiler management strategy and life extension decisions for Hinkley Point B and Hunterston B.
- As at 20 May 2007, the Company had fixed price contracts in place for approximately 57TWh of output for the financial year 2007/08 at an average contract price of £42/MWh excluding the impact of approximately 5TWh of capped contracts, at around £30/MWh. The capped contracts are for delivery of approximately 5TWh per annum up to March 2011.
- In addition, as at 20 May 2007, the Company had fixed price contracts in place for approximately 33TWh for the financial year 2008/09 at an average price of £42/MWh excluding approximately 5TWh of capped contracts at around £30/MWh.
- As at 20 May 2007, the Company had approximately 76TWh of zero/capped collateral trades that will deliver over the period to April 2012 at fixed prices (excluding power already delivered under these contracts), up from 36TWh at 11 June 2006 for delivery over the period to April 2011. The Company has extended the weighted average end-point of its structured contract portfolio from around 16 months as at the beginning of this financial year to around 23 months as at 20 May 2007.
- The Company welcomes the publication of the Government's Energy White Paper and the Nuclear Consultation.
- The safety of the general public, employees, environment and plant remain our highest priority. Nuclear safety, industrial safety and environmental safety are paramount for British Energy.

The NLF Cash Sweep percentage was 64.04% as at 31 March 2007, down from 64.63% at 31 March 2006 as a result of the exercise of approximately 6 million of the Company's Warrants and the Cash Sweep adjustment of approximately 0.3% due to the NLF Cash Sweep Payment in September 2006 in respect of financial year 2005/06.

In line with the Group's accounting policy, an accrual for £305m has been made as at 31 March 2007 for the NLF Cash Sweep Payment in respect of the financial year 2006/07.

Bill Coley, CEO of British Energy, said:

"We faced significant operational challenges during financial year 2006/07. I commend the entire British Energy team, and especially staff involved in resolving the boiler issues at Hinkley Point B and Hunterston B. They have demonstrated great commitment and resolve through difficult times and can take great pride in returning these units to service. There are numerous signs that our investment in people, plant and processes are delivering improvements and I believe that 2007/08 will be a far better year for the Company in delivering output."

	Year ended 31 March 2007 (FY 2006/07)	Year ended 31 March 2006 (FY 2005/06)
Revenue (£m)	2,999	2,593
Operating and energy costs (£m)	(1,778)	(1,747)
Adjusted EBITDA * (£m)	1,221	846
Depreciation, amortisation and other charges (£m)	(213)	(219)
Other operating income (£m)	93	95
Unrealised net (losses)/gains on derivative financial instruments and commodity contracts (£m)	(2)	18
Operating profit before NLF Cash Sweep Payment (£m)	1,099	740
Net profit before NLF Cash Sweep Payment (£m)	770	535
NLF Cash Sweep Payment ** (£m)	(305)	(105)
Net profit for the year attributable to shareholders (£m)	465	430

Realised price (£/MWh)	44.2	32.0
Unit operating cost (£/MWh)	27.1	22.8
Operating margin (£/MWh)	17.1	9.2

Adjusted operating profit (excluding certain items)*** (£m)	1,017	627
Adjusted net profit (excluding certain items)*** (£m)	717	463
Adjusted earnings per share (excluding certain items)*** after taking account of NLF Cash Sweep economic interest at 64.04% (FY 2005/06: 64.63%) ** (p)	44.9	28.8

Nuclear unplanned capability loss factor (%)	23	13
Total output (TWh)	58.4	68.4
Nuclear (TWh)	51.2	60.4
Coal (TWh)	7.2	8.0

	As at 31 March 2007	As at 31 March 2006
Cash and cash equivalents (excluding restricted cash and other financial assets) (£m)	1,101	638
Debt (£m)	(573)	(626)
Net cash/(debt) (excluding restricted cash and other financial assets) (£m)	528	12

Restricted cash and other financial assets**** (£m)	146	206
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*Adjusted EBITDA is defined as profit before financing (charges)/credits, taxation, depreciation, amortisation and other charges, unrealised net (losses)/gains on derivative financial instruments and commodity contracts, NLF Cash Sweep Payment, other exceptional operating expenses and other operating income. The Directors believe that the adjusted measure provides a better indication of underlying business performance.

**The amount of the NLF Cash Sweep Payment and the net profit attributable to equity shareholders in any given financial year does not necessarily reflect the respective economic interests of the NLF and equity shareholders in the profits of the Group. As described in note 8 to the financial statements, the computation of the annual Cash Sweep Payment is based on cash flows and the retention of appropriate cash (Target Amount) and expenditure (Forecast Expenditure Reserve) reserves. The Directors believe that a more appropriate measure of earnings per share can be computed on the basis of Net Profit before the NLF Cash Sweep Payment, divided by the enlarged number of shares that would have been in issue had the NLF fully converted its interest at 31 March 2007. This would result in an adjusted earnings per share of 48.2 pence for the year ended 31 March 2007 (FY 2005/06: 33.3 pence).

****Results for the year ended 31 March 2007 have been adjusted to exclude unrealised net (losses)/gains on derivative financial instruments and commodity contracts, NLF Cash Sweep Payment, other operating income, non-recurring severance costs and other exceptional operating expenses and include where appropriate the corresponding adjustments to taxation and revaluation thereon.*

*****Cash and cash equivalents reflect classification of £51m in respect of cash provided to satisfy variation margin calls as restricted cash and other financial assets.*

Certain defined terms used in these results are contained in the Glossary at the back of this statement.

Management Presentation and Conference Call

Management will host a conference call and webcast for analysts, institutional investors and bondholders at 9:15am (UK time) today, 30 May 2007 and dial in facilities can be accessed by dialling:

UK dial in: 0845 113 0049
International dial in: +44 (0) 1452 542303

There will be a replay facility for 7 days:

UK dial in: 0845 245 5205
International dial in: +44 (0) 1452 550 000
PIN (access) no: 8705141 #

Management will host a further conference call at 2:00pm (UK time), 30 May 2007. The conference can be accessed by dialling:

UK dial in: 0845 113 0049
International dial in: +44 (0) 1452 542303

There will be a replay facility for 7 days:

UK dial in: 0845 245 5205
International dial in: +44 (0) 1452 550 000
PIN (access) no: 8705764 #

For further information please contact:

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A copy of this release and a copy of the presentation in pdf file format can be found on the Company's website at www.british-energy.com.

Forward-looking statements

This document contains certain 'forward-looking' statements, including statements with respect to British Energy's business plans, the performance of its stations, electricity prices and other matters that are not historical facts concerning the business operations, financial condition and results of operations of British Energy. These forward-looking statements typically contain words such as 'intends', 'expects', 'anticipates', 'estimates', 'aim', 'believe', 'assume', 'should', and words of similar import, which are predictions of or indicate future events or future trends. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which are in some cases beyond the control of British Energy and may cause actual results or performance to differ materially from those expressed or implied from such forward-looking statements. Due to the uncertainties and risks associated with these forward-looking statements they relate only as to the date hereof.

CHAIRMAN'S STATEMENT

In financial terms, this has been a good year for British Energy but it could have been much better had it not been for our well publicised operational issues.

Output from the nuclear stations has been disappointing. There have been several challenges, in particular the boiler issues at our Hunterston B and Hinkley Point B stations, which have given rise to prolonged outages. It is a credit to the skill and dedication of our staff that these two stations are now in the process of returning to service.

Despite these major set backs there are signs, as Bill Coley our Chief Executive discusses in his review, that all the work we are doing on investment in the plant, human performance and work processes and on further enhancing our nuclear safety culture is starting to show results. Sizewell B, our PWR station, is producing a level of performance that ranks with the world's best.

We have made good progress in extending our fixed price sales book to an extent that would have been almost unimaginable at the time of our re-listing in January 2005. Eggborough, our coal-fired power station, has had a very good year and is performing at a very satisfactory level.

Strategically, this is an interesting and potentially significant time for the Company. The Government's Energy White Paper published on 23 May has highlighted the important part that nuclear generation could play in delivering a low carbon economy. We believe that British Energy is well placed to secure a valuable role in any new nuclear programme as a result of owning sites suitable for new construction and the skills and experience of its staff in operating nuclear plant, which are both key assets. We have initiated a process to seek partners for new nuclear build that has attracted significant interest from utilities, suppliers, customers and financial investors. We hope in due course to cement one or more partnerships.

During the year Roy Anderson, our Chief Nuclear Officer stepped down from the Board. Following this year's Annual General Meeting, Clare Spottiswoode will retire from the Board after five and half years' service. I would like to extend my thanks to both Roy and Clare for their contributions to British Energy. As is our usual practice Stephen Billingham, John Delucca and Pascal Colombani will be standing for re-election to the Board at our AGM as will Sir Robert Walmsley.

I am pleased to confirm that the Board has agreed to recommend the payment of a base dividend of 13.6p per share. This is our first dividend since the Company was re-listed. In line with our stated dividend policy, we will also consider the payment of an additional dividend in respect of financial year 2006/07 in early 2008 after taking account of the Company's financial condition at that time.

Once again I would like to thank all the British Energy staff who have worked hard this year in a, sometimes, extremely challenging environment.

We still have much to achieve. Our improvement programme is starting to show signs of progress. I remain confident that we can deliver significant value to shareholders in the years ahead.

CHIEF EXECUTIVE'S BUSINESS REVIEW

Overview

This year has presented us with many challenges, two of which, the boilers at Hinkley Point B and Hunterston B and the cooling water system at Hartlepool, resulted in significant outages. Although we delivered a strong financial result, contributing adjusted EBITDA of over £1.2bn, technical issues at a number of our stations had a significant adverse impact on nuclear output. However, there are improvements in many of our key nuclear metrics. We have reorganised our management structure to align more closely with the technology across the fleet. And we remain focused on our strategy to improve the long-term reliability of our power stations, building on an improved knowledge of the health of the plant.

We are well positioned to build on the foundations we have laid through investment in our people, plant and processes. In addition, we have made excellent progress in strengthening our fixed price trading book, improving price certainty for financial year 2007/08 and beyond. I am optimistic about the outlook for the Company as we work to deliver a result of which we can be proud.

Market and Strategic Priorities

As the UK's largest electricity generator British Energy plays an important role in maintaining the quality of life of people throughout the UK. It is a responsibility that we take very seriously. We make the single largest contribution to the UK's targets for reducing carbon dioxide emissions. The carbon footprint of our nuclear plants is insignificant compared to other forms of baseload generation and comparable to that of wind power, making us the lowest carbon emitter of the major UK electricity generators.

Our routes to market include direct sales to industrial and commercial customers, contracting in the wholesale market, together with sales of balancing and ancillary services to National Grid. We are an active market participant in the wholesale electricity market, which includes generators, suppliers, trading businesses and large industrial consumers of electricity.

We aim to maintain British Energy's leading market position and maximise value to our shareholders by focusing on our strategic priorities of:

- Achieving world class nuclear operations,
- Improving financial stability through delivery of our trading strategy,
- Pursuing life extensions for our stations,
- Positioning British Energy for participating in nuclear new build.

Safety and environmental performance will always remain our fundamental priority.

We measure our performance against our strategic priorities and our safety and environmental performance by reference to a number of key performance indicators. These include output, Unplanned Capability Loss Factor (UCLF), Unplanned Automatic Trips (UAT), Lost Time Accidents (LTA) and environmental events. For trading performance and financial stability, measures include extending the fixed price trading book, average realised power prices achieved and the level of zero/capped collateral sales.

The progress against our strategic priorities and key performance indicators is discussed in the following sections.

Operations Review

Nuclear Stations

Our nuclear output for the year was 51.2TWh - 9.2TWh lower than last year's output of 60.4TWh and significantly below our original plan. Unplanned Capability Loss Factor¹ (UCLF) increased to 23% compared with 13% in the previous year.

The table below compares of nuclear station output and UCLF for 2006/07 and 2005/06.

Nuclear Station	2006/7		2005/6	
	Output (TWh)	UCLF (%)	Output (TWh)	UCLF (%)
Dungeness B	4.5	24%	5.5	17%
Hartlepool	5.6	31%	5.2	38%
Heysham 1	7.5	12%	6.6	18%
Heysham 2	9.4	6%	9.2	5%
Hinkley Point B	4.2	46%	7.7	9%
Hunterston B	3.5	53%	7.9	10%
Torness	7.6	13%	9.4	6%
Sizewell B	8.9	0%	8.9	5%
Total Output	51.2		60.4	
Average UCLF		23%		13%

Sizewell B, our PWR station, has had a period of excellent performance achieving a continuous run of 471 days between its refuelling outages in May 2005 and September 2006. The station also completed its biggest ever outage which included replacement of the reactor pressure vessel head and upgrade of the refuelling machine. The outage was completed ahead of the initial plan with no lost time accidents, nuclear reportable events or environmental events. Sizewell B has once again operated at world class standard levels since completing the outage in October 2006.

We completed statutory outages on units at Dungeness B, Hartlepool and Torness. One unit at Hinkley Point B and one at Hunterston B also started their statutory outages in the year. Planned inspections showed higher than expected levels of boiler tube cracking, extending these last two outages for further inspections and repairs. The remaining units at Hinkley Point B and Hunterston B were subsequently taken out of service for the early inspection and repair. All four units remained on outage throughout the rest of the year. An update on the progress of the boiler issues and the return to service of the units is included under Outlook for 2007/08.

These prolonged unplanned outages at Hinkley Point B and Hunterston B resulted in 9.4TWh of losses and were the main reason for the reduction in nuclear output and increase in UCLF. Both units at Hartlepool were also taken out of service from late September 2006 to December 2006 for repairs to cast iron cooling water pipework. This resulted in losses of 2.0TWh.

In addition to these major unplanned outages, there were 8.6TWh (6.5TWh in 2005/06) of smaller losses of under 1TWh each, outage and refuelling under/overruns resulting in a net loss of 0.3TWh (0.4TWh in 2005/06) and planned losses of 0.7TWh. The total unplanned and non-routine loss for the year was 21.0TWh, which compares with 12.9TWh for the previous year - an unsatisfactory performance.

¹ Unplanned Capability Loss Factor (UCLF) – defined as the ratio of the unplanned energy losses during a given period of time, to the reference energy generation, expressed as a percentage.

Within the small losses, there are a number of plant issues that were not fully resolved during the year. The output from one unit at Heysham 1 was reduced during the year to limit the surface temperature of the Hot Box Dome². Also Dungeness B's refuelling outages were extended as a temporary measure to mitigate the possibility of failure of certain welds within the Fuel Plug Units³. Heysham 2 has experienced difficulties with their fuelling machine which, although not resulting in material losses, is still undergoing investigation. An update on these issues is included under Outlook for 2007/08.

Despite the disappointing output figures, it is important that we continue to focus on our goal of achieving world class nuclear operations. We took our first step towards achieving this goal in our Performance Improvement Programme (PIP) in 2003/4 to develop and initiate the changes required to improve our performance. As a result of the recommendations from PIP we have targeted investment to improve leadership, culture, and human performance as well as plant materiel condition and management of plant ageing issues. In addition, we have adopted best practices from around the world and have made changes in our organisational structure to improve operational focus and delivery of work. With many of the foundations for improvement in place we have transferred responsibility for continuous improvement to line management.

During the year we revised our corporate structure to replace the positions of Chief Nuclear Officer and Deputy Chief Nuclear Officer with a Chief Technical Officer and three Regional Chief Nuclear Officers (CNOs) all of whom report to me as the Chief Executive. We have grouped our stations into three regions, according to technology, each under a single CNO. This allows the CNOs to focus on station operations, performance improvement and station life extensions and to ensure that the stations receive appropriate support, share solutions and that our focus and strategy is correctly aligned and proportionate. The re-alignment of our technical support functions under the Chief Technical Officer further supports prioritisation and focus of our activities in ongoing improvements across the three regions. We have also transferred the responsibility for Design Authority⁴ to the Safety and Technical Director to further strengthen independence of the oversight function.

We have continued our investment strategy under which we address plant losses through replacement and repair, coupled with risk mitigation and essential works to improve the prospects of life extensions. During the year we made significant investment in plant to address emergent issues immediately affecting operations including the repair of cast iron pipework at Dungeness B and Hartlepool, inspection and repair of boiler tubes at Hinkley Point B and Hunterston B and inspection of the boiler closure units at Hartlepool and Heysham 1. We also invested in nuclear safety and environmental protection programmes, including the periodic safety reviews, and essential works to prolong the life of our assets, such as the replacement of the reactor vessel head at Sizewell B. During the year we invested £290m in our assets excluding approximately £24m incurred in connection with boiler issues at Hinkley Point B and Hunterston B.

The full benefits of the improvement programme and investment were certainly not evident in this year's output but we are pleased with the improvements in our key performance indicators which should result in improved future output.

Unplanned Automatic Trips (UATs) which are a source of unplanned losses were reduced to eight in the year compared to 12 in 2005/06 and 15 in 2004/05. The number of non-outage defects, a measure of the efficiency of our work management processes, was reduced to 369 by the end of the year, compared to 541 at the end of 2005/06 and 3,722 at the end of 2004/05. Heysham 2 has recorded the best six year UCLF average of the AGR fleet. Torness has operated for over two years without an employee LTA and over 1,000 days without a contractor LTA. We have also seen a significant reduction in losses attributable to boiler feed pumps, an historic source of losses, as a result of investment and a concerted drive for improvement.

² The Hot Box Dome separates the hot and cold gas flows in the AGR reactors.

³ The Fuel Plug Unit is the upper part of the fuel assembly.

⁴ Our Design Authority department is responsible for ensuring that safety case requirements are clearly defined and fulfilled during plant operations and modifications.

Eggborough

Output from Eggborough, our coal-fired plant, was 7.2TWh for the year compared with 8.0TWh in 2005/06. Unlike the nuclear stations which operate as baseload plant, Eggborough operates as flexible generation. We continue to maximise Eggborough's contribution by optimising its running against changing power, coal and carbon prices and by managing the relevant environmental constraints. Eggborough has made a significant financial contribution this year, reflecting our success in capturing favourable dark spreads. The dark spread is the price of electricity less the cost of coal and carbon.

Eggborough has elected to operate within the National Emission Reduction Plan (NERP) regime under the Large Combustion Plant Directive (LCPD), which comes into force on 1 January 2008. The plant will continue to operate at levels broadly consistent with generation achieved during the last five years. As indicated last year, we keep under review the option of mothballing one of the non FGD units.

Safety Performance

The safety of the general public, employees, environment and plant is fundamental to British Energy. The reinforcement of appropriate cultural behaviours continues to receive a high profile. Improved safety performance is delivered through the continued improvement in the materiel condition of our plant and by the development of our staff.

Nuclear safety is generally measured against the International Nuclear Events Scale (INES). During 2006/07 we had no nuclear safety events rated higher than INES Level 1, which represents events that are operating anomalies with no impact on the safety of the general public or our workforce. In addition, we also monitor the number of Nuclear Reportable Events. These reduced to 22 in 2006/07 from 36 events in 2005/06 - a reduction of almost 40%.

Radiation exposure to workers increased in the year due to the increased boiler inspection and repair work at Hinkley Point B and Hunterston B and the replacement of the reactor pressure vessel head at Sizewell B. These tasks involved increased access to plant with higher radiation levels. The Collective Radiation Dose was 0.176 manSv per reactor in the year compared to 0.074 manSv per reactor in 2005/06. However, even at this increased level, the Company's performance in this area remains within the upper quartile of nuclear reactors worldwide. The average individual dose at 0.197 mSv and the highest individual dose of 11.7 mSv were both much lower than the statutory limit of 20 mSv. Given the volume of work with higher radiation exposure, we requested an independent audit of our processes for managing and recording radiation dose at Hinkley Point B and Hunterston B which confirmed that correct procedures had been followed throughout these works to minimise personnel exposure.

The total number of lost time accidents (LTAs) for all employees and contractors working at our nuclear sites and support functions in 2006/07 was 22, a slight increase compared to the 19 accidents in 2005/06 but still well below our recent historic performance (41 in 2003/04 and 38 in 2002/03). We remain focused on reducing the number of LTAs and reinforcing our safety culture through regular training and assessment.

We have continued to enhance the nuclear safety culture within the Company and during 2006/07 we carried out over 400 workshops, encompassing over 6,700 staff and contractors, to strengthen our nuclear safety culture behaviours.

Environmental Performance

A key measure of our environmental performance is the number of environmental events. The significance of an environmental event is measured against the Environment Agency's "incident" and "compliance" classification schemes which include four categories. In brief these are: 1: Major incident, 2: Significant incident, 3: Minor incident, and 4: Incidents that have no impact. During 2006/07 we had 18 events at category 3 or 4 compared with 22 in 2005/06 and no major or significant incidents. To challenge and improve, we have developed our own categories for measuring environmental events, much more demanding than those of the Environment Agency.

All radioactive waste produced by our power stations is highly regulated and controlled to minimise and control discharges. During the course of the year none of our stations exceeded the relevant authorised discharge limits.

We have now completed the creation of groundwater monitoring networks at each of our eight nuclear sites and these are being employed to provide routine surveillance on groundwater quality.

Gale Common ash disposal site, which receives waste ash from Eggborough, recently secured a Pollution Prevention and Control (PPC) licence from the Environment Agency (EA) covering ongoing operations. However its capacity is currently limited and a project has been undertaken to develop part of the site to provide capacity through to 2015. An application for planning consent has been submitted following the statutory consultation process.

Financial Stability from our Trading Strategy

The key objective of our trading strategy is to improve British Energy's financial stability. These include maximising the income from our power stations; minimising the market costs associated with the unreliability of our nuclear stations; and increasing the length of the fixed price proportion of our trading book. We aim to do this using zero-collateral and collateral efficient routes to market which reduce our financial exposure to price volatility.

This year we have again seen high volatility in the electricity market. The annual baseload price of electricity for delivery in the period from April 2007 to March 2008 fell during the financial year from around £55/MWh at the start of April 2006 to a low of £27/MWh in February 2007 recovering slightly to around £32/MWh by the end of March 2007 - a net fall of around 42% over the financial year. There were similar falls in the forward price of electricity for future years as well. Electricity prices have been largely driven by events in the gas and carbon markets. Gas prices fell during the year, in part due to the anticipated availability of new gas pipelines and subsequent gas flows, together with unusually mild weather in winter 2006/07. Phase I carbon prices fell from just under €30/tCO₂ at the beginning of the financial year 2006/07 to around €1/tCO₂ by the 31 March 2007 due to the announcement of excess allowances outside the UK. In the same period the price of Phase II 2008 carbon credits fell from around €33/tCO₂ to end at around €18/tCO₂. The price of coal for delivery to European ports traded in the range \$58-\$74/tn compared with \$50-\$70/tn in the previous year.

