

BRITISH ENERGY GROUP PLC
RESULTS FOR THE FIRST QUARTER ENDED 1 JULY 2007
OF THE FINANCIAL YEAR ENDING 31 MARCH 2008

Key Points

- Overall, the performance of stations in the year to date has been encouraging. We have returned the four units at Hinkley Point B and Hunterston B to service. However, boiler inspection outages and load restrictions at these stations have impacted financial performance for the period compared to the corresponding period last year (the comparable period).

	Quarter ended 1 July 2007 (Q1 2007/08)	Quarter ended 2 July 2006 (Q1 2006/07)
<i>Adjusted EBITDA* (£m)</i>	253	289
<i>Operating profit before NLF Cash Sweep Payment credit, NLF Cash Sweep Payment and amortisation of conversion asset (£m)</i>	168	215
<i>Adjusted net profit for the period attributable to shareholders** (£m)</i>	91	146

Adjusted earnings per share after taking account of NLF Cash Sweep economic interest at 35.98% (Q1 2006/07: 64.62%***)	5.7p	9.1p
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IFRS net profit for the period attributable to shareholders £179m (comparable period: £75m), basic earnings per share 25.8p (comparable period: 13.2p); includes Cash Sweep Payment credit £134m (comparable period: £nil) and amortisation of conversion asset £15m (comparable period: £nil).

- Total output for the period was 13.8TWh (nuclear 13.0TWh, coal 0.8TWh), down from 17.0TWh for the comparable period (nuclear 15.3TWh, coal 1.7TWh), due to boiler issues at Hinkley Point B and Hunterston B and the impact of tighter dark spreads on output for Eggborough. Output stated after total non-routine nuclear losses of 5.0TWh (being unplanned losses of 2.6TWh attributable to operations at Hinkley Point B and Hunterston B, losses of 0.5TWh attributable to other stations and 1.9TWh losses at Hinkley Point B and Hunterston B that were planned at the start of the year) compared to 3.4TWh losses in the comparable period.
- To meet temperature specifications at all points in the boilers, the four units at Hinkley Point B and Hunterston B are currently operating in a range around 60% load. Further boiler balancing work will be directed at delivering reliable 70% load, in a phased process during planned outages over the next year. Capital investment to increase load beyond 70% will not be undertaken this year and is to be considered within the context of the ongoing life extension assessment for these stations. A decision on life extension will be made by 31 March 2008.
- Adjusted EBITDA decreased in the period to £253m, reflecting lower output, partially offset by higher realised prices.
- Realised price was £40.8/MWh for the period, up £4.9/MWh (14%) from the comparable period. Reflects forward sales of electricity at prices considerably higher than current market prices. As at 5 August 2007, fixed price contracts in place for 60TWh for the financial year 2007/08 at an average contract price of £42/MWh (excluding the impact of 5TWh capped contracts, at around £30/MWh).
- Unit operating cost increased to £27.0/MWh for the period from £22.1/MWh in the comparable period, mainly reflecting reduced output. Other cost increases in line with previous guidance for the full year.

- Investment in plant projects, major repairs and strategic spares was £56m for the period, up from £54m in the comparable period. Statutory outage completed at Heysham 2 and another expected to be completed shortly at Heysham 1. Expect 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.
- Total output for the current financial year to 5 August 2007 was 20.6TWh (19.0TWh nuclear, 1.6TWh coal), after total non-routine nuclear losses of 6.1TWh (being unplanned losses of 3.0TWh attributable to operations at Hinkley Point B and Hunterston B, losses of 0.6TWh attributable to other stations and 2.5TWh losses at Hinkley Point B and Hunterston B that were planned at the start of the year).
- In addition, as at 5 August 2007, the Company had fixed price contracts in place for approximately 36TWh for the financial year 2008/09 at an average price of £42/MWh excluding approximately 5TWh of capped contracts at around £30/MWh. The capped contracts are for delivery of approximately 5TWh per annum up to March 2011.
- As at 12 August 2007, the Company had approximately 100TWh of zero/capped collateral trades that will deliver over the period to March 2013 at fixed prices (excluding power already delivered under these contracts), up from 51TWh at 6 August 2006.

The NLF Cash Sweep percentage was 35.98% as at 1 July 2007, down from 64.04% at 31 March 2007 principally as a result of the partial conversion into equity by the NLF of its cash sweep entitlement in June 2007. This transaction resulted in the issue and sale of 450m ordinary shares and resulted in an increase in share capital and share premium of £45m and £2,295m respectively and a conversion asset of £2,340m. The conversion asset is being amortised over the accounting lives of the stations, accordingly an amortisation charge of £15m has been recorded in the results for the period. Shareholder approval was given in July 2007 to initiate the process to obtain court approval for a capital reduction of the share premium created by the conversion, and accordingly a petition to the Court of Session was submitted on 14 August 2007.

The NLF has agreed to waive a portion of the Cash Sweep Payment in respect of the financial year 2006/07 to maintain economic parity between the NLF and shareholders, reducing the amount payable from £305m to £171m and resulting in an income statement credit of £134m being recognised this quarter. Accordingly, a Cash Sweep Payment of £171m was made to the NLF in July 2007. In line with the Group's accounting policy, no accrual has been made as at 1 July 2007 for any NLF Cash Sweep Payment in respect of the financial year 2007/08.

Bill Coley, CEO of British Energy, said:

"I am encouraged by the performance of the fleet and improvement in the level of unplanned losses. We continue to work hard to deliver reliable output from Hinkley Point B and Hunterston B, while seeking to maintain the performance seen across the fleet for the rest of the year."

	Quarter ended 1 July 2007 (Q1 2007/08)	Quarter ended 2 July 2006 (Q1 2006/07)
Revenue (£m)	668	729
Operating and energy costs (£m)	(415)	(440)
Adjusted EBITDA* (£m)	253	289
Depreciation and other amortisation (£m)	(60)	(51)
Other operating income (£m)	1	15
Unrealised net losses on derivative financial instruments and commodity contracts (£m)	(26)	(38)
Operating profit before NLF Cash Sweep Payment credit, NLF Cash Sweep Payment and amortisation of conversion asset (£m)	168	215
Adjusted net profit for the period attributable to shareholders** (£m)	91	146
NLF Cash Sweep Payment credit** (£m)	134	-
NLF Cash Sweep Payment*** (£m)	-	-
Amortisation of conversion asset** (£m)	(15)	-
Adjustments in respect of taxation** (£m)	(31)	(71)
Net profit for the period attributable to shareholders (£m)	179	75
Basic earnings per share (p)	25.8	13.2

Realised price (£/MWh)	40.8	35.9
Unit operating cost (£/MWh)	27.0	22.1
Operating margin (£/MWh)	13.8	13.8

Adjusted operating profit (excluding certain items)**** (£m)	193	238
Adjusted net profit (excluding certain items)**** (£m)	108	164
Adjusted earnings per share (excluding certain items)**** after taking account of NLF Cash Sweep economic interest at 35.98% (Q1 2006/07: 64.62%)*** (p)	6.7p	10.2p

Nuclear unplanned capability loss factor (%)	19	13
Total output (TWh)	13.8	17.0
Nuclear (TWh)	13.0	15.3
Coal (TWh)	0.8	1.7

	As at 1 July 2007	As at 31 March 2007
Cash and cash equivalents (excluding restricted cash and other financial assets) (£m)	1,289	1,101
Debt (£m)	(573)	(573)
Net cash/(debt) (excluding restricted cash and other financial assets) (£m)	716	528

Restricted cash and other financial assets***** (£m)	134	146
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*Adjusted EBITDA is defined as profit before financing (charges)/credits, taxation, depreciation, amortisation of conversion asset, other amortisation, unrealised net (losses)/gains on derivative financial instruments and commodity contracts, NLF Cash Sweep Payment, NLF Cash Sweep Payment credit, other exceptional operating expenses and other operating income. The Directors believe that the adjusted measure provides a better indication of underlying business performance.

***The reported results for the period include a credit of £134m to reflect the waiver by the NLF of a portion of the Cash Sweep Payment in respect of the financial year 2006/07, reducing the amount payable from £305m to £171m, and a charge of £15m in respect of amortisation of the conversion asset recorded upon partial conversion. These items have been excluded in the calculation of Adjusted net profit for the period attributable to shareholders, together with the corresponding adjustments to taxation thereon, as described below.*

****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 9 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, NLF Cash Sweep Payment credit and amortisation of conversion asset, divided by the enlarged number of shares that would have been in issue had the NLF fully converted its remaining interest at 1 July 2007. This would result in an adjusted earnings per share of 5.7p for the period ended 1 July 2007 (Q1 2006/07: 9.1p).*

*****Results for the period ended 1 July 2007 have been adjusted to exclude unrealised net (losses)/gains on derivative financial instruments and commodity contracts, NLF Cash Sweep Payment, NLF Cash Sweep Payment credit, amortisation of conversion asset, other operating income, non-recurring severance costs and other exceptional operating expenses and include where appropriate the corresponding adjustments to taxation and revalorisation thereon.*

******Cash and cash equivalents reflect classification of £49m (£51m as at 31 March 2007) 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, 16 August 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: 11208341

Principally for the benefit of US investors, management will host a further conference call for analysts, institutional investors and bondholders at 2:00pm (UK time), 16 August 2007. The conference can be accessed by dialling:

UK dial in: 0845 146 2010
International dial in: +44 (0) 1452 542304

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: 11208341

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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.