Our realised price for the financial year 2006/07 was £44.2/MWh, an increase of £12.2/MWh compared with last year's realised price of £32.0/MWh. The contract portfolio includes profiled contracts (both wholesale and direct sales) and therefore the contracted price is not directly comparable to a baseload market price. A high proportion of our planned output was covered by fixed price contracts at the beginning of the year which protected our realised price from the fall in market prices during the year. However, the realised price does still include the impact of a small number of fixed and capped price contracts entered into several years ago when significantly lower market prices prevailed. One of these contracts, for 5TWh at sub-£20/MWh level, ended on 1 April 2007.

During the year we succeeded in significantly lengthening the weighted average end-point of the fixed structured portfolio and in increasing the volume of zero/capped collateral trades. The contract position for 2007/08 and 2008/09 is discussed further in the Outlook for 2007/08.

In addition to our wholesale sales, British Energy Direct delivered around 29TWh of electricity during the financial year 2006/07 and signed contracts for the supply of around 59TWh including future year deliveries. As at 31 March 2007 British Energy Direct were supplying 1,662 customers across 9,365 sites within the UK.

Cash collateral and cash held for variation margin calls was £141m as at 31 March 2007, compared to £201m as at 31 March 2006 and reached a peak of about £275m in November 2006. As at 31 March 2007, we had committed letter of credit facilities available to support collateral calls of £300m.

Our focus on minimising the balancing costs associated with unplanned losses has resulted in illiquidity costs less than £1/MWh despite the extended outages at Hinkley Point B and Hunterston B.

We have continued to develop our trading and risk management capabilities to better manage price volatility. We are part way through an investment programme to upgrade our trading IT systems, which will improve the ability to manage risk, optimise value and to meet our customers' needs.

During the year we entered into a contract with the Nuclear Decommissioning Authority (NDA) under which we sell the NDA's electrical output from its two Magnox nuclear power stations over their remaining lives.

Pursuing Life Extensions

Hinkley Point B and Hunterston B, which currently have accounting lives of 35 years, are closest to their planned closure dates. We are therefore focusing effort on the life extension of these two stations. Substantial technical work on proving the lifetime of the graphite cores and boilers, which are the main life-limiting components on these stations, has continued during the year and it is planned to submit technical and economic evaluations for extension of these stations to our Board for decision by March 2008.

Although the Nuclear Installations Inspectorate (NII) are not required to agree the accounting lives of our stations, we are required, as a condition of our Nuclear Site Licences, to submit a Periodic Safety Review (PSR) every ten years, demonstrating the safety of each station over the next ten years of operation. During the year, we submitted PSRs to the NII for Hinkley Point B and Hunterston B. As part of the process, we have agreed to a programme of work at a cost of approximately £4.5m, which, once completed to the NII's satisfaction, will mean that we should not need to submit further PSRs for these stations before 2017.

New Nuclear Build

The Government concluded in its Energy Review Report of July 2006 that "nuclear has a role to play in the future generating mix alongside other low carbon options". The consultation process that led to this conclusion was challenged in the courts and the Government accepted it should carry out a further consultation. On 23 May 2007, a White Paper on Energy was published along with a consultation on the future of nuclear power. This consultation will run until 10 October 2007, and after considering the responses Government will decide before the end of the year whether the private sector should be allowed the option of building new nuclear power stations.

We believe that British Energy brings capabilities and assets which are scarce in the UK and which will add significant value to any programme of new nuclear generation. We intend to develop a position at the heart of new nuclear generation activity in the UK that protects the integrity of our existing operations and maximises shareholder value. In the short term, we are carrying out preliminary work to confirm suitability and enhance the development value of the sites we own.

In February we invited proposals from potential partners to work with us in developing, building and operating new nuclear stations. The partnering process is underway and there has currently been an encouraging response from a wide range of interested parties. We are progressing early optioneering work on sites and designs and this will continue in parallel with facilitating action by Government on strategic siting assessment, permitting, licensing, waste management and emissions trading.

Outlook for 2007/08

Operations

We will be commencing five statutory outages during 2007/08 on units at Hartlepool, Heysham 1, Heysham 2, Sizewell B and Torness power stations. Our nuclear output to 20 May 2007 has been 6.6TWh after total unplanned losses of 2.1TWh. The majority of the unplanned losses (1.9TWh) have been due to the continued effect of boiler works at Hinkley Point B and Hunterston B.

Following the completion of all boiler inspections, necessary repair work and the submission of safety cases to the NII, we received consent during May to return all of the units at Hinkley Point B and Hunterston B to service. Reactor load will be raised incrementally to maintain boiler temperatures within the levels identified during the boiler assessments and we expect steady output to be reached at about 70% load. Two units have been returned to service and the remaining two are expected to return shortly. The estimated impact of the reduced load over the remainder of the year, which has been previously reported, will be affected by the timing of return to service and load achieved.

With the aim of maximising value, the Company will undertake an assessment of operating these four units at higher capacity including analysis of the relationship between boiler life, station life and safety cases. It is likely that any increase in capacity would involve further inspections, additional repair work and modifications over the medium term. The Company intends to undertake inspections over the next two financial years to provide further data to support capacity and lifetime boiler management decisions.

Load was reduced on Heysham 1 Reactor 2 by 125MW in October 2006 to reduce a high surface temperature on the Hot Box Dome. The load reduction has been partially recovered and the unit is currently operating with a reduction of approximately 80MW. Investigations of the Hot Box Dome, during the refuelling outage in March 2007, revealed no distortion of the surface insulation. Work continues to determine solutions to enable the recovery to full load, including the potential to use operating experience from the Magnox fleet, which operated similar components at higher temperatures. The surface temperatures of the corresponding units at Heysham 1 Reactor 1 and the two units at Hartlepool remain within the operating limits.

Work is underway to correct the Fuel Plug weld issue at Dungeness B. The station will return to normal refuelling outages during 2007/08.

Investigation of intermittent problems with Heysham 2's fuelling machine continues. If not remedied, the problem could affect refuellings and lead to lower output. Further inspections of fuelling machine components will be conducted during scheduled fuel route outages, the next being October 2007. Certain key spares are being procured to reduce the length of any potential downtime of the fuelling machine in the event that components need to be replaced.

Our 2007/08 investment programme will continue to focus on identifying and anticipating the most likely areas of loss and to address these risks by bringing forward repair and refurbishment and by improving the availability of strategic spares. Although as previously discussed our total losses increased in 2006/07, overall the number of plant areas impacted by losses reduced indicating that our investment strategy may be starting to deliver results. We are stabilising the fleet and refining risk identification and mitigation measures to invest proactively in potential loss areas.

We expect to invest toward the higher end of the range £250m to £300m in the financial year 2007/08. The level of investment in plant over the medium term is likely to be affected by the outcome of the Company's boiler management strategy and life extension decisions for Hinkley Point B and Hunterston B. Also, controllable operating costs are expected to increase by approximately £35m - £45m in 2007/08, excluding the impact of non-recurring severance costs incurred in financial year 2006/07.

Our continuous improvement programme will focus on the processes which support safe and reliable generation during 2007/08. Key areas include improving the operability of equipment through increased efficiency of management of work, optimising maintenance regimes and continuing to improve human performance.

Trading

We will continue to follow a prudent trading strategy while operating within collateral constraints to protect the business against volatile power prices. In addition we will continue to look for ways to reduce our financial exposure to price volatility by minimising collateral requirements and increasing the average life of the fixed price portion of our trading book.

As at 20 May 2007 we had fixed price contracts in place for approximately 57TWh for the financial year 2007/08 at an average price of about £42/MWh, excluding approximately 5TWh of capped contracts at around £30/MWh. Also, as at 20 May 2007 fixed price contracts were in place for approximately 33TWh for the financial year 2008/09 at an average price of around £42/MWh, excluding approximately 5TWh of capped contracts at about £30/MWh. These prices exclude i) Balancing Services Use of System and other electricity market participation charges expected to be around £1/MWh and ii) market costs incurred through output variation and unreliability which are expected to be around £1/MWh. As at 20 May 2007 the weighted average end-point of the structured contract portfolio was about 23 months (16 months in April 2006) and the amount of zero/capped collateral sales that will deliver over the period to April 2012 at fixed prices was 76TWh (36TWh in June 2006).

During the year the UK's proposed National Allocation Plan for Phase II of the EU ETS which will operate from 2008 to 2012 inclusive was approved by the European Commission. Although there is a reduction in free allowances to the power generation sector in Phase II compared to Phase I, Eggborough will receive a slight increase compared with Phase I (4.75m allowances per year compared with 4.54m).

CONCLUDING REMARKS

I am not pleased with our output in 2006/07, but I am pleased with the progress we have made through investment in our people, plant and processes, and am optimistic for the future. We have a fine team of dedicated professionals in place at British Energy, ready to build on the progress made. There remains more work to be done - through continued targeted investment, improvement in system health and human performance - to achieve a result of which we can be proud. We are committed to that end.

FINANCIAL REVIEW
STEPHEN BILLINGHAM, FINANCE DIRECTOR

OVERVIEW

The Group's financial performance records significant improvement in its key financial indicators in comparison with last year, as follows:

- Revenue up 16% at £2,999m (2006: £2,593m);
- Adjusted EBITDA up by 44% at £1,221m (2006: £846m); and
- Operating profit up 25% at £794m (2006: £635m).

The improvement in financial performance reflects the significant increase in the Group's average realised price per unit of output, which more than offset the 10TWh reduction in output to 58.4TWh. The average realised price per unit increased to £44.2/MWh from £32.0/MWh. The Group's operating margin changed by a lesser amount, up by £7.9/MWh to £17.1/MWh, due to the effect of the reduced output, increases in controllable operating costs in line with expectations and costs incurred on boiler issues at Hunterston B and Hinkley Point B.

The improvement in financial performance has been reflected in the net cash position, which excludes restricted cash and other financial assets, which has increased during the year from £12m to £528m. This improved financial position has been achieved while continuing with the Group's investment programme. Investment in Plant spend was £290m (2006: £283m), excluding approximately £24m (2006: £nil) incurred on boiler issues at Hunterston B and Hinkley Point B.

FINANCIAL PERFORMANCE

Summary of Results

The results for the year ended 31 March 2007 are summarised as follows:

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Revenue	2,999	2,593
Operating and energy costs	(1,778)	(1,747)
Adjusted EBITDA ⁽¹⁾	1,221	846
Other operating income	93	95
Cash Sweep Payment	(305)	(105)
Depreciation	(207)	(191)
Amortisation and other charges	(6)	(28)
Unrealised net (losses)/gains on derivative financial instruments and commodity contracts	(2)	18
Operating profit	794	635
Financing (charges)/credits		
Interest payable	(61)	(50)
Interest receivable	53	26
Other finance income/(expenses)	10	(12)
Profit before taxation	796	599
Taxation	(331)	(169)
Net profit for the year attributable to shareholders	465	430

(1) Adjusted EBITDA is defined as profit before financing (charges)/credits, taxation, depreciation, amortisation and other charges, unrealised net (losses)/gains on derivative financial instruments and commodity contracts, Cash Sweep Payment, other exceptional operating expenses and other operating income

Revenue and Output

Revenue consists primarily of wholesale generation sales and sales by the Group's direct supply business, British Energy Direct. The analysis of revenue for the year ended 31 March 2007 is as follows:

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Revenue		
Wholesale generation sales	1,328	1,175
Direct supply sales excluding recovery of energy supply costs and renewable energy purchases recharged to customers	1,252	1,017
Revenue from generated electricity	2,580	2,192
Energy supply costs recharged to customers	362	356
Renewable energy purchases recharged to customers	46	26
Miscellaneous income	11	19
Total revenue	2,999	2,593

Output is analysed as follows:

	Year ended 31 March 2007 TWh	Year ended 31 March 2006 TWh
Nuclear	51.2	60.4
Coal-fired power station – Eggborough	7.2	8.0
Total output	58.4	68.4

Output for the year of 58.4TWh was 10TWh lower than last year's output primarily due to unplanned losses incurred in connection with boiler issues at Hunderston B and Hinkley Point B and repairs to cast iron pipework at Hartlepool. A discussion of the Group's nuclear generation performance and the performance of the Group's coal-fired power station at Eggborough is contained in the Operations Review section of the Chief Executive's Business Review.

Although output is significantly reduced in comparison with last year, wholesale generation sales and direct supply sales, excluding recovery of energy supply costs and renewable energy purchases recharged to customers, have increased by £153m and £235m respectively from 2006. The significant increase in realised electricity prices from £32.0/MWh last year to £44.2/MWh this year has more than offset the adverse impact of the reduction in output and was the key factor behind the increase in revenue and the improved overall financial performance. Realised price is calculated as revenue from generated electricity divided by total output. A discussion on the movement of market prices, market conditions and the Group's strategy for trading is contained in the Financial Stability from our Trading Strategy section of the Chief Executive's Business Review.

Operating and Energy Costs Summary

The Group operating and energy costs are analysed as follows:

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Fuel costs – nuclear	278	349
– Eggborough	156	207
Total fuel costs	434	556
Materials and services	562	487
Staff costs (including severance costs)	374	322
Operating costs of generated electricity	1,370	1,365
Energy supply costs recharged to customers	362	356
Renewable energy purchases recharged to customers	46	26
Total operating and energy costs	1,778	1,747

Unit Operating Cost and Operating Margin

Unit operating cost increased to £27.1/MWh for the year from £22.8/MWh in 2006, and is calculated as operating costs of generated electricity plus depreciation and software amortisation, divided by total output. The increase in unit operating costs of £4.3/MWh is primarily due to the reduced output. Materials and services and staff costs, excluding the costs relating to Investment in Plant, have increased in line with expectations. The reduction in fuel costs reflects the reduced output in the year. For further information on each of these categories refer to the sections below.

Deducting unit operating cost from realised price per unit results in an operating margin per unit of £17.1/MWh for 2007 compared to £9.2/MWh for 2006.

Operating and Energy Costs

Nuclear fuel costs consist of the costs of procurement of uranium, conversion and enrichment services and fuel element fabrication (front end) and the costs of reprocessing, long-term storage and eventual disposal of the resulting waste products (back end). Full provision is also made for the projected back end costs of unburnt fuel at station closure.

Nuclear fuel costs have reduced by £71m to £278m (2006: £349m) due primarily to the reduction in nuclear output. The nuclear fuel cost per unit has decreased from £5.8/MWh to £5.4/MWh largely due to the revaluation of the provision for unburnt fuel at station closure, which is not linked to the output for the period but to the amount of unburnt fuel in each individual reactor at the balance sheet date. After adjusting for this provision movement, the underlying unit cost is consistent with last year.

Eggborough fuel costs totalled £156m for the year (2006: £207m), or £21.7/MWh (2006: £25.9/MWh). Eggborough fuel costs include the cost of coal, oil, biomass and carbon allowances. Excluding carbon allowances, Eggborough fuel costs were £134m (2006: £144m) or £18.6/MWh (2006: £18.0/MWh). The increase in unit costs reflect the upward movement in coal prices.

Carbon allowance costs totalled £22m for the year (2006: £63m), or £3.0/MWh (2006: £7.9/MWh). The reduction in unit cost is primarily due to the fall in the market price of Phase I carbon allowances in the year from approximately €27/tCO₂ at 31 March 2006 to approximately €1/tCO₂ at 31 March 2007. The cost of £22m includes a credit due to revaluation of the previous year's carbon allowance liability of £38m, losses on the close out of forward contracts of £15m and a write down of carbon allowance intangible assets of £41m. It should be noted that it is the Group's policy to lock in the costs at the time of selling Eggborough's output forward and therefore losses on forward contracts and write down of carbon allowance intangible assets are the accounting entries that match the sales recognised in the revenue line of the consolidated income statement.

Materials and services costs of £562m (2006: £487m) comprise the operating expenses of the power stations and support functions. Of the £75m increase, £13m relates to increased expenditure on non-recurring repair expenditure projects (NRR) included in the Group's investment programme. Expenditure on these projects was £132m in the year (2006: £119m). Also included is approximately £24m (2006: £nil) spent on the boiler repairs at Hunterston B and Hinkley Point B. The remaining £38m of the increase in materials and services costs is mainly due to higher levels of station maintenance of £13m, additional insurance costs of £10m and a reduction in the transmission credit received from the National Grid for Hinkley Point B of £7m due to the reduction in output from that station in the year.

Staff costs totalled £374m (2006: £322m), an increase of £52m from last year. Higher staff numbers, the annual pay rise and additional overtime due to extended outages contributed to £28m of the increase. The Group's headcount increased from 5,758 at the beginning of the year to 6,062 at 31 March 2007. The pay rise and recent increase in headcount also impacted the Group's pension costs which increased by £15m. The Group also incurred planned severance costs of £9m in the year (2006: £nil).

Energy supply costs were £362m for the year (2006: £356m) and primarily comprise the costs to the Group of the Renewable Obligation Scheme, TNUoS, DUoS and BSUoS costs, all of which are fully recovered within revenue.

The Group purchases energy from renewable sources for two reasons, firstly to satisfy customers' demands for energy to be produced from renewable sources and secondly to obtain Renewable Obligation Certificates (ROCs) to contribute towards satisfying the Group's obligations under the Renewable Obligation Scheme. The cost of purchased electricity from renewable sources is accounted for in renewable energy purchases, net of the value of ROCs and Levy Exemption Certificates (LECs). The value of ROCs and LECs are accounted for separately within intangible assets. The volume of energy purchased from renewable sources was higher in 2007 at 1.1TWh compared to 0.7TWh in 2006 which resulted in renewable energy purchases increasing to £46m in 2007 from £26m in 2006.

Other Operating Income

Other operating income of £93m for the year (2006: £95m) relates to the utilisation of £76m (2006: £95m) and the release of £17m (2006: £nil) of the contracts provision, which was established at RED.

Cash Sweep Payment

As part of the agreements made at the time of Restructuring, the Company has an obligation to make payments to the NLF should certain criteria be met. In accordance with the terms of the Contribution Agreement, a Cash Sweep payment of £305m (2006: £105m) is due and has been accrued in the consolidated financial statements in accordance with the Group's accounting policy.

The Cash Sweep percentage was 64.04% at 31 March 2007 (2006: 64.63%). It reduced by approximately 0.3% because the NLF benefited from receiving a Cash Sweep Payment in respect of the year ended 31 March 2006 with no corresponding distribution to shareholders. The remainder of the decrease relates to the exercise of 6,399,439 of the Company's Warrants.

More details on the Cash Sweep Payment are included in the Other Financial Issues section. The basis of the computation of the Cash Sweep Payment is described in more detail in note 8 to the consolidated financial statements.

Depreciation, Amortisation and Other Charges

Depreciation of £207m was £16m higher than last year due to expenditure on power stations and other plant and equipment. Amortisation and other charges of £6m (2006: £28m) relates to amortisation on software in the year. In 2006 amortisation and other charges comprised £5m of software amortisation, together with a £23m charge to the consolidated income statement to reduce goodwill in respect of a revaluation of the deferred tax asset.

Unrealised Net (Losses)/Gains on Derivative Financial Instruments and Commodity Contracts

Unrealised losses or gains on financial instruments and commodity contracts arise as a result of fair value movements in commodity contracts which fall within the scope of IAS 39 – Financial Instruments: Recognition and Measurement (IAS 39). Some of these contracts are accounted for as cash flow hedges, with movements in fair value taken directly to equity in the hedge reserve. The fair value movements in all other contracts in the scope of IAS 39 are presented in the unrealised net (losses)/gains on derivative financial instruments and commodity contracts line of the consolidated income statement.

The charge to the consolidated income statement this year of £2m (2006: £18m credit) represents a charge for the fair value movements in carbon allowance forward contracts of £73m (2006: £9m credit) offset by a credit for the fair value movement of electricity and other forward contracts of £71m (2006: £9m credit).

Included in the fair value movements is a charge relating to unrealised losses on Phase I carbon allowance forward contracts entered into to lock in the costs at the time of selling Eggborough's future output. If the price of Phase I carbon allowances remains at current prices then this fair value movement will be reflected in Eggborough's fuel costs as a charge of £64m in the year ending March 2008. These losses are funded by cash provided to satisfy variation margin calls.

Financing (Charges)/Credits

Interest payable of £61m (2006: £50m) relates primarily to interest on the Group's Bonds, together with finance fees on structured trading contracts. In line with the annual repayment of the Bond principal in March 2006, the interest payable on the Bonds has declined by £3m to £44m.

Interest receivable of £53m (2006: £26m) relates to interest earned on cash deposits. This has increased as a result of higher interest bearing cash deposits and higher interest rates in 2007 compared to 2006.

For details of other finance income of £10m (2006: £12m expense), refer to note 9 in the consolidated financial statements.

Taxation

The taxation charge of £331m (2006: £169m) has been recognised in the consolidated income statement for the year. This comprises a deferred tax charge of £272m (2006: £169m) and a current tax charge of £59m (2006: £nil). This represents an effective tax rate of 42%. Adjusting for the impact of the Cash Sweep Payment, which is non-deductible for tax, results in an effective tax rate of 30%.

The majority of the accumulated tax losses of £869m as at 31 March 2006 relating to the Group's principal subsidiaries were fully utilised in the year. Therefore the Group has become liable for corporation tax of £59m during 2007. The Group has made instalment payments of £49m during the year ended 31 March 2007. The movement from the £244m net deferred tax asset as at 31 March 2006 to the £63m net deferred tax liability as at 31 March 2007 is fully analysed in note 10 to the consolidated financial statements.

Net Profit and Earnings per Share

Net profit for the year attributable to shareholders was £465m compared to £430m for 2006.

Basic earnings per share for the year was 81.5p (2006: 75.9p). This is based on the net profit for the year divided by the weighted average number of ordinary shares in issue during the year.

The diluted earnings per share for the year was 79.9p (2006: 73.8p). This is based on the net profit for the year divided by the weighted average number of ordinary shares in issue, together with the dilutive weighted average of potential ordinary shares in respect of the Company's Warrants issued to shareholders on Restructuring.

The adjusted earnings per share for the year was 48.2p (2006: 33.3p). As described in note 12 of the consolidated financial statements, the Cash Sweep Payment of £305m (2006: £105m) and the net profit attributable to shareholders of £465m (2006: £430m) do not necessarily reflect the respective economic interests of the NLF and equity shareholders in the profits of the Group. The calculation in any given year of the annual Cash Sweep Payment is based on cash flows and the retention of appropriate cash (Target Amount) and expenditure reserves (Forecast Expenditure Reserve) (see note 8 of the consolidated financial statements). Therefore an adjusted earnings per share has been calculated by excluding the Cash Sweep Payment expense from earnings and adjusting the weighted average share capital by the number of Shares that would have been in issue if the NLF had fully converted their interest at the balance sheet date.

INVESTMENT PROGRAMME

British Energy's goal of achieving world class operational performance requires significant expenditure to improve the reliability of the Group's power stations. The Group incurred the following costs as part of its continuing programme of investment:

	Year ended 31 March 2007 Capital Expenditure £m	Year ended 31 March 2007 Investment in Plant £m	Year ended 31 March 2006 Capital Expenditure £m	Year ended 31 March 2006 Investment in Plant £m
Capital additions	123	123	120	120
Strategic spares	11	9	22	18
Statutory outage costs	101	-	78	-
Capitalised expenditure	235	132	220	138
Non-recurring repair expenditure projects (NRR)	-	132	-	119
PIP staff costs	-	26	-	26
Total	235	290	220	283

NRR project expenditure of £132m (2006: £119m) excludes boiler issues at Hunterston B and Hinkley Point B of £24m (2006: £nil). Both are included in materials and services costs.

Of the £235m (2006: £220m) of capital expenditure, £224m (2006: £215m) was capitalised within property, plant and equipment, and the remaining £11m (2006: £5m), relating to systems software, was capitalised in intangible assets.

Further details of the investment programme are contained in the Chief Executive's Business Review.

FINANCIAL POSITION

Liquidity, Cash Flows and Capital Resources

As at 31 March 2007 the Group had cash and cash equivalents of £1,101m compared to £638m at 31 March 2006. The increase in cash and cash equivalents is analysed in the following table:

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Net cash inflow generated from operations	751	664
Net cash used in investing activities	(235)	(220)
Net cash used in financing activities	(53)	(41)
Net increase in cash and cash equivalents	463	403
Cash and cash equivalents at the beginning of the year	638	235
Cash and cash equivalents at the end of the year	1,101	638

Net cash inflow generated from operations was £751m for 2007 (2006: £664m), reflecting the level of operating profit. This takes account of the Group's first Cash Sweep Payment of £105m and the deferral of £168m of cash receipts from certain capped collateral power sales contracts. The cash deferred from these capped collateral power sales contracts is projected to increase to approximately £300m by 31 March 2008. This deferred cash will be received over subsequent periods up to 2011 or earlier to the extent that it is substituted by letters of credit.

Net cash used in investing activities was £235m for the year (2006: £220m).

Net cash used in financing activities was £53m for the year (2006: £41m). This comprises a £53m (2006: £50m) repayment of bond principal, £6m (2006: £nil) consideration for the purchase of own shares to satisfy share incentive schemes, less £6m (2006: £9m) of proceeds from the exercise of Warrants.

In addition to cash and cash equivalents there are restricted cash and other financial assets of £146m (2006: £206m) at 31 March 2007, of which £90m (2006: £201m) is cash posted as collateral in support of trading activities.

At 31 March 2007, there was total debt of £573m (2006: £626m) resulting in a net cash position (excluding restricted cash and other financial assets) of £528m (2006: £12m). The total debt comprised:

(1) A long-term "project finance" loan of £123m (2006: £134m) secured on the assets of Eggborough Power Limited, a subsidiary company that operates the Eggborough coal-fired power station.

(2) An aggregate principal amount of £450m (2006: £492m) sterling denominated guaranteed bonds due between 2008 and 2022.

The Group has a receivables financing facility of up to a maximum of £60m (2006: £60m) subject to the level of the Group's trade receivables. This is a three year committed facility signed in August 2004. At 31 March 2007 and 31 March 2006 the facility was undrawn.

During the year the Group entered into a £150m committed letter of credit facility, which expires in the year ending 31 March 2009. The Group also entered into a £100m and £50m facility, both of which expire in the year ending 31 March 2008. All three facilities were undrawn during the year ended 31 March 2007.

Net Assets and Equity

Net assets increased to £2,647m (2006: £2,101m). Significant movements within the overall increase in net assets include the improvement in the net cash of £516m to £528m, the reduction in the retirement benefit obligations of £150m to £65m and the reduction in the deferred tax asset of £307m to a deferred tax liability of £63m at 31 March 2007.

Total shareholders' equity was £2,647m (2006: £2,101m) and is fully explained in note 28 to the consolidated financial statements.

Nuclear Liabilities and Funding Arrangements

Under the arrangements with the Secretary of State implemented on Restructuring the NLF will fund, subject to certain exceptions, the Group's qualifying uncontracted nuclear liabilities and qualifying decommissioning costs. As part of the arrangements the Group will make certain payments to the NLF, including the Cash Sweep Payment. The NLF has the right, from time to time, to convert all or part of the Cash Sweep Payment into Convertible Shares.

The Government provides an indemnity to cover liabilities for spent AGR fuel loaded pre-Restructuring. The nuclear liabilities receivable is recognised as an asset on the Group's consolidated balance sheet in respect of this indemnity. The Government also indemnifies the Group against any future shortfall in NLF funding of qualifying uncontracted nuclear liabilities (including PWR back end fuel services) and qualifying nuclear decommissioning costs. The NLF receivable asset represents the aggregate value of the investments held by the NLF and the Government indemnity. The Group will continue to recognise nuclear liabilities on its consolidated balance sheet pending their discharge by payments received from the NLF.

Both the nuclear liabilities receivable and the NLF receivable are stated in the consolidated balance sheet at current price levels. Each year the financing charges in the consolidated income statement will include the revalorisation of these receivables which will match the revalorisation of the nuclear liabilities, provided the Group does not incur any non-qualifying nuclear liabilities. At 31 March 2007 the total NLF and nuclear liabilities receivables was £5,469m (2006: £5,237m). Of the total, £195m was included in current assets (2006: £186m) and £5,274m (2006: £5,051m) was included in non-current assets. This equates to the present value of associated nuclear liabilities included in the Group's current liabilities of £195m (2006: £186m) and non-current liabilities of £5,274m (2006: £5,051m).

In the Annual Report and Accounts for the year ended 31 March 2006 it was highlighted that the value attributed to uncontracted nuclear liabilities and decommissioning costs was being re-assessed by way of the Quinquennial Review, which was completed subject to final agreement with the Nuclear Decommissioning Authority (NDA) and the other regulators (Nuclear Installations Inspectorate, the Environment Agency and the Scottish Environment Protection Agency). The Group has now received final agreement, which increased the level of estimated decommissioning costs by £8m, which is in addition to the £956m that was reflected in the consolidated financial statements for the year ended 31 March 2006. As part of the Restructuring arrangements, the Group is indemnified by the Government for any future shortfall in NLF funding of qualifying nuclear liabilities and decommissioning costs, therefore the NLF receivable has also been increased by £8m.

FINANCIAL RISK MANAGEMENT

Overview

The Group's principal financial instruments include derivative commodity contracts for the sale and purchase of electricity, purchase of coal and carbon allowances, interest bearing debt, loans, investments in short-dated commercial paper, cash held in collateral accounts, cash and short-term deposits. Refer to note 19 in the consolidated financial statements for further details on the Group's financial assets and liabilities.

The main financial risks faced by the Group are trading risks in respect of the sale of electricity. Electricity trading risks include: exposure to electricity price fluctuations, balancing of output volume with contractual commitments, commodity (coal, carbon allowances and uranium) price risk and counterparty credit risk. These are managed by BEPET (the Group's Power and Energy Trading Division) which operates within policies and procedures that are approved and monitored by the Board. BEPET is not permitted to take speculative open positions.

Non-trading financial risks, including liquidity, interest rate and foreign exchange risks are managed by the Group's central Treasury Department which also operates within policies and procedures that are approved and monitored by the Board. The Treasury Department is not permitted to take speculative open positions.

In addition the Group has exposure to risks associated with its pension schemes and the funding of certain nuclear liabilities not funded by the NLF or covered by the Government indemnity.

Electricity Price and Balancing Risk

The Group is exposed to electricity price risk. Electricity price cash flow risk exists where the Group has uncontracted sales volumes or floating priced contracted sales. Electricity price fair value risk exists where contracts are fixed in price, thereby exposing the Group to changes in fair values as a result of changes in market prices.

During the year, the Group focused on extending its fixed price contract portfolio to provide more future income certainty, while operating within collateral constraints, to protect the business against the effects of potential power price movements. Wherever possible the Group will continue to develop new and innovative arrangements with counterparties to deliver an increase in the volume of zero/capped collateral trades so that the fixed price contract portfolio can be extended further.

Under BETTA any mismatch between actual metered generation (or demand) and the notified contract position is settled through the balancing mechanism at generally unfavourable prices. The Group aims to manage the portfolio of fixed price contracts to minimise exposure to the balancing mechanism and short-term electricity prices. While operating primarily as a flexible mid-merit plant, the Group's coal-fired Eggborough power station provides a flexible generation capability that assists in managing risks associated with non-availability of nuclear plant.

Commodity Price Risk

The Group manages exposure to fluctuations in market prices within the coal market either by securing fixed prices on a variety of delivery bases or by entering into coal contracts as natural hedges against power and carbon price movements. The Group manages its exposure to prices of carbon allowances by simultaneously contracting carbon allowance purchases with sales of electricity, taking account of free allowances held at the time.

The Group's ability to maintain competitively priced front end nuclear fuel supplies is dependent on its procurement of Uranium (U_3O_8) and Uranium related services in a competitive world market and it is the Group's policy to have 100% supply contractually secured for at least three years into the future. Currently favourable Uranium and Uranium related services contracts exist, which provide nearly 100% coverage of the Group's anticipated requirements until 31 March 2011. This is in line with the Group's policy.

Uranium and Uranium related services accounted for approximately £142m of the Group's nuclear fuel costs in the year ended 31 March 2007, of which Uranium accounted for £23m. The market price of Uranium has increased significantly from the level at which the Group entered its existing fuel agreements. The long-term market price of Uranium was US\$85 per pound as at 31 March 2007. If Uranium and Uranium related services remain at 31 March 2007 long-term market prices, this would eventually increase the Group's total nuclear fuel costs by approximately £145m per annum from the current costs, the increase starting from April 2010. It is anticipated that the full expense will be recognised by 31 March 2016.

To help mitigate this future exposure, the Group took advantage of an opportunity to procure £15m of natural Uranium on the spot market during the year at a price below the year end market price. This purchase is reflected in inventories on the consolidated balance sheet at 31 March 2007.

Counterparty Credit Risk

The Group's policy is to manage credit exposure to trading counterparties within defined limits. All of the Group's counterparties are assigned internal credit limits.

The main counterparty credit risks occur in relation to direct sales contracts, wholesale customers and cash and cash equivalent balances.

British Energy Direct sells electricity to large industrial and commercial customers. The Group has credit insurance in place to minimise losses from the failure of customers to pay their debts. At 31 March 2007, over three quarters (2006: approximately two thirds) of the amounts receivable from large industrial and commercial customers was insured.

Bilateral structured contracts for the wholesale electricity market are normally based upon Grid Trade Master Agreements (GTMA) or International Swap Dealers Association (ISDA) terms and conditions. Counterparties with an investment grade rating (from Standard and Poor's and/or Moody's) are usually not required to provide credit support for trading activities. Counterparties without an investment grade rating are normally required to provide credit support which takes the form of a guarantee from an investment grade rated entity or cash deposits. Where appropriate the Group has purchased credit default swaps.

At 31 March 2007, the Group's maximum credit exposure from wholesale counterparties was £786m (2006: £55m) of which £1m (2006: £3m) related to unrated counterparties which comprised a number of small exposures. Of the maximum credit exposure in 2007, 65% represents exposure to two wholesale trading counterparties which are AA and AA- rated (2006: 78% A+ and A- rated).

The Group is also exposed to counterparty credit risk on its cash and cash equivalent balances. The Group holds cash on deposit with a number of financial institutions. The Group manages its credit risk exposure by limiting individual deposits to clearly defined limits.

As at 31 March 2007, the Group held cash deposits with two UK financial institutions of £100m each. The credit ratings of the financial institutions were A and AA rated. The Group also had investments in short-dated commercial paper with three counterparties of £100m each. The short-term credit ratings of the counterparties were A1, P1 or F1.

Liquidity Risk

The Group maintains a mixture of cash and cash equivalents, long-term debt and short-term committed facilities that are designed to ensure the Group has sufficient available funds for business requirements. The cash and cash equivalents position and the facilities available at 31 March 2007 are discussed above in the Liquidity, Cash Flows and Capital Resources section.

The Group's main source of liquidity is its operating businesses. The Treasury Department uses regular forecasts of operational cash flow, investment and trading collateral requirements to ensure that sufficient liquid cash balances are available to service ongoing business requirements. Factors such as the seasonality of cash flows, servicing of debt and funding requirements in respect of the NLF and pension schemes are also assessed. Liquid assets which are surplus to immediate operational requirements are invested in line with the Group's treasury investment policy. The Board reviews liquidity risks in detail as part of the annual business planning process. Cash generation activities are then monitored by the Board through monthly reports.

Cash generation by the operating businesses is dependent upon the reliability of the Group's power stations in producing electricity, the realised selling price for electricity, operational risk and capital investment expenditure and maintenance requirements. The Group has mitigated some of its nuclear output risk by entering into business interruption insurance for its power stations. In order to claim under this policy there first needs to be an insurable material damage event. The Group's conservative decision taking approach towards operating its power stations safely seeks to avoid any insurable material damage event. As a consequence, the majority of unplanned outages are not covered by business interruption insurance.

Due to the Group's current sub-investment grade, the counterparties to the Group's standard fixed price electricity contracts require that cash is deposited as collateral to cover their risk that the Group may be unable to fulfil contract delivery obligations. Collateral is required to cover both initial and variation margin.

In a volatile electricity market the requirements to post collateral can fluctuate significantly and could result in a significant risk to liquidity.

The Group aims to mitigate this risk by utilising routes to market that are collateral efficient. These include the direct sale of electricity to industrial and commercial customers on a collateral free basis and the use of zero/capped collateral fixed price contracts.

In addition the Group also has available £300m of standby letter of credit facilities to support calls for collateral.

Interest Rate Risk

The Group uses fixed interest rate borrowings and deposits to reduce exposure to fluctuations in interest rates as considered necessary. The Group does not enter into instruments which are leveraged or held for speculative purposes.

At 31 March 2007 and 31 March 2006 the Group had no interest rate derivatives.

Foreign Exchange Risk

Throughout the year the Group has hedged its foreign exchange exposure in relation to its contracted carbon purchases, including related collateral and cash provided to satisfy variation margin calls, and has reviewed its foreign exchange exposure to both nuclear fuel purchases and coal procurement and hedged the exposures as deemed necessary. It is the Group's policy not to engage in speculative foreign currency transactions.

Retirement Benefit Obligations

The retirement benefit obligations for the pension schemes included on the consolidated balance sheet at 31 March 2007 was £65m (2006: £215m). The valuation of the pension schemes' deficit is based on a valuation of assets and liabilities at a particular point in time and does not necessarily take account of the long-term nature of pension schemes. Movements in equity markets and bond yields can create considerable volatility in the actuarial valuation. The deficit reported should not, therefore, be taken as an indication of the pension schemes' financial position on any date other than 31 March 2007. The deficit has been estimated on the basis of the last full triennial valuation carried out by an independent actuary at 31 March 2004. It is anticipated that the latest triennial valuation will be finalised towards the end of the financial year ending 31 March 2008. The Company is working with the Trustees of the pension schemes to meet this timeframe. It is expected that updates to the actuarial mortality tables used in 2004 may have a significant impact on the deficit.

Nuclear Liabilities Risk

The Group's nuclear liabilities are in respect of costs for the management of spent fuel, nuclear decommissioning and other uncontracted nuclear liabilities.

As described in the Financial Position section, the Government provides an indemnity to cover liabilities for spent AGR fuel loaded pre-Restructuring and, in relation to qualifying uncontracted nuclear and decommissioning liabilities, the Government will also indemnify any future funding shortfall of the NLF. The Group continues to be responsible for funding certain excluded or non-qualifying nuclear liabilities and will not be compensated or indemnified by the NLF and the Secretary of State in relation to such liabilities. At both 31 March 2007 and 2006 the Group did not have any excluded or non-qualifying nuclear liabilities.

OTHER FINANCIAL ISSUES

Cash Sweep Payment Mechanism

The application of the adjustment formula in the Contribution Agreement following a Cash Sweep Payment, in particular following any conversion by the NLF of part or all of its Cash Sweep Payment right, would not adequately maintain the relative economic interest of shareholders as intended. The extent of the adverse effect on shareholders depends on the amount of any payment to the NLF and the payment percentage prevailing at the time that such payment occurs. In relation to the Cash Sweep Payment paid in September 2006 of £105m, the Group estimates that the adjustment to the payment percentage was insufficient to preserve the economic interests of the shareholders prevailing immediately before the Cash Sweep Payment by an amount of approximately £0.5m. However, the adverse impact increases both as the value of the Cash Sweep Payment increases and as the payment percentage falls following any Cash Sweep conversion by the NLF. In the table below, the extent of the adverse effect is illustrated for different Cash Sweep Payments and payment percentages using the market price of British Energy Group plc's shares at 30 March 2007 of £4.87.

	Adverse effect on shareholders assuming	
	Cash Sweep Payment percentage of 50% £m	Cash Sweep Payment percentage of 30% £m
Illustrative Cash Sweep Payment		
£100m	2	4
£200m	7	13
£300m	13	27
£400m	22	45
£500m	33	67

Currently, on a conversion by the NLF of part or all of its Cash Sweep Payment right, the NLF may be entitled to both a Cash Sweep Payment on the part converted for the period up to conversion and a dividend in respect of the same period on the shares arising from the conversion. In the event of a conversion by the NLF, the Company will seek to agree with the NLF and the Government an amendment to the Cash Sweep Payment right and Cash Sweep percentage adjustment formula so as to ensure the principle of economic parity is maintained and to avoid an unintended dilution of future dividends.

Dividend Policy

In the Restructuring Prospectus, the Board stated its intention to distribute to shareholders as much of the Company's cash flow as prudently possible.

The Board currently intends that the Company will pay 13.6p per ordinary share per annum as a base dividend, payable as a final dividend (equivalent to £80m in total based on current issued share capital fully diluted by the exercise of all remaining Warrants) provided it is approved at the Company's forthcoming AGM. It is anticipated that the annual base dividend will be sustainable for the foreseeable future based on the Company's assessment of forecast electricity prices and output.

The total amount of the base dividend will increase if the NLF converts its contractual right to the Cash Sweep into shares.

In addition to the base dividend, the Board intends to consider the payment each year of an additional dividend from available cash in February following the third Quarter results announcement. The Board will seek to return all surplus capital to shareholders as an additional dividend after taking into account the Company's need to increase financial stability, make appropriate investments, address the pension scheme deficit, meet the collateral requirements of the Group and, over time, allow for its investment in new nuclear build. It is anticipated that the amount of additional dividend will vary from year to year. In light of current operating difficulties, the Board expects to pay particular attention to recent performance history and any liquidity issues in determining the amount of any additional dividend.

The amount of cash the Company is able to pay out as dividends is subject to restrictions under the Contribution Agreement. These require the Company a) to maintain as a cash reserve £490m plus the amount by which cash employed as collateral exceeds £200m (Target Amount) and b) not to pay a dividend unless i) the cash at the financial year end prior to the year in which the dividend is to be paid exceeded the aggregate of, amongst other things, the dividend proposed and the Target Amount and ii) the cash at the financial year end in which the dividend is paid would or would be likely to exceed the aggregate of, amongst other things, the dividend proposed and the Target Amount. The restrictions are also, in effect, replicated in the terms of the Bonds.

The amount the Company is able to lawfully distribute will also depend on the availability of sufficient distributable reserves. The Company's distributable reserves may be adversely impacted as a result of the accounting treatment arising on any conversion by the NLF of its contractual right to the Cash Sweep. For further details refer to the section on distributable reserves set out below.

In respect of the year ended 31 March 2007 the Board intends that the Company will pay a base dividend of £80m as a final dividend after the Company's AGM in July 2007. In addition, an additional dividend, as agreed by the Board, may be paid after the 2007/08 third Quarter results announcement expected in February 2008.

Distributable Reserves

The payment of dividends by the Company is governed, among other things, by the Companies Act 1985 and the application of UK GAAP, and requires that distributable reserves be available within the listed parent company. Share premium reserves are not distributable to shareholders.

If the NLF were to exercise its right, under the Contribution Agreement, to convert its entitlement to future Cash Sweep Payments into share capital (the conversion) this could have an impact on future dividend policy. The impact could arise because such a conversion would create additional share premium reserves, as well as potentially significantly increasing the carrying value of British Energy Group plc's investments in subsidiaries. The increase in carrying value of the investments in subsidiaries would be equivalent to the fair value of the Cash Sweep Payment obligation extinguished by the conversion, and would be valued for these purposes on the basis of the aggregate market price of the shares issued upon a conversion. The increase in carrying value of the investments would increase the risk that impairment charges arising at a later date may impact upon the Company's distributable reserves position and could restrict the Company's ability to pay dividends to an enlarged shareholder base, post-conversion, in accordance with the dividend policy.

With a view to attempting to minimise the risk of impairment charges adversely affecting the Company's distributable reserves position in the event of a conversion, the Company would expect to take steps to implement a Court approved reduction of share premium reserve. And, in the event of such a Court process being unsuccessful the Company would explore other alternatives to mitigate the risk.

Eggborough Legal Proceedings

British Energy has instigated proceedings against Credit Suisse in relation to its involvement in transactions which it believes are in breach of British Energy's rights under the terms of finance agreements relating to the Eggborough Power Station. The transactions in question relate to the exercise of the lending banks' options to acquire the power station in 2010. The arrangements involve the consolidation of interests into a company called Ampere Limited, which would control the exercise of the options to acquire Eggborough. British Energy has received legal advice that such arrangements are not permitted under the Eggborough finance agreements. In addition, British Energy does not consider the transactions in question to be in the best interests of British Energy and its shareholders. The current proceedings against Credit Suisse seek a declaration that the proposed transactions are unlawful. At a court hearing on 19 March 2007, Mr Justice Field made an order to join Ampere (and its subsidiary, Ampere 1 Limited) to the action. The hearing into the action has taken place and the judgement of the court is awaited.

Post Balance Sheet Event

A base dividend, payable as a final dividend, of 13.6p per ordinary share (equivalent to £80m in total based on current issued share capital fully diluted by the exercise of all remaining Warrants) has been recommended by the Board of Directors since the year end and will be presented at the Company's AGM in July for approval. The proposed dividend has not been recognised as a distribution in the consolidated financial statements.

On 21 March 2007, the Government announced its intention to reduce the corporation tax rate from 30% to 28% and phase out industrial buildings allowances, both with effect from 1 April 2008. These changes have not been reflected in the financial statements at 31 March 2007 because they are not considered to be substantively enacted at the balance sheet date. An estimate of the financial impact of these changes at 31 March 2007 is that it would increase the net deferred tax liability by £39m to £102m.

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

Basis of Presentation of Financial Statements

The consolidated financial statements for the years ended 31 March 2007 and 2006 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, International Financial Reporting Interpretations Committee (IFRIC) interpretations and the provisions of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements of the parent company continue to be prepared under UK GAAP.

Accounting Policies

In preparing the consolidated financial statements under IFRS, management are required to make certain critical accounting estimates and judgements that affect amounts reported in the consolidated financial statements. Full details of the accounting policies, including those which involve significant estimates and judgements, are provided in note 2 to the consolidated financial statements.