CHIEF EXECUTIVE'S OPERATIONAL REVIEW

Overview

We have made significant progress in this first quarter of the financial year 2007/08. I am pleased to report that we have returned the four units at Hinkley Point B and Hunterston B to service. We are now engaged in work to balance flows through the boilers as a consequence of operating at reduced loads. This involves additional balancing of the boilers and controls as well as adjusting load to arrive at the optimum operating load.

To meet temperature specifications at all points in the boilers, the four units at Hinkley Point B and Hunterston B are currently operating in a range around 60% load. Further boiler balancing work will be directed at delivering reliable 70% load, in a phased process during planned outages over the next year. Capital investment to increase load beyond 70% will not be undertaken this year and is to be considered within the context of the ongoing life extension assessment for these stations. A decision on life extension will be made by 31 March 2008.

Performance of the remainder of the fleet in the year to date has been encouraging, most notably the reduction in unplanned losses. We remain focused on delivering an improvement in output this year, with a constant focus on safety and environmental performance.

We look forward to the outcome of the Government's consultation on the need for new nuclear build. In the meantime, we are continuing to press ahead in parallel with a number of workstreams, including an assessment of the suitability of our sites for nuclear new build. We expect to make a further announcement regarding partnership arrangements later this financial year.

I am also very pleased to report that last month we paid a dividend of 13.6p per share, our first distribution since the re-listing of the Company in 2005. As previously announced, the Board will also consider an additional dividend in early 2008, taking into account the Company's financial position at that time.

Plant Output and Performance

Total output for the period was 13.8TWh (nuclear 13.0TWh, coal 0.8TWh), down from 17.0TWh for the comparable period (nuclear 15.3TWh, coal 1.7TWh). Nuclear output for the period was lower than the comparable period primarily due to losses incurred in connection with boiler issues at Hinkley Point B and Hunterston B, partially offset by a reduction in other unplanned losses, and reflects a nuclear unplanned capability loss factor of 19% up from 13% for the comparable period. Excluding Hinkley Point B and Hunterston B, nuclear unplanned capability loss factor was 6% for the period, down from 11% in the comparable period.

Total non-routine nuclear losses in the period were 5.0TWh (being unplanned losses of 2.6TWh attributable to operations at Hinkley Point B and Hunterston B, losses of 0.5TWh attributable to other stations and 1.9TWh losses at Hinkley Point B and Hunterston B that were planned at the start of the year) compared to 3.4TWh losses in the comparable period. While the level of losses attributable to boiler issues has been significant, the performance of the remainder of the fleet is encouraging.

Output from our coal-fired power station at Eggborough was 0.8TWh during the period, down from 1.7TWh in the comparable period. This reflects planned maintenance work, and tighter dark spreads.

Total output to 5 August 2007 for the current financial year ending 31 March 2008 was 20.6TWh (nuclear 19.0TWh, coal 1.6TWh) after total non-routine nuclear losses for the period to 5 August 2007 of 6.1TWh (being unplanned losses of 3.0TWh attributable to operations at Hinkley Point B and Hunterston B, losses of 0.6TWh attributable to other stations and 2.5TWh losses at Hinkley Point B and Hunterston B that were planned at the start of the year).

Investment

Investment in plant projects, major repairs and strategic spares for the period was £56m, up from £54m in the comparable period.

During the period, we completed a statutory outage at Heysham 2. We expect to complete the statutory outage at Heysham 1, Reactor 1 shortly. In addition, a statutory outage is underway at Torness. A further two statutory outages are planned for the financial year 2007/08 at Hartlepool and Sizewell B.

During the statutory outage at Heysham 1, we have performed camera inspections of the Hot Box Dome insulation of Reactor 1, revealing no visible abnormalities. The load restrictions for Heysham 1, Reactor 2 (as disclosed in the financial year 2006/07 Preliminary Results) remain in force. We plan to submit a safety case to the NII later this financial year, to increase the operating temperature limit on the Hot Box Domes at Heysham 1 and Hartlepool by a small margin. Subject to NII approval, this would enable us to marginally increase power at Heysham 1, Reactor 2 above current levels.

Safety and Environmental Performance

Our overriding priority is to ensure that the nuclear, industrial, radiological and environmental safety of our operations is effectively managed and assured.