STEPHEN BILLINGHAM
FINANCE DIRECTOR

**Consolidated Income Statement
for the year ended 31 March 2007**

	Notes	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Revenue	4	2,999	2,593
Operating and energy costs	5	(1,778)	(1,747)
		1,221	846
Other operating income	23	93	95
Cash Sweep Payment	8	(305)	(105)
Depreciation	13	(207)	(191)
Amortisation and other charges	15	(6)	(28)
Unrealised net (losses)/gains on derivative financial instruments and commodity contracts	11	(2)	18
Operating profit		794	635
Financing (charges)/credits			
Interest payable	9	(61)	(50)
Interest receivable	9	53	26
Other finance income/(expenses)	9	10	(12)
Profit before taxation		796	599
Taxation	10	(331)	(169)
Net profit for the year attributable to shareholders		465	430
Earnings per share (pence):			
Basic	12	81.5	75.9
Diluted	12	79.9	73.8

**Consolidated Statement of Recognised Income and Expense
for the year ended 31 March 2007**

	Notes	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Net gains/(losses) on hedged items for the year	19	46	(12)
Actuarial gains and losses on retirement benefit obligations for the year	24	68	88
Tax on items taken directly to equity for the year	10	(35)	(23)
Net income recognised directly in equity		79	53
Net profit for the year attributable to shareholders		465	430
Total recognised income and expense		544	483
Adjustment for the implementation of IAS 39 after taxation at 1 April 2005	28	-	(15)
		544	468

**Consolidated Balance Sheet
as at 31 March 2007**

	Notes	2007 £m	2006 £m
Assets			
Non-current assets			
Property, plant and equipment	13	1,710	1,693
NLF and nuclear liabilities receivables	14	5,274	5,051
Deferred income tax asset	10	-	244
Goodwill and intangible assets	15	390	406
Trade and other receivables	16	168	-
		7,542	7,394
Current assets			
Inventories	17	399	342
Nuclear liabilities receivable	14	195	186
Trade and other receivables	16	478	455
Restricted cash and other financial assets	18	146	206
Cash and cash equivalents	18	1,101	638
Derivative financial instruments and commodity contracts	19	105	29
		2,424	1,856
Total assets		9,966	9,250
Liabilities			
Current liabilities			
Borrowings	20	(57)	(53)
Trade and other payables	21	(776)	(623)
Current tax liability	10	(10)	-
Nuclear liabilities	22	(195)	(186)
Provisions for other liabilities and charges	23	(25)	(127)
Derivative financial instruments and commodity contracts	19	(74)	(57)
		(1,137)	(1,046)
Non-current liabilities			
Borrowings	20	(516)	(573)
Retirement benefit obligations	24	(65)	(215)
Nuclear liabilities	22	(5,274)	(5,051)
Deferred income tax liability	10	(63)	-
Provisions for other liabilities and charges	23	(50)	(59)
NLF liabilities	25	(194)	(200)
Deferred income	26	(5)	(5)
Derivative financial instruments and commodity contracts	19	(15)	-
		(6,182)	(6,103)
Total liabilities		(7,319)	(7,149)
Net assets		2,647	2,101
Equity			
Called up share capital	27,28	58	57
Share premium	28	40	24
Capital reserve	28	767	767
Hedge reserve	28	1	(31)
Warrant reserve	28	24	35
Retained earnings	28	1,757	1,249
Total shareholders' equity (including non-equity shareholders' interests)	28	2,647	2,101

The consolidated financial statements were approved by the Board of Directors on 30 May 2007 and signed on its behalf by:

Bill Coley
Chief Executive

Stephen Billingham
Finance Director

**Consolidated Statement of Cash Flows
for the year ended 31 March 2007**

	Notes	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Operating activities			
Operating profit		794	635
Depreciation	13	207	191
Amortisation and other charges	15	6	28
Share-based payments	6	2	3
Unrealised net losses/(gains) on derivative financial instruments and commodity contracts	11	2	(18)
Movement in provisions for other liabilities and charges		(114)	(103)
Cash Sweep Payment		(105)	-
Interest paid		(61)	(50)
Interest received		51	24
NLF liabilities payment	25	(22)	(21)
Difference between pension contributions paid and amounts recognised in consolidated income statement		(48)	(68)
Taxation paid		(49)	-
Increase in inventories		(57)	(11)
Increase in trade and other receivables		(193)	(169)
Decrease in restricted cash and other financial assets		60	15
Increase in trade payables and other payables		257	261
Decrease/(increase) in intangible assets		21	(53)
Net cash inflow generated from operations		751	664
Cash flows from investing activities			
Purchases of property, plant and equipment	13	(224)	(215)
Purchases of software	15	(11)	(5)
Net cash used in investing activities		(235)	(220)
Cash flows from financing activities			
Purchase of own shares for share incentive schemes	28	(6)	-
Exercise of Warrants	28	6	9
Repayment of borrowings		(53)	(50)
Net cash used in financing activities		(53)	(41)
Net increase in cash and cash equivalents		463	403
Cash and cash equivalents at the beginning of the year		638	235
Cash and cash equivalents at the end of the year	18	1,101	638

Notes to the Consolidated Financial Statements for the year ended 31 March 2007

1. Presentation of the Financial Statements

(i) Description of Business

British Energy Group plc is engaged in the generation and sale of electricity. References to British Energy or the Company are to British Energy Group plc, the ultimate holding company of the Group. References to the Group are to the Company and its subsidiaries. The Group operates eight nuclear power stations and one coal-fired power station in the United Kingdom. British Energy Group plc is a public limited company, incorporated and domiciled in Great Britain. The Company's ordinary shares are traded on the London Stock Exchange.

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 30 May 2007.

(ii) Compliance with Applicable Law and IFRS

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the provisions of the Companies Act 1985 applicable to companies reporting under IFRS.

(iii) Financial Period

The consolidated financial statements cover the financial year from 1 April 2006 to 31 March 2007, with comparative figures for the financial year from 1 April 2005 to 31 March 2006.

(iv) Composition of the Group

A list of subsidiary undertakings which, in the opinion of the Directors, principally affected the amount of profit or the net assets of the Group is given in note 29 to the consolidated financial statements.

(v) Composition of the Consolidated Financial Statements

The consolidated financial statements consolidate the financial statements of the Company and all of its subsidiary undertakings, and comprise the following:

- consolidated income statement;
- consolidated statement of recognised income and expense;
- consolidated balance sheet;
- consolidated statement of cash flows; and
- notes to the consolidated financial statements.

(vi) Accounting Convention

The consolidated financial statements have been prepared using the historical cost convention, modified for certain items carried at fair value, as stated in the accounting policies.

(vii) Parent Company Financial Statements

British Energy Group plc, the Company, has not adopted IFRS and has therefore drawn up separate financial statements in accordance with United Kingdom generally accepted accounting principles (UK GAAP).

2. Accounting Policies

(i) Significant Estimates and Judgements Used in Applying Accounting Policies

The preparation of financial statements in conformity with IFRS requires management to make certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

The principal accounting policies adopted by the Group in the consolidated financial statements are as set out below. The application of a number of these policies required the Group to use a variety of estimation techniques and apply judgement to best reflect the substance of underlying transactions.

Significant factors considered when using estimates to assess the carrying value of assets include future electricity prices, expected annual output, expected station operating costs, remaining station lives and discount rates. The Group has determined that a number of its accounting policies can be considered significant, in terms of the management judgement that has been required to determine the various assumptions underpinning their application in the consolidated financial statements presented, which, under different conditions, could lead to material differences in these statements. The policies where significant judgements have been made are the:

- application of business combination accounting rules;
- accounting for property, plant and equipment;
- accounting for coal inventory;
- estimation of liabilities for spent nuclear fuel and decommissioning costs;
- estimation of retirement benefit obligations;

Notes to the Consolidated Financial Statements for the year ended 31 March 2007

- estimation of fair value of derivative financial instruments and commodity contracts; and
- accounting for deferred tax.

Actual results can differ from estimates.

(ii) Revenue

Revenue is recognised by the Group when a sales arrangement exists, delivery of goods or services has occurred, the amount of revenue and costs incurred or to be incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits will flow to the Group.

Revenue represents the fair value of the consideration receivable for sales of electricity supplied during the period and sales of other related goods and services. It is shown net of value added tax, electricity purchases relating to short-term balancing and hedging activities, and climate change levy. Revenue is also shown after elimination of sales within the Group.

Wholesale generation and direct supply sales are recognised on an accruals basis with reference to meter readings of electricity supplied. Where required, a management estimate is included of the value of units supplied to customers between the date of their last meter reading and the accounting period end. Where an estimate of electricity supplied is required, the estimate is calculated using historical consumption patterns and is included in trade receivables.

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

(iii) Fuel Costs – Nuclear Front End

Advanced Gas-cooled Reactors (AGR)

Front end fuel costs consist of the costs of procurement of uranium, conversion and enrichment services and fuel element fabrication. Fabrication costs comprise fixed and variable elements. All costs are capitalised into inventory and charged to the consolidated 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 consolidated income statement in proportion to the amount of fuel burnt.

(iv) Fuel Costs – Nuclear Back End

AGR

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

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

The loading related cost and the rebate/surcharge is capitalised into inventory and charged to the consolidated 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 consolidated income statement in proportion to the amount of fuel burnt.

(v) Unburnt Fuel at Shutdown

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

(vi) Fuel Costs – Coal

Fuel costs for coal are determined on a weighted average cost basis. Fuel costs for coal also include costs of carbon allowances (see note 2 (xiv)).

(vii) Research Expenditure

Expenditure on scientific and engineering research, preliminary studies and the initiation of new technologies is categorised as research and charged to the consolidated income statement as incurred.

Notes to the Consolidated Financial Statements for the year ended 31 March 2007

(viii) Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged to the consolidated income statement on a straight line basis over the lease term.

(ix) Foreign Currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Assets and liabilities denominated in foreign currencies are retranslated into sterling at the rate of exchange ruling at the date of the balance sheet. All differences are taken to the consolidated income statement.

(x) Share-based Payment

The Group has five share compensation schemes, the Share Incentive Plan, the Long Term Deferred Bonus Plan, the Deferred Incentive Plan, the Executive Share Option Plan 2004 and the Interim Bonus Plan. The Group accounts for its share compensation schemes in accordance with IFRS 2 – Share-based Payment (IFRS 2).

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

(xi) Exceptional Items

Exceptional items, by their nature, are not indicative of the underlying operating performance of the Group. Exceptional items are material to the results for the year and are of a non-recurring nature and are therefore presented separately.

(xii) 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 full, using the balance sheet liability method, on temporary differences identified at the balance sheet date using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Temporary differences are differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and the corresponding tax bases used in the computation of taxable profits. Deferred tax assets are only recognised to the extent that it is considered probable that taxable profit will be available against which deductible temporary differences can be utilised.

Deferred tax is charged to the consolidated income statement except where it relates to items charged or credited to equity in which case the deferred tax is dealt with in equity.

(xiii) Property, Plant and Equipment and Depreciation

Property, plant and equipment comprises assets acquired or constructed by the Group. Property, plant and equipment (other than assets in the course of construction) are stated in the consolidated balance sheet at cost less accumulated depreciation. The fair value of property, plant and equipment acquired as a result of the Restructuring was deemed to be the cost amount recognised at that date. Cost includes expenditure that is directly attributable to the acquisition of the items. Accumulated depreciation includes additional charges made where necessary to reflect impairment in value.

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

The charge for depreciation of property, plant and equipment is based on the straight line method so as to write off the costs of assets, after taking into account provisions for diminution in value, over their estimated useful lives. The asset lives adopted are reviewed annually and for the year ended 31 March 2007 were:

AGR power stations	4 – 16 years
PWR power station	28 years
Coal power station	9 years
Other buildings	30 years
Other plant and equipment	18 months – 5 years

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, or to improve its operational performance is included in the asset's carrying amount or recognised as a separate asset as appropriate when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group and the cost of the item can be measured reliably. Expenditure to improve safety or in order to meet increased regulatory standards is also

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capitalised. Expenditure on major inspection and overhauls of production plant is capitalised, within other plant and equipment, when it meets the asset recognition criteria and is depreciated over the period until the next Outage. For AGR power stations, this depreciation period is three years, for the PWR power station it is 18 months and for Eggborough it is four years.

Major spare parts are classified as property, plant and equipment and assigned to individual stations when they are expected to be utilised over more than one period. They are depreciated using the applicable station lifetime estimate.

Gains and losses on the disposal of property, plant and equipment are included in operating profit.

(xiv) Intangible Assets (excluding Goodwill)

The costs of acquired computer software are capitalised on the basis of the costs incurred to acquire and bring the specific software in to use, and are amortised using the straight line method over their estimated operational lives for a maximum of five years. Costs directly associated with the development of computer software programmes that are expected to generate economic benefits over a period in excess of one year are also capitalised and amortised over their estimated operational lives.

Purchased Renewable Obligation Certificates (ROCs) and Levy Exemption Certificates (LECs) are initially recognised at cost within intangible assets. A liability for ROCs is recognised based on the level of electricity supplied to customers, and is calculated in accordance with percentages set by the UK Government and the renewable obligation certificate buyout price for that period. ROCs and LECs have sustainable values and can be used over an unrestricted period and therefore they are not amortised.

Under the EU Emissions Trading Scheme (EU ETS), granted carbon allowances received in a period are initially recognised at nil value within intangible assets. Purchased carbon allowances are initially recognised at cost within intangible assets. Allowances granted are apportioned over the year in line with actual and forecast emissions for the relevant emissions year. A liability is recognised when actual emissions are greater than the granted allowances apportioned for the year. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date, with movements in the liability recognised in operating profit. Forward contracts for the purchase or sale of carbon allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the consolidated income statement in the unrealised net gains or losses on derivative financial instruments and commodity contracts line. On delivery of forward contracts, carbon allowances are capitalised in intangible assets at cost, with any permanent reduction to bring the carrying value in line with market prices being presented within fuel costs. Carbon allowances have a sustainable value and can be used in settlement of our EU ETS obligation at any time within the corresponding EU ETS Phase. As a result, carbon allowances are not amortised.

(xv) Impairment of Tangible and Intangible Assets (excluding Goodwill)

At each balance sheet date, the Group reviews its tangible assets and intangible assets (excluding goodwill (see note 2 (xvi))) to determine whether there is any indication that those assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is assessed. If an asset is impaired, a provision is made to reduce the asset's carrying amount to the estimated recoverable amount.

(xvi) Goodwill

Goodwill arising on acquisitions represents the excess of the fair value of the consideration at acquisition compared to the fair value of the identifiable net assets acquired. Goodwill is capitalised as an intangible asset on the consolidated balance sheet. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill balances are assessed for impairment at least annually and at other balance sheet dates if there is any indication of impairment.

(xvii) NLF Funding Arrangements

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

The NLF has the right from time to time to convert all or part of the Cash Sweep Payment into convertible shares of the Company (the NLF conversion right). On a full conversion, the NLF would hold up to 65% of the thereby enlarged equity share capital of the Company.

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However, the terms of the convertible shares include a limit on the voting rights of such shares equal to a maximum of 29.9% whilst held by the NLF. See note 27 for more details on the convertible shares.

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

The fixed decommissioning obligations of £20m per annum have been recorded as a liability on the consolidated 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 consolidated 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 will require to be matched against back end fuel costs as the loaded tonnes are burned in the PWR reactor.

(xviii) NLF and Nuclear Liabilities Receivables

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

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

The Government indemnity is also provided to cover the cost of 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 consolidated balance sheet at current price levels, discounted at a long-term real rate of interest of 3% per annum to take account of the timing of payments. Each year the financing charges in the consolidated income statement include the revalorisation of these receivables required to match the revalorisation of the nuclear liabilities.

(xix) Nuclear Liabilities

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

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

(a) Back End Fuel Costs

The treatment of back end fuel costs in the consolidated income statement has been dealt with under the accounting policies for fuel costs above. These nuclear liabilities cover the 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. Accruals are included within nuclear liabilities in the consolidated balance sheet, which are based on contractual arrangements and long-term cost forecasts, and which are reviewed regularly and adjusted where necessary.

(b) Decommissioning of Nuclear Power Stations

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

The liabilities for back end fuel costs and decommissioning are stated in the consolidated balance sheet at current price levels, discounted at a long-term real rate of interest of 3% per annum to take account of the timing of payments. Each year the financing charges in the consolidated 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.

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(xx) Financial Instruments

Recognition, Classification and Subsequent Measurement of Financial Assets and Liabilities

IAS 39 – Financial Instruments: Recognition and Measurement (IAS 39) requires that all financial assets and liabilities be initially recognised at fair value in the consolidated balance sheet with changes in fair value reported through the consolidated income statement, or the hedge reserve to the extent that effective cash flow hedges exist. Exceptions apply to assets classified as loans and receivables and held-to-maturity investments, which are measured at amortised cost using the effective interest method, and also to equity investments in instruments whose fair value can not be reliably measured, which are recognised and measured at cost. Financial liabilities are measured at fair value or at amortised cost using the effective interest method. The Group measures all debt instruments initially at fair value, and this is taken to be the fair value of the consideration received.

Where financial assets or financial liabilities are measured at amortised cost, transaction costs (any such costs incremental to and directly attributable to the issue of the financial instruments) are included in the calculation of the effective interest rate and are, in effect, amortised through the consolidated income statement over the life of the instrument. Where financial assets or financial liabilities are measured at fair value, transaction costs are recognised immediately in the consolidated income statement.

Financial assets are derecognised when the contractual right to the cash flow from the asset expires. Financial liabilities are derecognised when the obligation specified in the contract is extinguished or expires.

Accounting for Derivatives and Commodity Contracts

The Group's activities expose it primarily to risks associated with electricity generation, the purchase of fuel for use in the generation process, the purchase of carbon allowances and the supply of electricity to end customers in both the wholesale and retail markets. The Group follows a trading strategy of selling forward a proportion of the Group's output to reduce the Group's exposure to potential falls in the market price of electricity. The use of derivative financial instruments occurs primarily within the Group's electricity trading and coal and carbon allowance procurement activities.

The Board has endorsed the use of derivative financial instruments as hedging tools and the Group uses derivative and non-derivative financial instruments to manage its exposures.

Physical and financially settled instruments are held by the Group to match offsetting physical positions and are not held for proprietary trading purposes.

Where commodity contracts, such as electricity and fuel, are entered into in accordance with the Group's own purchase, sale or usage requirements (own use) they are excluded from the scope of IAS 39 and are accounted for on an accruals basis. Amounts payable or receivable in respect of these contracts are recorded within trade payables and trade receivables respectively.

Where a commodity contract is not entered into or does not continue to be held to meet the Group's own purchase, sale or usage requirements it is treated as a derivative financial instrument, and the recognition and measurement requirements of IAS 39 are applied. Derivative financial instruments are presented in the derivative financial instruments and commodity contracts line of the consolidated balance sheet.

Derivative financial instruments that are held for trading, as defined by IAS 39, are initially recognised at fair value and all changes in fair value are subsequently accounted for through the unrealised net gains or losses on derivative financial instruments and commodity contracts line of the consolidated income statement. Held for trading assets and liabilities are classified as current in the consolidated balance sheet.

Derivative financial instruments that are designated and are effective as hedges of future cash flows are initially recognised at fair value and changes in the fair value are recognised directly in equity, in the cash flow hedge reserve. The ineffective portion of the hedge is recognised immediately in the consolidated income statement. Hedging instruments are classified as current or non-current with reference to the period of delivery.

The Group designates derivatives as cash flow hedging instruments when it is expected that there will be a high inverse correlation between the changes in fair value of the hedging instrument and the changes in the fair value of the cash flows of the hedged item. This is measured primarily using the dollar offset method. Such correlation is required to be within the limits of 80% to 125% for hedge accounting to be permitted. Prospective and retrospective testing is carried out on a regular basis, at least on each reporting date, to establish whether the assumptions and application criteria for hedge accounting are supported. The Group discontinues hedge accounting where the hedging relationship correlation is outside the required parameters.

Derivative instruments are de-designated from a hedge relationship when:

- the hedging instrument or item expires or is settled;

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- the forecast transaction is no longer considered to be highly probable; and
- the hedging instrument no longer qualifies for hedge accounting under IAS 39 rules.

Any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity, in the cash flow hedge reserve, until the forecast transaction is settled. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised within equity is transferred to the consolidated income statement of the period.

Valuation of Commodity Contracts and Derivatives

The Group's valuation policy for derivative and other financial instruments is to maximise the use of quoted prices from active trading markets. All contracts that fall within the scope of IAS 39 are valued using observable market prices. Certain long-term structured transactions have been classified as own use and therefore fall outside the scope of IAS 39. The Group considers that the UK electricity market is active for up to two years ahead, with reliable broker quotes and published prices available for this period.

Purchase contracts are valued against the quoted bid price and sales contracts are valued against the quoted offer prices, with no provisions made for liquidity. Valuation adjustments are made for the time value of money, which is applied to all contracts, and credit risk, which will be applied where applicable.

Principal values are undiscounted and are derived from the aggregate volumes and relevant contract prices of those sale and purchase contracts that are within the scope of IAS 39. The principal values provide an indication of the scope of the use of derivatives but do not reflect the risk the Group is exposed to from entering into derivatives.

Embedded Derivatives

The Group also evaluates contracts for embedded derivatives, and considers whether any embedded derivatives have to be separated from the underlying host contract and accounted for separately in accordance with IAS 39 requirements. Where embedded derivatives have terms that are not closely related to the terms of the host contract in which they are included, they are accounted for separately from the host contract as derivatives, with changes in the fair value recorded in the consolidated income statement on the unrealised net gains or losses on derivative financial instruments and commodity contracts line, to the extent that the hybrid instrument is not already accounted for at fair value.

If the fair value cannot be determined reliably based on the terms and conditions of the embedded derivatives, the fair value of the embedded derivatives is calculated as the difference between the value of the hybrid instrument and the host contract (excluding the derivative element).

Offsetting of Derivative Assets and Liabilities

The Group offsets a financial asset and a financial liability and reports the net amount only when the Group has a legally enforceable right to set off the amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Impact on Effective Tax Rate

Income tax for interim reporting periods is calculated by applying an estimate of the annual effective tax rate to the interim result excluding IAS 39 adjustments, and by calculating tax at the standard rate for the IAS 39 adjustments arising within the period.

(xxi) Inventory – Stores

Inventory held in stores is recorded at the lower of cost and net realisable value. Stores inventory is accounted for using the weighted average cost method.

(xxii) Restricted Cash and Other Financial Assets and Cash and Cash Equivalents

Restricted cash primarily consists of cash pledged as collateral. Other financial assets principally comprise net cash provided to satisfy variation margin calls in relation to trading through exchanges.

Cash and cash equivalents include cash on hand with banks and short-term deposits with a maturity of three months or less.

(xxiii) Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, expected future cash flows are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability.

(xxiv) Employee Benefits – Post Retirement Benefit Obligations

The Group provides for pension costs in accordance with IAS 19 (2004) – Employee Benefits (IAS 19). Contributions to the Group's defined benefit pension schemes are assessed by qualified actuaries. The Group operates two separate pension arrangements in the UK within the Electricity Supply Pension Scheme, which is a defined benefit scheme. Pension scheme assets are measured using market values, which for securities is based on bid price values. Pension costs are assessed using the projected unit method so that the cost of providing

Notes to the Consolidated Financial Statements for the year ended 31 March 2007

pensions is charged to the consolidated income statement in a manner which spreads the service cost over the expected service lives of employees. The retirement benefit obligation is measured as the present value of the estimated future cash outflows, discounted using the yields on high quality corporate bonds of appropriate maturity. The expected return on the plan assets and the increase during the period in the present value of the defined benefit obligations arising from the passage of time are included in other finance expenses. Actuarial gains and losses are recognised immediately within the consolidated statement of recognised income and expense.

The capital cost of ex-gratia and supplementary pensions is charged to the consolidated income statement, to the extent that the arrangements cannot be covered by any surplus in schemes, in the accounting period in which they are granted.

Certain additional unfunded retirement benefits are provided to eligible employees. The cost and actuarial gains and losses of providing such benefits is charged to the consolidated income statement and consolidated statement of recognised income and expense respectively.

(xxv) New Accounting Standards

The following accounting interpretation has been adopted by the Group this year:

- IFRIC 4 – Determining Whether an Arrangement Contains a Lease (IFRIC 4)

IFRIC 4 requires that arrangements which have the nature of a lease, but not the legal form, be accounted for in accordance with IAS 17 – Leases. The application of this interpretation has had no material impact on the Group's financial statements.

The following accounting standards, interpretations and amendments to accounting standards, which are relevant to the Group but have not been applied in the year ended 31 March 2007, have been issued but are not yet effective:

- IFRS 7 – Financial Instruments: Disclosures (IFRS 7)
- IFRS 8 – Operating Segments (IFRS 8)
- IFRIC 9 – Reassessment of Embedded Derivatives (IFRIC 9)
- IFRIC 10 – Interim Financial Reporting and Impairment (IFRIC 10)
- IAS 1 – Amendments to IAS 1 Presentation of Financial Statements (IAS 1)

IFRS 7 was issued in August 2005 and is effective for periods beginning on or after 1 January 2007. This standard incorporates the disclosure requirements of IAS 32 – Financial Instruments: Disclosure and Presentation, which it supersedes, and adds further quantitative and qualitative disclosures in relation to financial instruments. With the exception of the additional disclosures required under IFRS 7, adoption of the standard is not expected to have a material impact on the Group's financial statements.

IFRS 8 was issued in November 2006 and is effective for periods beginning on or after 1 January 2009. This standard contains new regulations on the presentation of segmental information, and bases the definition and disclosures of segments on the information which is used internally by management in deciding how to allocate resources and in assessing performance. Notwithstanding the additional information to be disclosed, IFRS 8 is not anticipated to have a material impact on the Group's financial statements.

IFRIC 9 was issued in March 2006 and is effective for periods beginning on or after 1 June 2006. The interpretation requires an assessment of whether or not an embedded derivative is accounted for separately from the host contract to be made when the contract is first entered into, and subsequent reassessment is prohibited, unless there is a change that significantly modifies the cash flows that would otherwise have occurred under the contract. IFRIC 9 is not expected to have a material impact on the Group.

IFRIC 10 was issued in July 2006 and is effective for periods beginning on or after 1 November 2006. The interpretation requires that any impairment loss recognised on goodwill or equity investments in interim reporting periods may not be reversed in subsequent accounting periods. IFRIC 10 is not expected to have a material impact on the Group's financial statements.

IAS 1 was amended in August 2005 to coincide with the release of IFRS 7 and requires the disclosure of information regarding capital management. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2007. Other than the additional disclosures required, the amendment to IAS 1 is not expected to have a material impact on the Group's financial statements.

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3. Segmental Information

The Group's activities are in one business segment being the generation and sale of electricity and are in one geographic segment being the United Kingdom. There are no other significant classes of business or geographic areas.

4. Output and Revenue

The analysis of output that is unaudited is as follows:

	Year ended 31 March 2007 TWh	Year ended 31 March 2006 TWh
Output		
AGR nuclear power stations	42.3	51.5
PWR nuclear power station	8.9	8.9
Coal-fired power station - Eggborough	7.2	8.0
Total output	58.4	68.4

An analysis of revenue is as follows:

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Revenue		
Wholesale generation sales	1,328	1,175
Direct supply sales excluding recovery of energy supply costs and renewable energy purchases recharged to customers	1,252	1,017
Revenue from generated electricity	2,580	2,192
Energy supply costs recharged to customers	362	356
Renewable energy purchases recharged to customers	46	26
Miscellaneous income	11	19
Total revenue	2,999	2,593

All sales are made to external customers.

5. Operating and Energy Costs

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Fuel costs - nuclear	278	349
- Eggborough	156	207
Total fuel costs	434	556
Materials and services	562	487
Staff costs (see note 6)	374	322
Operating costs of generated electricity	1,370	1,365
Energy supply costs recharged to customers	362	356
Renewable energy purchases recharged to customers	46	26
Total operating and energy costs	1,778	1,747

Operating and energy costs are stated after charging/(crediting):

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Research expenditure	13	13
Operating lease costs	5	5
Movement in provision for unburnt fuel at station closure	(21)	10
Movement in provision against stores inventory	2	(2)
Movement in provision for doubtful debts	(1)	6
Write down of carbon allowances (see note 15)	41	-

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Within operating and energy costs and partially offsetting the write down of carbon allowances of £41m is a £39m credit representing the revaluation to market prices of the Group's 2006 EU ETS liability, which is presented within accruals in trade and other payables.

Auditors' Remuneration

It is the Group's policy to engage the external auditors, PricewaterhouseCoopers LLP, on assignments where their expertise and experience with the Group are important, or where they win work on a competitive basis. An analysis of auditors' remuneration and expenses which arose in the year ended 31 March 2007 is provided below:

	Year ended 31 March 2007 £000	Year ended 31 March 2006 £000
Audit fees payable for the Group's annual financial statements	680	870
Fees payable for other services:		
Audit of the Company's subsidiaries pursuant to legislation	175	200
Other services pursuant to legislation	177	236
Other services	1,540	1,201
Taxation services	179	204
	2,071	1,841
Fees payable in respect of the Group's pension schemes:		
Audit	35	33
Total auditors' remuneration and expenses	2,786	2,744

Included within fees payable for other services is £1,253,000 (2006: £316,000) of costs that were recharged to a third party.

PricewaterhouseCoopers LLP acted as auditors to the Group's pension schemes. The appointment of auditors to the Group's pension schemes and the fees paid in respect of these audits are agreed by the trustees of each scheme, who act independently from the management of the Group. These audit fees are borne by the Group.

6. Employee Information

(i) Staff costs

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Salaries	271	245
Social security costs	29	26
Pension costs (see note 24)	68	53
Amounts capitalised	(5)	(5)
Share-based payments (see note 30)	2	3
Severance costs	9	-
Total staff costs	374	322

Amounts capitalised are transferred to property, plant and equipment and recorded within the additions line of note 13.

Included within staff costs for the year ended 31 March 2007 are severance costs of £9m (2006: £nil), which include £5m of pension past service costs.

(ii) Employee numbers

Average number of employees by category during the year were:

	2007 Number	2006 Number
Power stations:		
- nuclear	4,148	3,933
- coal-fired	275	261
Engineering, technical and corporate support	1,516	1,449
Average number of employees	5,939	5,643

The basis for calculating the average number of employees has been modified in the year to include apprentices. This has increased the

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average number of employees for 2006 by 111 from the number reported in the 2006 consolidated financial statements.

7. Key Management Compensation

The remuneration of key management personnel during the year was as follows:

	Year ended 31 March 2007 £000	Year ended 31 March 2006 £000
Salaries and other short-term employee benefits	3,403	4,150
Termination benefits	1,489	654
Post employment benefits	182	160
Share-based payments	91	1,557
Total of key management compensation	5,165	6,521

Key management personnel comprises Executive and Non-Executive members of the Board of Directors together with those members of senior management who report directly to the Chief Executive. On 17 November 2006 a senior management reorganisation took place. As a result, in 2007 the definition of key management was amended and the table above only includes their emoluments since this date. In 2006 key management personnel comprised Executive and Non-Executive members of the Board of Directors and the Executive Committee. Key management during the year ended 31 March 2006 included 14 management personnel, of which two left the Group, one Non-Executive Board member joined and four senior managers were included within the definition of key management as a result of the reorganisation during the year ended 31 March 2007.

Emoluments of key management personnel are borne by the following subsidiary companies: British Energy Limited, British Energy Power and Energy Trading Limited and British Energy Generation Limited. The amounts received by the Board of Directors in respect of their services as Directors were £758,000 (2006: £671,000).

8. Cash Sweep Payment

Under the terms of the Restructuring the Company has an obligation to make payments to the NLF should certain criteria be met. The basis of the Cash Sweep Payment and estimated cost, which remains subject to review by the NLF, is as follows:

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Increase in cash (as per the consolidated statement of cash flows)	463	403
Decrease in restricted cash	(111)	(15)
Increase in restricted cash excluded from Cash Sweep Payment	(1)	-
Decrease in restricted cash for Agreed Collateral Purposes	(112)	(15)
Other reconciling items	-	3
Increase in available cash	351	391
Payments to NLF	105	-
Transfer to Forecast Expenditure Reserve	22	(177)
Amounts received from issue or sale of ordinary shares	(6)	(9)
Cash required to be released/(retained) to meet Target Amount	1	(43)
Adjusted net cash flow	473	162
Weighted average payment percentage	64.38%	64.74%
Cash Sweep Payment	305	105

An accrual for the Cash Sweep Payment of £305m (2006: £105m) is included in trade and other payables within current liabilities (see note 21). On 11 September 2006 the Cash Sweep Payment for the year ended 31 March 2006 was paid.

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

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

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

Payments to NLF

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

Forecast Expenditure Reserve

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

Weighted Average Payment Percentage

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

Payment Percentage

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

9. Financing Charges/(Credits)

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Interest payable:		
Interest payable on bonds	44	47
Other interest payable	17	3
Total interest payable	61	50

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Interest receivable:		
Interest receivable	(53)	(26)
Total interest receivable	(53)	(26)

**Notes to the Consolidated Financial Statements
for the year ended 31 March 2007**

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Other finance (income)/expenses:		
Revalorisation of nuclear liabilities (see note 22)	413	276
Revalorisation of nuclear liabilities receivable	(175)	(122)
Revalorisation of NLF receivable	(238)	(154)
Revalorisation of contracts provision (see note 23)	6	10
Revalorisation of NLF liabilities (see note 25)	17	12
Net revalorisation charges	23	22
Expected return on plan assets in the pension schemes (see note 24)	(164)	(136)
Interest on defined benefit obligations (see note 24)	131	126
Net credit to finance charges for retirement benefit obligations	(33)	(10)
Total other finance (income)/expenses	(10)	12

10. Taxation

(i) Analysis of Tax Charge for the Year

Tax Charged to the Consolidated Income Statement

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Current tax:		
UK Corporation tax	59	-
	59	-
Deferred tax:		
Temporary differences		
Current year	273	221
Prior year	(1)	(52)
	272	169
Tax charged to the consolidated income statement	331	169

Included within the £52m prior year differences in the year ended 31 March 2006 was a £23m credit in relation to recognition of a deferred tax asset at 31 March 2006, which at RED did not satisfy the recognition criteria within IFRS 3 – Business Combinations (IFRS 3) due to uncertainty of recoverability (see note 15).

Tax on Items Taken Directly to Equity

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Deferred tax:		
Actuarial gains and losses on retirement benefit obligations	21	26
Gains/(losses) on hedged items	14	(3)
	35	23
Adjustment for implementation of IAS 39	-	(7)
Tax on items taken directly to equity	35	16

**Notes to the Consolidated Financial Statements
for the year ended 31 March 2007**

(ii) Reconciliation of the Total Tax Charge

The tax expense in the consolidated income statement for the year is higher (2006: lower) than the standard rate of corporation tax in the UK of 30% (2006: 30%). The differences are reconciled below:

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Profit before taxation	796	599
Tax on profit at the UK standard rate of corporation tax of 30% (2006: 30%)	239	180
Non tax-deductible Cash Sweep charge	92	32
Other non tax-deductible or non-taxable items	1	9
Adjustments in respect of prior years	(1)	(52)
Taxation charged to the consolidated income statement	331	169

(iii) Deferred Income Tax Liability

An analysis of the movements in deferred tax assets and liabilities is shown below. Deferred tax assets and liabilities have been offset as they relate to income taxes levied by the same taxation authority and the Group has a legally enforceable right to set off current tax assets against current tax liabilities.

	Accelerated capital allowances £m	Tax losses £m	Advance corpora- tion tax £m	Decomm- issioning £m	Retirement benefit obligations £m	Contracts provision £m	Derivative financial instruments and commodity contracts £m	Other timing differences £m	Total £m
As at 31 March 2005	(222)	312	77	73	114	75	-	-	429
Adjustment for the implementation of IAS 39 at 1 April 2005	-	-	-	-	-	(4)	11	-	7
Adjusted balance as at 1 April 2005	(222)	312	77	73	114	71	11	-	436
(Charge)/credit to consolidated income statement	(94)	(51)	-	29	(24)	(25)	(6)	2	(169)
Recognised in the statement of recognised income and expense (see note 28)	-	-	-	-	(26)	-	3	-	(23)
As at 31 March 2006	(316)	261	77	102	64	46	8	2	244
Credit/(charge) to consolidated income statement	18	(260)	-	22	(24)	(31)	1	2	(272)
Recognised in the statement of recognised income and expense (see note 28)	-	-	-	-	(21)	-	(14)	-	(35)
As at 31 March 2007	(298)	1	77	124	19	15	(5)	4	(63)

Within the £63m net deferred tax liability (2006: £244m asset) there are deferred tax assets of £240m (2006: £560m) and deferred tax liabilities of £303m (2006: £316m). £78m of the deferred tax assets, including £1m of unutilised tax losses, is expected to be recovered within the next 12 months and £12m of the deferred tax liabilities is expected to be settled within the next 12 months. At 31 March 2007, the Group has not recognised a deferred tax asset relating to tax losses of approximately £32m (2006: £nil) as the timing of utilisation of these losses is currently uncertain.

(iv) Current Tax Liability

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Current tax liability	10	-

**Notes to the Consolidated Financial Statements
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11. Unrealised Net (Losses)/Gains on Derivative Financial Instruments and Commodity Contracts

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Unrealised net (losses)/gains on derivative financial instruments and commodity contracts	(2)	18

The unrealised net losses on derivative financial instruments and commodity contracts of £2m (2006: £18m gain) represent the net movements in the fair value of held for trading derivative financial instruments and commodity contracts in the year. Further details of the Group's derivative financial instruments and commodity contracts are set out in note 19.

12. Earnings Per Share

	Year ended 31 March 2007	Year ended 31 March 2006
Basic earnings per share		
Net profit for the year attributable to shareholders (£m)	465	430
Weighted average share capital (number of shares)	570,769,647	566,822,853
Earnings per share (pence)	81.5	75.9

Diluted earnings per share

Net profit for the year attributable to shareholders (£m)	465	430
Diluted weighted average share capital (number of shares)	582,148,528	582,708,874
Diluted earnings per share (pence)	79.9	73.8

Adjusted earnings per share

Net profit for the year attributable to shareholders (£m)	465	430
Cash Sweep Payment (£m)	305	105
Adjusted net profit for the year attributable to shareholders (£m)	770	535
Basic weighted average share capital (number of shares)	570,769,647	566,822,853
Maximum Cash Sweep conversion at balance sheet date (number of shares)	1,027,081,460	1,041,887,863
Adjusted weighted average share capital (number of shares)	1,597,851,107	1,608,710,716
Adjusted earnings per share (pence)	48.2	33.3

Basic Earnings Per Share

The basic earnings per share for the year has been calculated by dividing the net profit for the year attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

Diluted Earnings Per Share

The diluted earnings per share calculation is based on the weighted average of 570,769,647 (2006: 566,822,853) ordinary shares in issue together with the dilutive weighted average of potential ordinary shares of 11,378,881 (2006: 15,886,021) in respect of Warrants.

Adjusted Earnings Per Share

The Directors consider that the adjusted earnings per share calculation is a more appropriate earnings measure because the Cash Sweep Payment of £305m (2006: £105m) and the net profit for the year attributable to shareholders of £465m (2006: £430m) does not necessarily reflect the respective economic interests of the NLF and equity shareholders in the profits of the Group. The calculation in any given year of the annual Cash Sweep Payment is based on cash flows and the retention of appropriate cash (Target Amount) and expenditure (Forecast Expenditure Reserve) reserves (see note 8).

The adjusted earnings per share has been calculated by excluding the Cash Sweep Payment expense from earnings and adjusting the weighted average share capital by the number of shares that would have been in issue if the NLF had fully converted their interest at the balance sheet date.

**Notes to the Consolidated Financial Statements
for the year ended 31 March 2007**

13. Property, Plant and Equipment

	Power stations £m	Other land and buildings £m	Other plant and equipment £m	Total £m
Cost				
As at 31 March 2005	1,598	39	89	1,726
Additions	99	-	116	215
Disposals	(21)	-	(9)	(30)
As at 31 March 2006	1,676	39	196	1,911
Additions	83	-	141	224
Disposals	(1)	-	(42)	(43)
As at 31 March 2007	1,758	39	295	2,092
Accumulated depreciation				
As at 31 March 2005	28	-	12	40
Charge for the year	127	-	64	191
Disposals	(4)	-	(9)	(13)
As at 31 March 2006	151	-	67	218
Charge for the year	132	-	75	207
Disposals	(1)	-	(42)	(43)
As at 31 March 2007	282	-	100	382
Carrying amount				
As at 31 March 2007	1,476	39	195	1,710
As at 31 March 2006	1,525	39	129	1,693

Property, plant and equipment with a net book value of £260m (2006: £275m) is subject to security restrictions (see note 20).

Included in property, plant and equipment is £11m (2006: £15m) of capital work in progress which is not depreciated.

14. NLF and Nuclear Liabilities Receivables

	2007 £m	2006 £m
Non-current assets		
NLF receivable	3,246	2,992
Nuclear liabilities receivable	2,028	2,059
	5,274	5,051
Current assets		
Nuclear liabilities receivable	195	186
Total NLF and nuclear liabilities receivables	5,469	5,237

The NLF receivable asset represents amounts that will be reimbursed by the NLF equal to the qualifying nuclear liabilities recognised at the balance sheet date. The balance recognised at 31 March 2007 is receivable after more than one year and is restricted in its use. This matches the uncontracted nuclear liabilities and decommissioning costs (see note 22), included in non-current liabilities.

The nuclear liabilities receivable represents amounts due under the historic BNFL contracts which will be reimbursed by the Government. This matches the contracted nuclear liabilities included in current and non-current liabilities (see note 22).

**Notes to the Consolidated Financial Statements
for the year ended 31 March 2007**

15. Goodwill and Intangible Assets

	Goodwill £m	Software £m	ROCs and LECs £m	Carbon allowances £m	Total £m
Cost					
As at 31 March 2005	345	24	8	-	377
Additions	-	5	30	34	69
Disposals	-	-	(11)	-	(11)
As at 31 March 2006	345	29	27	34	435
Additions	-	11	40	44	95
Disposals	-	-	(30)	(34)	(64)
As at 31 March 2007	345	40	37	44	466
Accumulated amortisation and other charges					
As at 31 March 2005	-	1	-	-	1
Charge for the year	23	5	-	-	28
As at 31 March 2006	23	6	-	-	29
Charge for the year	-	6	-	-	6
Write down	-	-	-	41	41
As at 31 March 2007	23	12	-	41	76
Carrying amount					
As at 31 March 2007	322	28	37	3	390
As at 31 March 2006	322	23	27	34	406

Goodwill

Goodwill of £345m arose on the completion of the acquisition at RED. Under the requirements of IFRS 3, during the year ended 31 March 2006 £23m was charged to the consolidated income statement to reduce goodwill in relation to recognition of a deferred tax asset at 31 March 2006, which at RED did not satisfy the recognition criteria within IFRS 3 due to uncertainty of recoverability. Additionally during that year £23m was credited within the tax charge in the consolidated income statement to reflect the recognition of the deferred tax asset (see note 10).

For impairment testing purposes goodwill has been fully allocated to one cash generating unit being the total of the Group's operating and generating assets. There were no intangible assets with indefinite useful lives allocated to the cash generating unit.

The recoverable amount of the cash generating unit at 31 March 2007 was determined using estimated fair value less costs to sell. The calculation of fair value less costs to sell was based on a discounted cash flow valuation over the lives of the power stations, using available market information to reflect the amount that the Group estimates that it could have obtained, at the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

The calculation of fair value less costs to sell for the cash generating unit is most sensitive to the following key assumptions:

- electricity prices;
- projected output;
- fuel costs;
- other operating costs and investment; and
- Cash Sweep Payment obligation.

The Group's approach in determining the key assumptions was as follows:

Electricity prices were based on contracted and projected commodity prices for electricity. Projected market prices for electricity were based on an external market view of projected long-term electricity prices.

Projected output was based on expected levels of output over the expected operating lives of the power stations using the Group's own engineering projections which considered historical performance, plant degradation, plant maintenance activity and investment, and allow for scheduled timings of outages and refuelling. Where possible these assumptions were validated externally.

Fuel costs were based on contracted and projected commodity prices, for coal and nuclear fuel, and using the Group's own engineering projections for consumption having considered historical consumption data and projected plant performance.

Notes to the Consolidated Financial Statements for the year ended 31 March 2007

Other operating costs and investment was estimated using the Group's own engineering projections, where relevant, and having considered historical performance, plant degradation, plant maintenance activity and investment. The estimates of other operating costs and investment used in the discounted cash flow projection were consistent with those used in the Group's three year business plan. In subsequent periods the growth rate applied to other operating costs was based on the Retail Price Index and fully reflects the expected operating lives of the power stations.

The impairment calculations made allowance for projected levels of Cash Sweep Payment. The projection used the Cash Sweep percentage as at 31 March 2007 as a starting point, with adjustments in subsequent years to allow for retentions of undistributed cash following payment of dividends in line with the Group's dividend policy as set out in the Financial Review. A pre-tax discount rate of 23% was used (equivalent to a post-tax discount rate of 9%).

With regard to the assessment of value of the cash generating unit, British Energy is of the opinion that, based on current knowledge, reasonably possible changes in any of the above key assumptions would not cause the carrying value to exceed the recoverable amount.

Software

Software is amortised over its estimated operational life for a maximum of five years. The amortisation of software is recognised in the amortisation and other charges line of the consolidated income statement.

ROCs and LECs

ROCs and LECs have a sustainable value and can be used in settlement of an obligation over an undefined period and therefore, on this basis, ROCs and LECs are not amortised. Included within additions of £40m in the year (2006: £30m) are ROCs and LECs with a value of £8m (2006: £4m) which were produced internally.

Carbon allowances

Carbon allowances are not amortised because they are held to settle the Group's EU ETS obligation and therefore have a sustainable value. During the year the Group took delivery of carbon allowances, which had been purchased under forward contracts. In line with the Group's accounting policy, the carbon allowances were recognised within intangible assets at cost. Subsequently, a write down of £41m (2006: £nil) was charged to the consolidated income statement to reflect a reduction in market prices of carbon allowances. If the write down of carbon allowances had not occurred, carbon allowances would be carried at £44m.

16. Trade and Other Receivables

	2007 £m	2006 £m
Non-current assets		
Trade receivables	168	-
Current assets		
Trade receivables	406	405
Other receivables	44	47
Prepayments	28	3
	478	455
Total trade and other receivables	646	455

Non-current trade receivables of £168m (2006: £nil) relate to cash receipts from capped collateral power sales contracts, which will be received in the period up to 2011.

Trade receivables are stated net of provisions for doubtful debts of £8m at 31 March 2007 (2006: £9m).

£4m was included in other receivables at 31 March 2006 relating to commodity contracts outside the scope of IAS 39 that were fair valued at RED as a result of acquisition accounting and which have been fully utilised during the year ended 31 March 2007 (see note 23).

**Notes to the Consolidated Financial Statements
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17. Inventories

	2007 £m	2006 £m
Current assets		
Unburnt nuclear fuel in reactors	1,032	1,013
Provision for unburnt fuel at station closure	(801)	(822)
Net unburnt nuclear fuel in reactors	231	191
Other nuclear fuel and uranium stocks	83	89
Coal stocks	39	19
Stores	46	43
Total inventories	399	342

18. Restricted Cash and Other Financial Assets and Cash and Cash Equivalents

	2007 £m	2006 £m
Current assets		
Cash used for collateral	90	201
Other financial assets	51	-
Other restricted cash	5	5
Total restricted cash and other financial assets	146	206
Cash and cash equivalents	1,101	638
Total restricted cash and other financial assets and cash and cash equivalents	1,247	844

At 31 March 2007 restricted cash and other financial assets and cash and cash equivalents amounted to £1,247m (2006: £844m) with maturity dates due within one year.

At 31 March 2007 £90m (2006: £201m) was invested in various currencies to support collateral arrangements. During the year ended 31 March 2007 these funds earned interest based on rates between 1.69% and 4.75% (2006: 0.85% and 4.79%). Availability of cash invested to support collateral arrangements is restricted over the periods of the relevant collateralised positions.

Other financial assets principally comprise net cash provided to satisfy variation margin calls in relation to trading through exchanges. These funds are non-interest bearing and availability of the cash pledged is restricted pending settlement of the related forward instrument.

Cash not immediately required for business purposes is invested in line with the Group's Treasury Policy. At 31 March 2007 all cash investments not used to support collateral arrangements were due to mature within two months. The investments made during the year ended 31 March 2007 have a weighted average interest rate of 4.92% (2006: 4.52%).

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash at bank of £1,101m (2006: £638m).

19. Financial Instruments and Derivatives

Overview

The Group's principal financial instruments include derivative commodity contracts for the sale and purchase of electricity, purchase of coal and carbon allowances, interest bearing debt, loans, investments in short-dated commercial paper, cash held in collateral accounts, cash and short-term deposits

The main financial risks faced by the Group are trading risks in respect of the sale of electricity. Electricity trading risks include exposure to electricity price fluctuations, balancing of output volume with contractual commitments, commodity (coal, carbon allowances and uranium) and counterparty credit risk. These are managed by the Power and Energy Trading Division which operates within policies and procedures that are approved and monitored by the Board. The Power and Energy Trading Division is not permitted to take speculative open positions.

Non-trading financial risks, including liquidity, interest rate and foreign exchange risks are managed by the Group's central Treasury Department which also operates within policies and procedures that are approved and monitored by the Board. The Treasury Department is not permitted to take speculative, open positions.

The foregoing discussion summarises how the Group manages its exposures to risks in respect of electricity prices, output balancing, commodity prices, counterparty credit risk, liquidity, interest rates and foreign exchange rates. Full details of the Group's risks and the strategy for managing those exposures are set out in the Financial Review. The Group also has an exposure to risks associated with fluctuations in the debt and equity markets through the pension schemes; further details of the pension schemes are provided in note 24.

Notes to the Consolidated Financial Statements for the year ended 31 March 2007

Fair Values

Set out below is a comparison by category of book values and fair values of all the Group's financial assets and financial liabilities.

	Book value 2007 £m	Fair value 2007 £m	Book value 2006 £m	Fair value 2006 £m
Derivative financial instruments and commodity contracts				
Financial assets				
Held for trading	82	82	26	26
Hedging relationships	23	23	3	3
	105	105	29	29
Financial liabilities				
Held for trading	(69)	(69)	(11)	(11)
Hedging relationships	(20)	(20)	(46)	(46)
	(89)	(89)	(57)	(57)
Total derivative financial instruments and commodity contracts	16	16	(28)	(28)

At 31 March 2006 and 2007 all derivative financial instruments and commodity contracts financial assets were included in current assets in the consolidated balance sheet. At 31 March 2007, £74m (2006: £57m) of the derivative financial instruments and commodity contracts financial liabilities were classified as current liabilities and £15m (2006: £nil) as non-current liabilities in the consolidated balance sheet.

	Book value 2007 £m	Fair value 2007 £m	Book value 2006 £m	Fair value 2006 £m
Other financial assets and liabilities				
Financial assets				
NLF and nuclear liabilities receivables	5,469	5,469	5,237	5,237
Trade receivables	574	574	405	405
Restricted cash and other financial assets	146	146	206	206
Cash and cash equivalents	1,101	1,101	638	638
	7,290	7,290	6,486	6,486
Financial liabilities				
Borrowings	(573)	(578)	(626)	(671)
Trade payables	(200)	(200)	(166)	(166)
Accruals	(472)	(472)	(346)	(346)
Back end fuel costs contracted	(2,223)	(2,223)	(2,245)	(2,245)
Provisions for other liabilities and charges	(16)	(16)	(22)	(22)
NLF liabilities	(216)	(216)	(221)	(221)
	(3,700)	(3,705)	(3,626)	(3,671)
Total other financial assets and liabilities	3,590	3,585	2,860	2,815

Details of the categories of financial assets and liabilities are set out below.

Derivative Financial Instruments and Commodity Contracts

All contracts for the sale of electricity through British Energy Direct, most long-term structured sales contracts and all coal procurement contracts are categorised as being held for the Group's own purchase, sale or usage requirements and are therefore accounted for on an accruals basis because they are outside the scope of IAS 39.

GTMA and ISDA contracts are within the scope of IAS 39 as the Group follows the industry practice of net settling these contracts. As a result, all changes in fair value impact the consolidated income statement for those contracts which do not qualify for cash flow hedge accounting. The movements in fair value in the year are presented within unrealised net (losses)/gains on derivative financial instruments and commodity contracts in the consolidated income statement.

Cash flow hedge accounting has been utilised wherever possible to ensure that earnings continue to be recognised in line with the Group's operational strategies by reflecting the earnings effects of derivative instruments in the same period as the hedged item affects earnings. The variability of cash flows arising from a highly probable forecast sale of electricity under an existing variable priced own use sales contract has been designated as a hedged item for cash flow hedge accounting purposes. Fair value changes of those GTMA and ISDA contracts which meet the requirements for cash flow hedge accounting are deferred in equity, within the hedge reserve, until settlement of the hedging instrument or hedged item.

Options contracts are recognised at fair value, with movements in fair value being presented within unrealised net (losses)/gains on derivative financial instruments and commodity contracts in the consolidated income statement.

Notes to the Consolidated Financial Statements for the year ended 31 March 2007

Exposures have been expressed as net positions by counterparty wherever there is the intention and ability to legally set off assets and liabilities.

(i) Held for Trading

The Group classifies as 'held for trading' short-term contracts, contracts which are not designated as cash flow hedges and contracts which have been de-designated from hedging relationships. Typically the term of these contracts does not exceed 12 months with prices fixed at inception.

The fair value of derivative financial instruments and commodity contracts asset and liability positions are valued, where possible, using quoted market prices. More details on the method for determining fair value is set out in note 2 (xx). The fair value of held for trading instruments equals the book value at 31 March 2007 and 31 March 2006.

At 31 March 2007 the Group had held for trading assets of £82m (2006: £26m) and liabilities of £69m (2006: £11m). The movement in the fair value in the year is presented within unrealised net (losses)/gains on derivative financial instruments and commodity contracts in the consolidated income statement and totals a loss of £2m (2006: £18m gain) before tax.

The principal value of held for trading derivative financial instruments and commodity contracts at 31 March 2007 was £903m (2006: £488m), of which £856m (2006: £446m) falls due within one year and £47m (2006: £42m) falls due after more than one year but not more than three years.

(ii) Hedging Relationships

As at 31 March 2007, cash flow hedges were in place up to 31 March 2009 (2006: up to 31 March 2007) with the uncertain cash flows on certain variable priced sales contracts being hedged by fixed price GTMA and ISDA transactions. The fair value of hedging instruments equals the book value at 31 March 2007 and at 31 March 2006. At 31 March 2007 the Group had cash flow hedging instrument assets of £23m (2006: £3m) and liabilities of £20m (2006: £46m). The movement in hedging relationships in the year was £46m (2006: £12m) and is presented as a credit (2006: charge) to the hedge reserve within equity.

There are no forecast transactions previously thought to be available for hedge accounting that are no longer expected to occur.

The principal value of derivative financial instruments and commodity contracts which are hedging relationships at 31 March 2007 was £259m (2006: £152m), of which £150m (2006: £152m) fall due within one year and £109m (2006: £nil) fall due after more than one year but not more than three years.

Other Financial Assets and Liabilities

The basis of valuation for the NLF and nuclear liabilities receivables is referred to in note 14.

The carrying values of trade receivables, trade payables and accruals are reasonable approximations of their fair values.

The fair values of restricted cash and other financial assets and cash and cash equivalents approximates the book values due to short-term maturities. Details of the interest rate profile of these financial assets is included in note 18.

Borrowings consist of the Group's Bonds and the fair value has been estimated using the quoted closing clean market price at the balance sheet date. Details of the interest rate and maturity profile of these financial liabilities is included in note 20.

The basis of valuation of back end fuel costs is included in note 22.

The book value of provisions and other charges has been used to approximate the fair value.

For details of the NLF liabilities valuation refer to note 25.

Foreign Exchange

The Group uses foreign exchange contracts and other derivative instruments as deemed necessary to hedge the primary market exposures associated with the Group's underlying assets, liabilities and committed transactions.

There are potential future foreign currency receivables in respect of amounts outstanding from the sale of Bruce Power. When these cash flows become more certain in the future, the Group will evaluate currency hedging opportunities.

At 31 March 2007, the Group had a net total of £13m (2006: £nil) of forward contracts in place to hedge its exposure to movements in prices of carbon allowances.

Notes to the Consolidated Financial Statements for the year ended 31 March 2007

During the year ended 31 March 2007 the Group had three main sources of exposure to potential foreign currency risk. These exposures related to contracts for the purchase of coal and uranium, which are predominantly in US Dollars, and the purchase of carbon allowances, which are in Euros.

The Group has a number of different contracts in place to purchase coal, the most significant of which has a pricing formula that includes the specifics of the Dollar exchange rate to be used. For details of the Group's commitments to purchase coal see note 33.

The Group bears pass through foreign currency costs relating to the supply, conversion and enrichment of uranium at the average exchange rate relevant to the fuel supplied. As at 31 March 2007, the Group had foreign currency commitments for nuclear fuel amounting to £131m (2006: £159m) out of a total fuel commitment of £1,568m (2006: £1,642m) (see note 33).

During the year the Group has been involved in the purchase of £44m (2006: £34m) of carbon allowances at the Euro foreign exchange rate ruling at the time of the transaction (see note 2 (ix)). Additionally the Group has £81m (2006: £63m) of commitments to purchase forward carbon allowances at 31 March 2007.

20. Borrowings

	2007 £m	2006 £m
Long-term "project finance" loan – sterling	123	134
Bonds – sterling	450	492
	573	626
	2007 £m	2006 £m
The borrowings mature as follows:		
Current liabilities		
Amounts falling due within one year	57	53
Non-current liabilities		
Amounts falling due after more than one year but not more than two years	61	57
Amounts falling due after more than two years but not more than five years	176	196
Amounts falling due in more than five years	279	320
	516	573
Total borrowings	573	626

Total debt of £573m (2006: £626m) comprised:

- a long-term "project finance" loan of £123m (2006: £134m) secured on the assets of Eggborough Power Limited (EPL), a subsidiary company that operates the Eggborough coal-fired power station. The loan bears interest at a rate of 7.0% (2006: 7.0%).
- an aggregate principal amount of £450m (2006: £492m) sterling denominated guaranteed bonds due between 2008 and 2022. The bonds bear interest at a rate of 7.0% (2006: 7.0%).

The effective interest rate of the Group's fixed rate borrowings is 7.0% (2006: 7.0%).

The long-term "project finance" loan is secured by a mortgage over the shares of EPL, an assignment of the EPL Share Purchase Agreement and Tax Deed of Covenant and a debenture comprising fixed and floating charges over EPL's assets.

The bonds are supported by a guarantee provided jointly and severally on a senior basis by the Company and certain subsidiaries of the Group.

The Group has a receivables financing facility of up to a maximum of £60m (2006: £60m) subject to the level of the Group's trade receivables. The facility contains detailed covenants which mirror those under the Bonds together with a financial interest coverage covenant. The facility is due to expire in the year ending 31 March 2008. During the years ended 31 March 2007 and 2006 the facility was undrawn.

During the year the Group entered into two £150m committed letter of credit facilities, which contain covenants for the benefit of the facility providers, to support the collateral requirements of the Group's trading business. One of the £150m facilities expires in the year ending 31 March 2009 and was undrawn during the year ended 31 March 2007. The other £150m facility was amended in the year to effect the transfer of £50m into a separate bilateral arrangement. Both the resulting £50m and £100m facilities expire in the year ending 31 March 2008 but with the consent of the lending banks may be extended for a further year, and were undrawn during the year ended 31 March 2007.

**Notes to the Consolidated Financial Statements
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21. Trade and Other Payables

	2007 £m	2006 £m
Current liabilities		
NLF liabilities (see note 25)	22	21
Trade payables	200	166
Other taxes and social security	82	90
Cash Sweep Payment accrual (see note 8)	305	105
Accruals	167	241
Total trade and other payables	776	623

22. Nuclear Liabilities

	Back end fuel costs contracted £m	Back end fuel costs uncontracted £m	Decom- missioning £m	2007 Total £m
As at 31 March 2006	2,245	308	2,684	5,237
Charged to the consolidated income statement:				
– revalorisation (see note 9)	175	24	214	413
– operating costs	-	-	8	8
Loadings of PWR fuel	-	8	-	8
Payments in the year	(197)	-	-	(197)
As at 31 March 2007	2,223	340	2,906	5,469

Back End Fuel Costs Contracted

Accruals 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 were fixed (subject to indexation by RPI) at RED and will be funded by the Government under the Government indemnity.

Back End Fuel Costs Uncontracted

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

Decommissioning

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

During the year ended 31 March 2007 decommissioning costs increased by £8m to reflect an increase in the level of estimated nuclear liabilities as a result of completion of the Quinquennial Review. This review was substantially completed in the year ended 31 March 2006, but still required final approval, which was received this year and resulted in the incremental £8m, which was in addition to the £956m recorded in 2006 as an IFRS 3 fair value adjustment. As part of the Restructuring arrangements, the Group is indemnified by the Government for any future shortfall in NLF funding of qualifying nuclear liabilities and decommissioning costs, therefore the NLF receivable has also increased by £8m. Both increases have been reflected through operating costs and therefore there is no net impact on the consolidated income statement.

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

	2007 £m	2006 £m
Current liabilities		
Nuclear liabilities	195	186
Non-current liabilities		
Nuclear liabilities	5,274	5,051
Total nuclear liabilities	5,469	5,237

**Notes to the Consolidated Financial Statements
for the year ended 31 March 2007**

Projected Payment Details

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

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

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

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

	Back end fuel costs contracted £m	Back end fuel costs uncontracted £m	Decom- missioning £m	2007 Total £m	2006 Total £m
Within five years	1,002	13	210	1,225	983
6-10 years	916	17	895	1,828	1,597
11-25 years	893	153	2,095	3,141	3,382
26-50 years	-	373	1,259	1,632	1,621
51 years and over	-	2,116	4,558	6,674	6,418
	2,811	2,672	9,017	14,500	14,001

23. Provisions for Other Liabilities and Charges

	2007 £m	2006 £m
Current liabilities		
Contracts provision	15	110
Other provisions	10	17
	25	127
Non-current liabilities		
Contracts provision	37	47
Other provisions	13	12
	50	59
Total provisions for other liabilities and charges	75	186

Movements in provisions for other liabilities and charges in the year ended 31 March 2007 are as follows:

	Contracts provision £m	Other provisions £m	2007 Total £m
As at 1 April 2006	157	29	186
Arising during the year	-	18	18
Utilised in the year	(80)	-	(80)
Released in the year	(17)	(9)	(26)
Payments in the year	(14)	(15)	(29)
Revalorisation	6	-	6
As at 31 March 2007	52	23	75

**Notes to the Consolidated Financial Statements
for the year ended 31 March 2007**

(i) Contracts Provision

The Group's portfolio of commodity contracts was fair valued at RED as part of the application of acquisition accounting. The remaining liability for the contracts at RED is presented in provisions for liabilities and charges as follows:

	2007 £m	2006 £m
Current assets		
Trade and other receivables (see note 16)	-	4
Current liabilities		
Provisions for other liabilities and charges	(15)	(110)
Non-current liabilities		
Provisions for other liabilities and charges	(37)	(47)
	(52)	(153)

The movements in the net contracts provision in the year were as follows:

	2007 £m
As at 31 March 2006	153
Utilised in the year	(76)
Released in the year	(17)
Payments in the year	(14)
Revalorisation (see note 9)	6
As at 31 March 2007	52

The net contracts provision is being utilised over the lives of the contracts fair valued at RED and is expected to be fully utilised by 2011. The provision utilisation of £76m (2006: £95m) and release of £17m (2006: £nil) are presented in the other operating income line of the consolidated income statement.

(ii) Other Provisions

Other provisions are made up of severance provisions, a provision for an onerous lease, a provision for additional unfunded retirement benefits (see note 24) and a provision for Eggborough site restoration costs. £10m (2006: £17m) of the other provisions relate to severance and is expected to be utilised within the next 12 months. Accordingly, it is classified as a current liability. The remainder of the other provisions are classified as non-current.

24. Retirement Benefit Obligations

(i) Pension Schemes

British Energy operates two separate defined benefit pension arrangements in the UK within the Electricity Supply Pension Scheme (ESPS), the British Energy Generation Group (BEGG) for the majority of employees and the British Energy Combined Group (BECG) for the employees at Eggborough power station. 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 valuations of the BEGG and BECG schemes were carried out at 31 March 2004 by the independent ESPS actuary. The valuations for accounting purposes have been carried out by a separate independent actuary using the projected unit method.

Formal triennial valuations of the BEGG and the BECG pension schemes at 31 March 2007 are currently being undertaken. The results of these valuations will not be finalised until later in 2007 and the impact will be reflected in the financial statements for the year ended 31 March 2008. Initial indications suggest that the mortality assumptions may require updating following the triennial valuations.

(ii) Contributions

British Energy contributed 22.4% (2006: 22.4%) to the BEGG pension scheme and 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 5% (2006: 5%) and 6% (2006: 6%) to the BEGG and BECG schemes respectively. Members who participate in the salary conversion arrangements have their salaries reduced by 5% (2006: 5%) or 6% (2006: 6%) depending on whether they are members of the BEGG or BECG scheme, these monies being paid to the BEGG and BECG schemes as additional employer contributions. The Group expects to contribute £50m of standard contributions, excluding the impact of the Group's salary conversion arrangements, to the schemes in the year ending 31 March 2008. Any deficiency disclosed in the BEGG or BECG schemes following an actuarial valuation will be funded by the Group.

Notes to the Consolidated Financial Statements for the year ended 31 March 2007

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

The Group 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.

At 31 March 2007 there was £7m (2006: £3m) of contributions owed to the pension schemes included in accruals.

(iii) Amounts Recognised in the Consolidated Balance Sheet

The amounts recognised in the consolidated balance sheet in respect of the Group's funded defined benefit pension schemes is as follows:

	2007 £m	2006 £m
Fair value of plan assets	2,671	2,455
Present value of funded defined benefit obligations	(2,736)	(2,670)
Retirement benefit obligations recognised in the consolidated balance sheet	(65)	(215)

Certain additional retirement benefits are provided to eligible employees. These obligations are unfunded and the liability recorded at 31 March 2007 was £5m (2006: £3m) and is included within other provisions (see note 23).

(iv) Plan Assets, Expected Rates of Return and Benefit Obligations

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

	2007 £m	2006 £m
Opening fair value of plan assets	2,455	1,962
Expected return on plan assets	164	136
Actuarial gains	6	312
Contributions by employer	125	124
Contributions by plan participants	7	7
Benefits paid	(86)	(86)
Closing fair value of plan assets	2,671	2,455

The plan assets include investments in the Group's equity, amounting to less than 1% (2006: less than 1%) of plan assets.

The major categories of plan assets and their expected rates of return are as follows:

	2007 Expected return %	2007 £m	2006 Expected return %	2006 £m
Equities	8.30	1,326	7.90	1,438
Bonds	4.80	865	4.40	565
Property	6.55	270	6.15	251
Hedge funds	6.80	103	6.40	94
Other	5.00	107	4.00	107
Total		2,671		2,455

The expected long-term rate of return on assets assumption was developed with consideration to the current level of expected returns on risk free investments (primarily Government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The actual return on plan assets was £170m (2006: £448m), £6m (2006: £312m) in excess of the expected return on assets at the beginning of the year.

Notes to the Consolidated Financial Statements for the year ended 31 March 2007

Changes in the present value of the defined benefit obligations are as follows:

	2007 £m	2006 £m
Opening defined benefit obligations	2,670	2,343
Current service cost	68	52
Past service cost	9	4
Interest cost	131	126
Contributions by plan participants	7	7
Actuarial (gains)/losses	(63)	224
Benefits paid	(86)	(86)
Closing defined benefit obligations	2,736	2,670

£9m (2006: £4m) and £1m (2006: £nil) have been contributed to the pension schemes from the Group's severance provisions established in previous years in relation to past service costs and current service costs respectively.

(v) Actuarial Assumptions

The major assumptions used by the actuaries in determining the defined benefit obligations were:

	2007 % p.a.	2006 % p.a.
Price inflation	3.00	2.75
Rate of general increase in salaries	4.50	4.25
Rate of increase of pensions in payment	3.00	2.75
Discount rate	5.40	5.00

The mortality assumptions used for determining the defined benefit obligations for the BEGG and BECG are the same as those in the actuarial valuations of both schemes as at 31 March 2004. These assumptions are based on the 92 series tables published by the Continuous Mortality Investigations Bureau.

(vi) Amounts Recognised in the Consolidated Income Statement

Amounts recognised in the consolidated income statement in respect of the retirement benefit obligations are as follows:

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Current service cost	67	52
Past service cost (see note 6)	5	-
Expected return on plan assets in the pension schemes (see note 9)	(164)	(136)
Interest on defined benefit obligations (see note 9)	131	126
Total amounts recognised in the consolidated income statement	39	42

The current service cost charge for the year is included in staff costs in the consolidated income statement, and comprises £67m (2006: £52m) in respect of the funded defined benefit pension schemes and £1m (2006: £1m) in respect of the unfunded pension scheme (see note 6). The interest cost and expected return on plan assets are included in finance charges in the consolidated income statement.

(vii) Amounts Recognised in the Consolidated Statement of Recognised Income and Expense

Amounts recognised in the consolidated statement of recognised income and expense in respect of the retirement benefit obligations are as follows:

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Actual return less expected return on pension plan assets	6	312
Experience (losses)/gains arising on defined benefit obligations	(25)	16
Changes in assumptions underlying present value of defined benefit obligations	88	(240)
Actuarial gains and losses on retirement benefit obligations for the year	69	88

The cumulative amount of actuarial gains and losses, before deferred tax, recognised in the consolidated statement of recognised income and expense in respect of funded retirement benefit obligations is £239m (2006: £170m).

Notes to the Consolidated Financial Statements for the year ended 31 March 2007

An actuarial loss of £1m (2006: £nil) has also been recognised in the consolidated statement of recognised income and expense in respect of the unfunded pension scheme, therefore the total actuarial gain taken to equity is £68m (see note 28).

(viii) History of Experience Gains and Losses

The history of schemes' deficits is as follows:

	2007 £m	2006 £m	2005 £m
Fair value of plan assets	2,671	2,455	1,962
Present value of funded defined benefit obligations	(2,736)	(2,670)	(2,343)
Retirement benefit obligation recognised in the consolidated balance sheet	(65)	(215)	(381)

The history of experience gains and losses is as follows:

	2007 £m	As % of plan assets/ obligations 2007 %	2006 £m	As % of plan assets/ obligations 2006 %	2005 £m	As % of plan assets/ obligations 2005 %
Actual return less expected return on pension plan assets	6	-	312	13	2	-
Experience (losses)/gains arising on defined benefit obligations	(25)	(1)	16	1	-	-
Changes in assumptions underlying present value of defined benefit obligations	88	3	(240)	(9)	80	3

25. NLF Liabilities

	2007 £m	2006 £m
Analysis of NLF liabilities		
Current (see note 21)	22	21
Non-current	194	200
Total NLF liabilities	216	221

	2007 £m
As at 1 April 2006	221
Charged to the consolidated income statement:	
- revaluation (see note 9)	17
Payments in the year	(22)
As at 31 March 2007	216

The NLF liabilities represent the Group's commitment arising on Restructuring to make fixed decommissioning contributions equal to £20m per annum (indexed to RPI but tapering off as the nuclear power stations are currently scheduled to close) discounted at 3% real to its net present value.

26. Deferred Income

	2007 £m	2006 £m
As at 31 March	5	5

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

The options 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 shares in, or 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.

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27. Called Up Share Capital

	2007 £m	2006 £m
Authorised:		
2,800,000,000 (2006: 2,800,000,000) ordinary shares of 10p each	280	280
2,000,000,000 (2006: 2,000,000,000) convertible shares of 10p each	200	200
One (2006: one) special rights redeemable preference share of £1	-	-
	480	480

	2007 £m	2006 £m
Allotted, called up and fully paid:		
Equity shareholders' funds:		
576,594,935 (2006: 570,195,496) ordinary shares of 10p each	58	57
	58	57
Non-equity shareholders' funds:		
One (2006: one) special rights redeemable preference share of £1	-	-
	-	-
Called up share capital	58	57

Movements in each class of shares were as follows:

	Ordinary shares of 10p each		Redeemable preference shares of £1 each	
	Number	£	Number	£
As at 1 April 2005	561,315,459	56,131,546	1	1
Warrants exercised	8,880,037	888,004	-	-
As at 31 March 2006	570,195,496	57,019,550	1	1
Warrants exercised	6,399,439	639,944	-	-
As at 31 March 2007	576,594,935	57,659,494	1	1

Ordinary Shares

The holders of ordinary shares are entitled to be paid any profits of the Company available for distribution and determined to be distributed. On the winding up of the Company, holders of ordinary shares will be entitled to receive the nominal capital paid up or credited as paid up on the shares together with any further amounts available to be paid which will be allocated proportionately to holders of ordinary shares. The holders of ordinary shares are entitled to receive notice of general meetings and to attend, speak and vote at such meetings.

Convertible Shares

The NLF has the right from time to time to convert all or part of its entitlement to the Cash Sweep Payment into convertible shares in the Company (the NLF conversion right). On a full conversion, the NLF would hold up to 65% of the thereby enlarged equity share capital of the Company. Subsequent to a conversion, the NLF may dispose of its convertible shares (which on disposal become ordinary shares) at any time subject to certain restrictions. Amongst other things, the NLF may not exercise the NLF conversion right or dispose of any convertible shares if such disposal would require British Energy to have produced listing particulars or a prospectus more than five times in a consecutive period of 7.5 years. The convertible shares may only be held by Nuclear Liabilities Fund Limited or its successor in title, a Minister of the Crown, the Treasury, a department, non-departmental body or other agency of the Crown, any body corporate established by statute some or all of the members of which are appointed by a Minister of the Crown or other UK Government entity or any person directly or indirectly wholly owned by, or held on trust for, the Secretary of State or other Minister of the Crown.

Save in respect of voting rights, the convertible shares have the same rights, are subject to the same restrictions and rank pari passu with the ordinary shares of the Company in all respects. The number of votes that the holder of the convertible shares is entitled to exercise in respect of its holding of convertible shares is the lesser of: (i) 29.9% (and, for this purpose, taking into account the voting rights attributable to any other ordinary shares held or acquired by any person acting in concert with the holder); and (ii) the number of convertible shares which the holder would otherwise be entitled to vote if the convertible shares were ordinary shares. The convertible shares will convert into ordinary shares of the Company automatically on transfer to a third party by the holder but are not convertible at the election of the holder prior to such a transfer.

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Special Rights Redeemable Preference Share of £1

The Special 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 British Energy Holdings plc, British Energy Limited, British Energy Generation Limited or British Energy Generation (UK) Limited, or a disposal by the Company of its shares in these companies. However, the holder of the Special Share will only be entitled to withhold consent to such an amendment or disposal 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.

Warrants

On Restructuring 29,298,286 Warrants of £0.98 were allotted. The Warrants are freely exercisable at the option of the Warrant holder. The subscription rights may be exercised at any time in respect of certificated Warrants on lodging of a duly completed subscription notice and remittance of the subscription price or, in respect of Warrants held in uncertificated form, if CREST Co. Limited receives a properly authenticated dematerialised instruction and payment through CREST in accordance with its rules. In the year ended 31 March 2007 6,399,439 (2006: 8,880,037) of these Warrants were exercised leaving 13,719,866 (2006: 20,119,305) unexercised. The Warrants entitle the holder to subscribe to acquire an equivalent number of ordinary shares at a subscription price of £0.98 per share within five years of Restructuring.

Own Shares

The Group has investments in its own shares, held in relation to the Group's share incentive schemes, through shareholdings held by British Energy Employee Share Trust and Abbey National AESOP Trust. The value of these shares is presented within total equity. At 31 March 2007 1,478,545 (2006: 412,348) shares were held in trust. The maximum number of own shares held during the year was 1,497,849 (2006: 434,701).

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for the year ended 31 March 2007**

28. Equity

	Called up equity share capital £m	Share premium £m	Capital reserve £m	Hedge reserve £m	Warrant reserve £m	Retained earnings £m	Total equity £m
As at 31 March 2005	56	-	767	-	51	747	1,621
Adjustment for the implementation of IAS 39 at 1 April 2005	-	-	-	(31)	-	9	(22)
Adjustment for deferred tax on the implementation of IAS 39 at 1 April 2005	-	-	-	9	-	(2)	7
Adjusted balance as at 1 April 2005	56	-	767	(22)	51	754	1,606
Net profit for the year attributable to shareholders	-	-	-	-	-	430	430
Net income recognised directly in equity	-	-	-	(12)	-	88	76
Deferred tax on items recognised directly in equity (see note 10)	-	-	-	3	-	(26)	(23)
Total (expenses)/income for the year	-	-	-	(9)	-	492	483
Share-based payments (see note 30)	-	-	-	-	-	3	3
Exercise of Warrants	1	24	-	-	(16)	-	9
As at 31 March 2006	57	24	767	(31)	35	1,249	2,101
Net profit for the year attributable to shareholders	-	-	-	-	-	465	465
Net income recognised directly in equity	-	-	-	46	-	68	114
Deferred tax on items recognised directly in equity (see note 10)	-	-	-	(14)	-	(21)	(35)
Total income for the year	-	-	-	32	-	512	544
Share-based payments (see note 30)	-	-	-	-	-	2	2
Purchase of own shares for share incentive schemes	-	-	-	-	-	(6)	(6)
Exercise of Warrants	1	16	-	-	(11)	-	6
As at 31 March 2007	58	40	767	1	24	1,757	2,647

(i) Called Up Equity Share Capital

Called up equity share capital represents the nominal value of shares in issue (see note 27).

(ii) Share Premium

The share premium recorded at 31 March 2007 of £40m (2006: £24m) represents the excess of the fair value of Warrants exercised and Warrant proceeds received since Restructuring over the nominal value of the shares issued on exercise.

(iii) Capital Reserve

The Restructuring involved bondholders and significant creditors compromising their claims against the Group in exchange for, amongst other things, the issue of Bonds (see note 20) by British Energy Holdings plc (a wholly owned subsidiary of the Company) and new ordinary shares of the Company. The capital reserve was created on the issue of shares at RED and represents the excess of the fair value of the claims of the significant creditors and bondholders over the legal liability foregone. The capital reserve is not distributable.

(iv) Hedge Reserve

The £46m gain (2006: £12m loss) in the hedge reserve in the year reflects the fair value movement, before the deferred tax charge of £14m (2006: £3m credit), of the contracts that have been designated as cash flow hedging instruments. This movement comprises a £3m net gain (2006: £31m net loss) on hedging instruments recognised in the period, plus £43m (2006: £19m) removed from the hedge reserve and included in the consolidated income statement.

Where hedge accounting is permitted, gains and losses on hedging instruments are recognised directly in equity until the contract is settled, at which point the gain or loss is transferred to the consolidated income statement. When trades are de-designated as hedging instruments, cumulative gains or losses are retained in equity until the forecast transaction is settled. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised within equity is transferred to the consolidated income statement of the period.

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(v) Warrant Reserve

On Restructuring the shareholders in British Energy plc were entitled to receive Shares and Warrants in British Energy Group plc. The Warrants entitle the holder to subscribe for ordinary shares in the Company within five years of the Restructuring. As the Warrants are exercised this reserve will be transferred to share capital and the share premium account. During the year, 6,399,439 Warrants (2006: 8,880,037) were exercised resulting in a £11m (2006: £16m) reduction in the warrant reserve and a £1m (2006: £1m) and £16m (2006: £24m) increase respectively in share capital and share premium. The proceeds received in the year in relation to the exercise of the Warrants amounted to £6m (2006: £9m).

(vi) Retained Earnings

Total income and expense in the year comprises the profit attributable to shareholders of £465m (2006: £430m), actuarial gains and losses on retirement benefit obligations for the year of £68m (2006: £88m) and related deferred tax of £21m (2006: £26m).

Under IFRS 2 £2m (2006: £3m) has been credited to retained earnings in relation to the Share Incentive Plan, the Long Term Deferred Bonus Plan, the Deferred Incentive Plan and the Interim Bonus Plan (see note 30).

During the year £6m (2006: £nil) of own shares were purchased from the market and held in trust in order to satisfy obligations in relation to the Group's share incentive schemes.

29. Principal Group Companies

Details of British Energy Group plc's principal subsidiary undertakings, which are consolidated into the Group's financial statements, are as follows:

	Country of incorporation	Proportion of ownership interest and voting power %	Principal activity
British Energy Holdings plc	Great Britain	100	Holding Company
British Energy Limited	Great Britain	100	Holding Company
British Energy Generation Limited	Great Britain	100	Generation and sale of electricity
British Energy Power and Energy Trading Limited	Great Britain	100	Energy trading
British Energy Direct Limited	Great Britain	100	Sale of electricity
Eggborough Power Limited	Great Britain	100	Generation and sale of electricity

A full list of subsidiary undertakings will be annexed to the Company's next annual return.

30. Share-based Payments

The expense recognised for share-based payments in respect of employee services received during the year ended 31 March 2007 was £2m (2006: £3m) (see note 6) and related entirely to equity-settled share-based payment transactions. Details of each of the employee share plans are given below.

Share Incentive Plan

Under the Share Incentive Plan (SIP), employees, including the Executive Directors, who are resident in the UK and meet the service requirements, are eligible for awards under the SIP. Awards under the SIP are limited each year by relevant tax legislation and for the year ended 31 March 2007 will take the form of free shares. The value of the annual awards is linked to performance conditions which for the year ended 31 March 2007 relate to output, UCLF and an outage indicator. These are considered to be non-market conditions under IFRS 2 and dividends attach to the awards, therefore the shares are fair valued at the market value on the date of grant. The free shares are initially held in a trust and vest unconditionally for participating employees after being held within the trust for three years contingent upon participants being in continued employment by the Group. Any dividends paid on shares held within the trust are converted into additional shares.

The following table illustrates the number and movements in, share awards under this scheme during the year:

	2007 Number	2006 Number
Granted during the year	764,308	-
Forfeited during the year	(15,375)	-
Unvested at 31 March	748,933	-

The fair value of shares granted during the year was £6.93 per share.

Notes to the Consolidated Financial Statements for the year ended 31 March 2007

Long Term Deferred Bonus Plan

The Long Term Deferred Bonus Plan (LT Plan) is available to certain Executive Directors and selected senior executives who are eligible to receive conditionally awarded options in shares in the Company at nil cost. The value of the award is subject to the achievement of performance targets which for the year ended 31 March 2007 were based on output and UCLF. These are considered to be non-market conditions under IFRS 2 and dividends attach to the awards, therefore the shares are fair valued at the market value on the date of grant. The share options vest over a three year period from the date of grant and the contractual life of each option granted is 10 years. In the first year of each new award, awards for Executive Directors will comprise a combination of cash and share options and in the second and third years all awards will be entirely comprised of share options.

The following table illustrates the number and movements in, share options under this scheme during the year:

	2007 Number	2006 Number
Granted during the year	296,301	-
Forfeited during the year	(1,672)	-
Exercised	(17,777)	-
Outstanding at 31 March	276,852	-
Exercisable at 31 March	57,256	-

The fair value of options granted during the year was £4.86.

The weighted average share price of options exercised during the year was £4.65 per share. The remaining contractual life of options outstanding at 31 March 2007 was 9.7 years.

An amendment to the LT Plan was approved by shareholders at the AGM on 20 September 2006 meaning that awards under this scheme can now be satisfied by treasury or market purchased shares, in addition to a new issue of shares. The modification to the LT Plan did not result in a significant increment to the level of remuneration granted under the scheme.

Deferred Incentive Plan

The Deferred Incentive Plan (DIP) is available to selected senior employees who are eligible to receive conditionally awarded options in shares in the Company at nil cost. The value of the award is subject to the achievement of performance targets which for the year ended 31 March 2007 were based on a number of operational and financial measures. The share options vest over a period of between one and three years from the date of grant dependant on the percentage of performance targets achieved and the contractual life of each option granted is 10 years.

The level of the DIP awards for the year ended 31 March 2007 will be based on a cash award of £2m (2006: £nil) which has been calculated using an expected performance payout of 44%. This cash will be used to purchase shares after the announcement of the Company's results for the year ended 31 March 2007. The number of options to be awarded is calculated by dividing the value of the award, calculated as a proportion of salary, by the average share price of British Energy Group plc based on the 60 business days of share trading prior the award date. As at the date of this report, the number of options awarded is still to be determined.

British Energy Executive Share Option Plan 2004

The British Energy Executive Share Option Plan 2004 is available to certain full-time directors or qualifying employees. The following table illustrates the number and the exercise prices of, and movements in, share options under this scheme during the year:

	2007 Number	Weighted average exercise price 2007 £	2006 Number	Weighted average exercise price 2006 £
Outstanding at 1 April	240,000	5.00	-	-
Granted during the year	275,000	4.80	240,000	5.00
Outstanding at 31 March	515,000	4.89	240,000	5.00
Exercisable at 31 March	-	-	-	-

These options were granted on 24 November 2006 and 20 December 2005 and are dependent on a performance condition based on nuclear output during the financial year ending 31 March 2008. Subject to this performance condition the options granted will vest on the third anniversary of the dates of the grants, on 24 November 2009 and 20 December 2008 respectively. The contractual life of each option granted is 10 years.

Notes to the Consolidated Financial Statements for the year ended 31 March 2007

The weighted average remaining contractual lives of options outstanding at 31 March 2007 was 9.2 years. The range of exercise prices for options outstanding at 31 March 2007 was £4.80 to £5.00.

Interim Bonus Plan

The Interim Bonus Plan (IBP) is a deferred bonus scheme which related to the year ended 31 March 2005. The awards were granted to members of the Executive Committee either wholly in shares (in the case of Executive Directors) or in shares and in cash (in the case of Executive Committee members). The awards were based on a proportion of salary and vest over a three year period, with one third of the award vesting immediately, one third after one year and the final third after two years. The contractual life of each option granted is 10 years.

The following table illustrates the number of, and movements in, share options under this scheme during the year. The exercise price of these options is £nil.

	2007 Number	2006 Number
Outstanding at 1 April	101,910	124,263
Settled during the year	(44,704)	-
Exercised	-	(22,353)
Outstanding at 31 March	57,206	101,910
Exercisable at 31 March	38,138	19,070

The remaining contractual life of options outstanding at 31 March 2007 was 8.3 years.

Share option schemes granted by British Energy Limited

Share options were granted in previous years by British Energy Limited. Legal advice has been obtained to the effect that the changes in the corporate structure of the Group as a result of the Restructuring did not trigger the early exercise provisions under these options. The Remuneration Committee decided not to allow holders of the options in British Energy Limited to roll them over into options over shares in the Company. The options granted by British Energy Limited are still capable of exercise, but immediately on exercise the shares will be converted into shares in the Company in the ratio of 50:1. Accordingly the effective exercise price of the options is significantly higher than the current share price and it is unlikely the options will be exercised.

31. Contingent Assets

The Group has certain contingent assets as a result of its disposal of its 82.4% interest in Bruce Power LP. In addition to the consideration payable by the consortium under the master purchase agreement, up to a further C\$100m was payable to British Energy contingent upon the restart of two of the Bruce A units under a trust agreement (the Trust Agreement) entered into on the same date. Had the first unit restarted by 15 June 2003, C\$50m would have been released to British Energy and an additional C\$50m would have been released to British Energy had the second unit restarted by 1 August 2003. An amount of C\$5m was to be deducted from the C\$50m payable in respect of each unit for its failure to restart by the scheduled restart date or by the first day of each successive calendar month following the scheduled restart date. The Group received C\$20m on 22 March 2004 and C\$10m on 25 May 2004 in partial consideration under the Trust Agreement. British Energy commenced arbitration proceedings in Ontario against the Ontario Provincial Government (the Province) in December 2004 seeking the payment of additional consideration under the Trust Agreement on the basis that Bruce A Units 3 and 4 restarted earlier than the dates claimed by the Province. No additional amounts appear on the consolidated balance sheet at 31 March 2007 because of uncertainties regarding their realisation. The amounts recoverable in respect of the restarted units will be substantially lower than the maximum C\$100m but the amounts and timing of the payments have still to be confirmed.

The treatment of expenditure at the Bruce Power Station during the period of the Group's part ownership is currently being considered by the Canadian tax authorities and could result in a rebate of a material amount of tax to the Group (see note 32).

32. Contingent Liabilities

On 12 February 2004 British Energy Limited and British Energy International Holdings Limited received a notice of warranty claims from the consortium which purchased the Group's 82.4% interest in Bruce Power LP alleging breach of certain warranties and representations relating to tax and to the condition of certain plant at the Bruce Power Station.

The principal tax claim relates to the treatment of expenditure at the Bruce Power Station during the period of the Group's part ownership and is currently being considered by the Canadian tax authorities. The treatment proposed by the Group could result in a rebate of a material amount of tax to the Group that has not been recognised in the consolidated financial statements; it is impracticable to provide an estimate of the potential amount of the tax rebate. The consortium claims that allowance of the expenditure for that period would cause it to lose future deductions. British Energy International Holdings Limited has rejected the tax claim and expects to defend it if it is pursued further. The Group is confident that the amount of the claim should not, in any event, materially exceed the amount of the rebate, and that the tax claim should have no material cash flow impact on the Group.

Notes to the Consolidated Financial Statements for the year ended 31 March 2007

The claim relating to the condition of the plant is based upon alleged erosion of certain parts of the steam generators, including the support plates, through which boiler tubes pass, which it is alleged resulted in an extended Outage of one unit at the plant to carry out repair works and loss of revenues and costs of approximately C\$64.5m. The consortium also claims that the alleged erosion may reduce the operating life of the unit and/or result in further repairs involving further losses. On 10 February 2006, British Energy Limited and British Energy International Holdings Limited filed a Notice of Action against Ontario Power Generation (OPG) and Bruce Power LP with the Ontario Superior Court of Justice seeking a contribution and indemnity from OPG and Bruce Power LP with respect to any amounts for which British Energy Limited or British Energy International Holdings Limited may be found liable as a result of the steam generator claim brought on 12 February 2004 by the consortium which acquired British Energy Limited's 82.4% interest in the Bruce Power plant.

On 7 December 2006, the consortium served a notice of arbitration on British Energy Limited and British Energy International Holdings Limited in relation to the purchase price payable by the consortium on the purchase of Bruce Power LP. Under the disposal arrangements, the parties agreed a post-completion adjustment to the purchase price to account for the value of the Bruce Power pension plan as determined by a mutually appointed actuarial advisor. The consortium alleges that the valuation was incorrect, resulting in British Energy benefiting by C\$23.1m which the consortium is now claiming together with interest and costs. British Energy expects to defend the claim.

The consortium has also commenced legal proceedings against the actuaries responsible for evaluating the Bruce Power pension plan and post-completion adjustment to the purchase price payable by the consortium. On 15 May 2007, the defendants in the consortium's legal action served notice of a third party action on British Energy Limited and British Energy International Holdings Limited seeking an indemnity against any amounts for which the defendants may be found liable (approximately C\$23.1m together with interest and costs). British Energy expects to defend the claim. If the consortium is successful in its action against the actuaries, it is very unlikely that the arbitration commenced by it against British Energy in December 2006 will proceed.

Under the agreement with the consortium C\$20m is retained in trust to meet any representation and warranty claims, and this may be retained pending agreement or determination of the claims.

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

The Group is involved in a number of other claims and disputes arising in the normal course of business which are not expected to have a material effect on the Group's financial position.

33. Financial Commitments

(i) Capital Commitments

	2007 £m	2006 £m
Capital expenditure contracted but not provided:		
- property, plant and equipment	24	39
- intangible assets	104	81
Total capital commitments	128	120

(ii) Operating Lease Commitments

At the balance sheet date, the Group has outstanding commitments under non-cancellable operating leases which fall due as follows:

	2007 £m	2006 £m
Within one year	5	5
In the second to fifth years inclusive	8	13
Later than five years	7	8

(iii) Other Contractual Commitments

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

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

At 31 March 2007, the estimated minimum commitment for the supply of coal was 4m tonnes (2006: 4m tonnes), which, at contract prices on 31 March 2007, equates to approximately £139m (2006: £142m). Of this, 3m tonnes (2006: 2m tonnes) with an approximate value of £116m (2006: £77m) falls due within one year and 1m tonnes (2006: 2m tonnes) with an approximate value of £23m (2006: £65m) falls due after more than one year but not more than three years.

Notes to the Consolidated Financial Statements for the year ended 31 March 2007

In addition to the liabilities and provisions recognised and described in the notes to the consolidated financial statements, the Group has provided certain guarantees and commitments in respect of the extent of capital expenditure by Eggborough Power Limited. The Group also enters into commitments to purchase and sell electricity in the normal course of business.

The Group has a commitment to make the Cash Sweep Payment as described in note 2 (xvii). The annual Cash Sweep Payment can only be determined after the end of the financial year and is contingent based on cash generation in the year. Therefore, it is only recognised and provided for when it becomes determinable. At 31 March 2007, £305m has been accrued (2006: £105m).

34. Related Parties

The Company is a public limited company owned by our shareholders and operates within an extensive contractual framework established as part of the Restructuring. The most significant contract, in terms of the limitations it places on the business, is the Contribution Agreement between the Secretary of State and the Company. Within this contractual framework, the Company is managed independently by the Board, which continues to direct the finances and operating policies of the Group and is subject to the normal private sector disciplines, fiduciary duties and Companies Act requirements. The Company considers that no party is a controlling party under the terms of IAS 24 – Related Party Disclosures.

The following transactions were carried out with related parties:

(i) Entities with Significant Influence over the Group

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

- HMG meets the Group's historic contracted nuclear liabilities to BNFL, a Government controlled body. The nuclear liabilities receivable is recognised on the consolidated balance sheet in relation to these liabilities and decreased from £2,245m at 31 March 2006 to £2,223m at 31 March 2007.
- The Group made fixed decommissioning funding contributions to the NLF of £22m (2006: £21m) and a payment of £6m (2006: £6m) in respect of PWR fuel loaded into Sizewell B reactor during the year. A further £1m (2006: £0.2m) was paid in respect of the Group's share of the NLF's administration costs.
- The Group made payments to BNFL of £295m (2006: £350m) during the year in respect of front and back end fuel costs. In addition, under the Government indemnity in respect of historic nuclear liabilities, consideration of £197m (2006: £189m) was passed to BNFL in the year. The balance outstanding due to BNFL at the end of the year was £16m (2006: £26m). Amounts due from the Group to BNFL at 31 March 2007 under the Historic Liability Funding Agreement amounted to £2,223m (2006: £2,245m).
- The Group is required to make Cash Sweep Payments to the NLF depending on certain criteria being met. See note 8 for further details.
- On 19 March 2007 the Group announced that it had entered into an agreement with the Nuclear Decommissioning Agency (NDA) under which the Group will market the electrical output of NDA's power stations over their remaining lives. NDA's Magnox nuclear power stations are forecast to generate approximately 7TWh per annum over the life of the agreement which is expected to last until 2011. The agreement was entered into on an arm's length basis and is in the ordinary course of business.

The NLF, a Government controlled company, was issued with Bonds of £275m by British Energy Holdings plc as part of the Restructuring on 15 January 2005, however, as they are bearer bonds the Group is unable to confirm the total value held by the NLF at 31 March 2007. The outstanding amount of Bonds issued to the NLF is included within the £450m of sterling bonds outstanding at 31 March 2007, see note 20 for further details. The Group has also entered into a number of material transactions in its normal course of business with other sponsored bodies and departments of HMG including HM Revenue and Customs.

(ii) Key Management Personnel

The compensation of key management personnel is set out in note 7.

35. Non-adjusting Post Balance Sheet Events

A base dividend, payable as a final dividend, of 13.6p per ordinary share (equivalent to £80m in total based on current issued share capital fully diluted by the exercise of all remaining Warrants) has been recommended by the Board of Directors since the year end and will be presented at the Company's AGM in July for approval. The proposed dividend has not been recognised as a distribution in the consolidated financial statements.

On 21 March 2007, the Government announced its intention to reduce the corporation tax rate from 30% to 28% and phase out industrial buildings allowances, both with effect from 1 April 2008. These changes have not been reflected in the financial statements at 31 March 2007 because they are not considered to be substantively enacted at the balance sheet date. An estimate of the financial effect of these changes at 31 March 2007 is that it would increase the net deferred tax liability by £39m to £102m.

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

Parent Company Financial Statements
Balance Sheet
as at 31 March 2007

	Notes	2007 £m	2006 £m
Fixed assets			
Investments	4	1,541	1,539
Current assets			
Debtors	5	530	-
Creditors: amounts falling due within one year			
Amounts due to subsidiary undertakings	6	(15)	(1)
Net current assets/(liabilities)		515	(1)
Total assets less current liabilities		2,056	1,538
Capital and reserves			
Called up equity share capital	7,8	58	57
Share premium	8	40	24
Capital reserve	8	767	767
Warrant reserve	8	24	35
Profit and loss account	8	1,167	655
Total shareholders' funds (including non-equity shareholders' interests)	8	2,056	1,538

The parent company financial statements were approved by the Board of Directors on 30 May 2007 and signed on its behalf by:

Bill Coley
Chief Executive

Stephen Billingham
Finance Director

Parent Company Financial Statements
Notes to the Financial Statements
for the year ended 31 March 2007

1. Accounting Policies

(i) Basis of Preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United Kingdom and are therefore being presented separately from the consolidated financial statements of the British Energy Group, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and International Financial Reporting Interpretations Committee (IFRIC) interpretations.

References to British Energy or the Company are to British Energy Group plc, the ultimate holding company of the British Energy Group. References to the Group are to the Company and its subsidiaries. These financial statements cover the financial year from 1 April 2006 to 31 March 2007, with comparative figures for the financial year from 1 April 2005 to 31 March 2006.

In preparing the financial statements for the current year, the Company has adopted the Amendment to FRS 26 – Financial Instruments: Measurement, in respect of its financial guarantee contracts. This change in accounting policy has resulted in no revisions to the financial statements in the current or prior periods.

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 are the most appropriate. A number of the policies require the Company to use a variety of estimation techniques. Significant factors considered when assessing the carrying value of assets include future electricity prices, expected annual output, expected station operating costs, remaining station lives and discount rates.

The Company has taken advantage of the exemption under Section 230 of the Companies Act 1985 from presenting a profit and loss account, statement of total recognised gains and losses and cash flow statement. Accordingly neither a profit and loss account, statement of total recognised gains and losses, nor a cash flow statement is presented in these financial statements.

(ii) Fixed Asset Investments

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

(iii) 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 on all timing differences that have originated but not reversed by 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.

(iv) Share-based Payment

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

The Company issues equity-settled share-based payments to certain employees of its subsidiaries under the terms of the Company's various employee share compensation schemes. The fair value of the share compensation schemes is recognised in investments with the corresponding credit included in shareholders' equity.

Parent Company Financial Statements
Notes to the Financial Statements
for the year ended 31 March 2007

2. Profit of the Company

The retained profit for the financial year attributable to the Company was £510m (2006: £nil), including £500m (2006: £nil) of dividends received from subsidiary undertakings. The Company has distributable reserves at 31 March 2007 of £1,162m (2006: £652m).

The Company has no employees (2006: nil).

3. Summary of Directors' Emoluments

	Year ended 31 March 2007 £000	Year ended 31 March 2006 £000
Total emoluments, including pension contributions:		
As Directors	758	671
For management services:		
Salaries and other benefits	1,466	1,639
Performance related bonuses	-	1,440
Pension costs	46	53
	2,270	3,803
Compensation for loss of office	1,100	654
	3,370	4,457

Emoluments of all the Directors are borne by British Energy Limited but are included in the above amounts.

4. Fixed Asset Investments

	£m
Cost and net book value	
As at 31 March 2006	1,539
Additions	2
As at 31 March 2007	1,541

Investments relate wholly to investments in subsidiary undertakings.

Details of British Energy Group plc's principal subsidiary undertakings are as follows:

	Country of registration and operation	Class of share	Subsidiary share- holding %	Company share- holding %	Principal activity
British Energy Holdings plc	Scotland	Ordinary	-	100	Holding company
British Energy Limited	Scotland	Ordinary	100	-	Holding company
British Energy Generation Limited	England and Wales	Ordinary	100	-	Generation and sale of electricity
British Energy Power and Energy Trading Limited	Scotland	Ordinary	100	-	Energy trading
British Energy Direct Limited	England and Wales	Ordinary	100	-	Sale of electricity
Eggborough Power Limited	England and Wales	Ordinary	100	-	Generation and sale of electricity

A full list of subsidiary undertakings will be annexed to the Company's next annual return.

5. Debtors

	2007 £m	2006 £m
Amounts due from subsidiary undertakings	530	-

Amounts due from subsidiary undertakings, which originated post Restructuring, bear interest at LIBOR plus 2% and are repayable on demand.

Parent Company Financial Statements
Notes to the Financial Statements
for the year ended 31 March 2007

6. Creditors: Amounts Falling due Within One Year

	2007 £m	2006 £m
Amounts due to subsidiary undertakings	15	1

Amounts due to subsidiary undertakings, which originated post Restructuring, bear interest at LIBOR plus 2% and are repayable on demand.

7. Called Up Share Capital

	2007 £m	2006 £m
Authorised:		
2,800,000,000 (2006: 2,800,000,000) ordinary shares of 10p each	280	280
2,000,000,000 (2006: 2,000,000,000) convertible shares of 10p each	200	200
One (2006: one) special rights redeemable preference share of £1	-	-
	480	480

	2007 £m	2006 £m
Allotted, called up and fully paid:		
Equity shareholders' funds:		
576,594,935 (2006: 570,195,496) ordinary shares of 10p each	58	57
	58	57
Non-equity shareholders' funds:		
One (2006: one) special rights redeemable preference share of £1	-	-
	58	57

For details of the rights of each class of the Company's shares and the Company's employee share option schemes refer to notes 27 and 30 respectively in the Group's financial statements.

8. Reconciliation of Movement in Shareholders' Funds and Movement in Reserves

	Called up equity share capital £m	Share premium £m	Capital reserve £m	Warrant reserve £m	Profit and loss account £m	Total £m
Balance at 31 March 2005	56	-	767	51	652	1,526
Share-based payments	-	-	-	-	3	3
Exercise of Warrants	1	24	-	(16)	-	9
Balance at 31 March 2006	57	24	767	35	655	1,538
Net profit for the year attributable to shareholders	-	-	-	-	510	510
Share-based payments	-	-	-	-	2	2
Exercise of Warrants	1	16	-	(11)	-	6
Balance at 31 March 2007	58	40	767	24	1,167	2,056

The Company has distributable reserves of £1,162m (2006: £652m).

Warrant Reserve

On Restructuring the shareholders in British Energy plc were entitled to receive Shares and Warrants in British Energy Group plc. The Warrants entitle the holder to subscribe for ordinary shares in the Company within five years of the Restructuring. As the Warrants are exercised this reserve will be transferred to share capital and the share premium account. During the year, 6,399,439 Warrants (2006: 8,880,037) were exercised resulting in a £11m (2006: £16m) reduction in the warrant reserve and a £1m (2006: £1m) and £16m (2006: £24m) increase respectively in share capital and share premium. At 31 March 2007 there were 13,719,866 (2006: 20,119,305) of unexercised Warrants. The proceeds received in the year in relation to the exercise of the Warrants amounted to £6m (2006: £9m).

Parent Company Financial Statements
Notes to the Financial Statements
for the year ended 31 March 2007

9. Contingent Liabilities

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

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

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

The Company has provided a debenture comprising fixed and floating charges to Barclays Bank along with a number of other group companies in respect of all sums due under the Eggborough Finance Credit Agreement, the Capacity and Tolling Agreement and the Second Intercompany Loan Agreement.

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

10. Financial Commitments

(i) Capital Commitments

The Company has no capital commitments at 31 March 2007 (2006: £nil).

(ii) Other Contractual Commitments

The Company has a commitment to make the Cash Sweep Payment as described in the Contribution Agreement. As permitted by this Agreement, the Company has agreed with British Energy Generation Limited that it will make the required contribution on behalf of the Company.

11. Non-adjusting Post Balance Sheet Event

A base dividend, payable as a final dividend, of 13.6p per ordinary share (equivalent to £80m in total based on current issued share capital fully diluted by the exercise of all remaining Warrants) has been recommended by the Board of Directors since the year end and will be presented at the Company's AGM in July for approval. The proposed dividend has not been recognised as a distribution in the parent company financial statements.

Financial Summary

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m	2 July 2004* to 31 March 2005 £m
Results			
Revenue	2,999	2,593	499
Operating profit	794	635	69
Profit before tax	796	599	60
Net profit	465	430	41
Dividends on ordinary shares	-	-	-
Balance Sheet			
Net assets	2,647	2,101	1,621
Net current assets	1,287	810	456
Nuclear liabilities (discounted)	5,469	5,237	5,143
Capital expenditure	235	220	35
Net funds/(debt)	674	218	(220)
Ratios			
Dividends per ordinary share (p/share)	-	-	-
Basic earnings per share (p/share)	81.5	75.9	7.3
Dividend cover	n/a	n/a	n/a

* The results are those of the acquired Group from the date of acquisition, 14 January 2005.

Glossary

AGR (Advanced Gas-Cooled Reactor)

The second generation of gas-cooled nuclear reactor built in the UK.

Baseload Generation

Mode of operation of a power station at a constant high level of output for a sustained period of time to assist in meeting minimum national demand.

Bonds

Bonds issued by British Energy Holdings plc.

British Energy Direct

British Energy Direct Limited.

BETTA

British Electricity Transmission and Trading Arrangements.

BNFL

British Nuclear Fuels plc.

BNGSL

British Nuclear Group Sellafield Limited.

Bruce

The Bruce A and B nuclear power stations in Ontario, Canada.

BSUoS

Balancing Services Use of System.

Contribution Agreement

The agreement dated 14 January 2005 and now between the Secretary of State, NLF, British Energy Generation Limited, British Energy Group plc and British Energy Holdings plc (as amended from time to time).

Decommissioning

The process whereby a nuclear power station is shut down at the end of its economic life, eventually dismantled, and the site made available for other purposes.

DUoS

Distribution Use of System.

Emission Limit Values (ELV)

Emission limits imposed under the Large Combustion Plant Directive, requiring operators to maintain emissions within a rate limit at all points in time.

Energy Supply Costs

Mainly comprise the costs incurred for the use of the distribution and transmission systems, recovered through revenue, and costs of Renewable Obligation Certificates (ROCs).

EPL

Eggborough Power Limited.

ETS

Emissions Trading Scheme.

FGD (Flue Gas Desulphurisation)

Equipment fitted to coal-fired power stations to reduce sulphur dioxide emissions.

GTMA

Grid Trade Master Agreement.

GW (Gigawatt): GWh (Gigawatt-hour)

Glossary

One gigawatt equals 1,000 MW: one gigawatt-hour represents one hour of electricity consumed at a constant rate of 1 GW.

Investment in Plant

Investment expenditure on plant projects, major repairs and strategic spares across the whole Group, and incremental costs associated with the Performance Improvement Programme including associated staff costs.

ISDA

International Swap Dealers Association

kW (Kilowatt): kWh (Kilowatt-hour)

A kilowatt is a unit of power, representing the rate at which energy is used or produced: one kilowatt-hour is a unit of energy and represents one hour of electricity consumption at a constant rate of 1 kW.

Large Combustion Plant Directive (LCPD)

EC Directive applicable to combustion plants exceeding 50 MW thermal, that takes into account recent advances in combustion and abatement technologies to introduce revised limits for releases of SO₂, NO_x and dust. Under UK implementation of the Directive, operators are permitted to elect either the Emission Limits Value (ELV) approach or the National Emissions Reduction Plan (NERP) approach.

Levy Exemption Certificates (LECs)

The climate change levy is a tax on the use of energy in industry, commerce and the public sector. The purpose of the levy is to encourage the efficient use of energy, therefore a range of measures are in place to assist energy users to improve energy efficiency, one of which is the exemption for the use of renewable power. LECs are provided as proof that this exemption is valid. 1 LEC equals 1MWh of renewable energy.

LLW, ILW, HLW (Low, Intermediate, High Level Waste)

Radioactive waste is classified as low, intermediate or high level waste according to its heat generating capacity and radioactivity. LLW comprises slightly radioactive materials, such as discarded protective clothing and used wrapped materials. ILW comprises more radioactive materials, including sludges and resins from the cleaning of fuel storage pond water, fuel cladding and other materials arising from the reprocessing of spent fuel, and some radioactive components arising from the decommissioning of plant. HLW comprises nuclear waste products separated out from uranium and plutonium during the reprocessing of spent nuclear fuel.

Load Factor

The electricity produced by a power station expressed as a percentage of the electricity it could have produced if operating at its reference energy generation over a fixed time period, usually one year.

Lost Time Accident (LTA)

An incident which causes one or more days off work (consecutive or not) after, but not including, the day of an occupational injury or illness.

Market Price

The price for annual forward baseload contracts.

Material Condition

A term used by nuclear operators, particularly in the United States, in relation to nuclear power stations, and used to describe the physical condition of plant and equipment and the condition of operating procedures, engineering drawings, specifications and manuals (taking safety, maintenance and plant reliability into consideration).

MW (Megawatt): MWh (Megawatt-hour)

One megawatt equals 1,000 kW: one megawatt-hour represents one hour of electricity consumption at a constant rate of 1 MW.

National Emissions Reduction Plan (NERP)

Emission limits imposed under the Large Plant Combustion Directive, requiring operators to maintain emissions within an annual 'bubble' limit.

NDA

Nuclear Decommissioning Authority.

NLF

An independently administered fund into which the Group makes contributions to cover all qualifying uncontracted nuclear liabilities including costs of decommissioning nuclear power stations and PWR back end fuel costs.

Non Outage Defect Inventory

Total of outstanding plant defects which are work requests that have been partially assessed by maintenance, or are still awaiting action

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after screening by the station Work Review Groups, based on a priority weighting set by the Technical Advisory Committee.

Nuclear Installations Inspectorate (NII)

A part of the Nuclear Safety Division Directorate of the Health and Safety Executive, which administer nuclear site licences.

Outage (Planned and Unplanned)

A period during which a reactor is shut down. The periodic shutdown of a reactor including for maintenance, inspection and testing or, in some cases, for refuelling is known as a planned outage. In the UK, some planned outages are known as statutory outages and are required by the conditions attached to the nuclear site licence needed to operate the station. Unscheduled shutdown of a reactor for a period is known as an unplanned outage.

PWR (Pressurised Water Reactor)

The most recent type of nuclear reactor to be constructed in the UK which uses pressurised water as both the coolant and the moderator.

Quinquennial Review

The five-yearly review of the assumptions underlying the Group's provision for certain nuclear liabilities.

Realised Price

Calculated by dividing revenue from generated electricity by total output for the period.

Renewable Obligation Certificates

Eligible renewable generators receive Renewable Obligation Certificates (ROCs) for each MWh of electricity generated. These certificates can then be sold to suppliers, in order to fulfil their renewables obligation.

Renewable Obligation Scheme

Scheme introduced by Utilities Act (2000) requiring electricity suppliers to ensure a proportion of sales are derived from renewable sources.

Restructuring

The restructuring of the Group completed on 14 January 2005.

RED

The Restructuring Effective Date, 14 January 2005.

Revalorisation

Revalorisation arises because nuclear liabilities are stated in the balance sheet at current price levels, discounted at 3% per annum from the eventual payment dates. The revalorisation charge is the adjustment that results from restating these liabilities to take into account the effect of inflation in the year and to remove the effect of one year's discount as the eventual dates of payment become one year closer. Revalorisation charges arise in respect of the fixed decommissioning obligation to reflect the unwinding of the discount for the period. A revalorisation credit arises in respect of movements in the value of nuclear liabilities and the NLF receivable to take account of the underlying movement in nuclear liabilities.

RPI

Retail Price Index.

RPIX

Retail Price Index minus mortgage interest payments.

Shares

Ordinary shares in British Energy Group plc.

Statutory Outage

The planned shutdown of nuclear reactors for regulatory inspection and maintenance.

TNUoS

Transmission Use of System.

TW (Terawatt): TWh (Terawatt-hour)

One terawatt equals 1,000 GW: one terawatt-hour represents one hour of electricity consumption at a constant rate of 1 TW.

Unit Capability Factor

The percentage of maximum energy generation that a plant is capable of supplying to the electrical grid, limited only by factors within the

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control of plant management.

Unit Operating Costs

Calculated by dividing the operating costs of generated electricity plus depreciation and software amortisation by total output for the period.

Unplanned Capability Loss Factor (UCLF)

Unplanned capability loss factor is defined as the ratio of the unplanned energy losses during a given period of time, to the reference energy generation, expressed as a percentage.

Unplanned Energy Loss

In the context of Unplanned Capability Loss Factor, unplanned energy loss is energy that was not produced during the period because of unplanned shutdowns, outage extensions, or unplanned load reductions due to causes under plant management control. Causes of energy losses are considered to be unplanned if they are not scheduled at least four weeks in advance.

UKLA

United Kingdom Listing Authority.

Warrants

Warrants entitling the holder to subscribe for shares in British Energy Group plc.