During the period, there were two lost time accidents for the nuclear fleet (comparable period: three lost time accidents), one nuclear reportable event (comparable period: four events ⁽¹⁾) and five environmental events (comparable period: six events). There have been no events on the Environment Agency scale during period.

We continue to identify and embed best practices throughout the fleet as a means of continually improving our health and safety performance.

Trading

Market Conditions

The forward price of annual baseload electricity rose slightly from around £37.7/MWh at the start of April 2007 to around £37.8/MWh as at 3 August 2007.

The market price of Uranium has increased significantly from the level at which the Company entered its existing fuel agreements. The long-term market price of Uranium was US\$95 per pound as at 30 July 2007, compared to US\$85 per pound as at 31 March 2007. If Uranium and Uranium related services remain at July 2007 long-term market prices, this would eventually increase the Group's total nuclear fuel costs by approximately £163m per annum from the current costs, the increase starting from April 2010. The Company currently has contracts in place which provide nearly 100% coverage of its anticipated requirements until 31 March 2012. It is anticipated that the full expense would be recognised by 31 March 2016.

Trading Performance

Realised price for the period was £40.8/MWh, an increase of £4.9/MWh compared with a realised price of £35.9/MWh for the comparable period. Our contracted price position continues to include the impact of capped price contracts entered into at a time when significantly lower market prices prevailed. A contract for 5TWh at a price below £20/MWh ended on 1 April 2007. The contract portfolio also includes profiled contracts (both wholesale and direct sales) and therefore the contracted price is not directly comparable to a baseload market price.

As at 5 August 2007, the Company had fixed price contracts in place for approximately 60TWh for the financial year 2007/08 at an average contract price of approximately £42/MWh excluding the impact of 5TWh of capped contracts. The capped contracts are for delivery of approximately 5TWh per annum up to March 2011.

In addition, as at 5 August 2007, the Company had fixed price contracts in place for approximately 36TWh for the financial year 2008/09 at an average price of approximately £42/MWh excluding approximately 5TWh of capped contracts at around £30/MWh.

As at 12 August 2007, the Company had 100TWh of zero/capped collateral trades that will deliver over the period to March 2013 at fixed prices (excluding power already delivered under these contracts), up from 51TWh at 6 August 2006 for delivery over the period to April 2011. One of these trades will defer cash receipts by a total of approximately £300m during the two years ending 31 March 2008. This cash will be received over the period up to 2011 or sooner to the extent substituted by letters of credit.

Boiler issues update

During the period, the Company completed the boiler inspections and required repairs at Hinkley Point B and Hunterston B. The NII agreed to the restart of all four units during May 2007 and they were subsequently returned to service. Our safety case sets temperature restrictions for boiler operation and following the return to service some control system adjustments were required together with output adjustments and temperature trimming. Two further shutdowns were necessary, one on Hunterston B Reactor 3 to make control system adjustments and one on Hunterston B Reactor 4 to balance boiler temperatures. Further boiler balancing work will be undertaken during the remainder of the year.

The next planned boiler inspection will be at Hunterston B, Reactor 3, expected to be undertaken in early 2008.

The current operating performance of Hinkley Point B and Hunterston B is described in the Overview above.

Lifetime extensions

A decision on lifetime extensions for Hinkley Point B and Hunterston B will be made by 31 March 2008. This is a Company decision, subject to consent from the Nuclear Decommissioning Authority, based on economics and maximising value, incorporating the Company's lifetime boiler management plan.

New Nuclear Build

The Government launched its consultation on the Future of Nuclear Power alongside the Energy White Paper on 23 May 2007 and following the consultation period will decide, whether energy companies should be allowed to invest in new nuclear power stations. On 11 July, the Prime Minister published a draft legislative programme for the 2007/08 session of parliament. This includes proposals for an Energy Bill with provisions for financing nuclear waste and decommissioning, a Climate Change Bill which will set targets for emissions reductions and a Planning Reform Bill which is intended to improve the consents regime for major infrastructure projects.

We are well placed to play an important role in any new build as we have skills, experience and sites that are good candidates for any new construction. In February we invited proposals from potential partners to work with us in developing, building and operating new nuclear stations. Discussions with a number of parties continue, with a view to creating partnerships that deliver value for our shareholders when the policy environment is in place.

We have commenced preliminary work on the suitability of the sites we own for development. We note with interest the views on suitability of sites expressed in the Jackson Report ⁽²⁾. The site selection process will take into account a wide range of factors, and will also be dependent on the Strategic Siting Assessment to be undertaken by Government. We have also declared support for the regulatory review of four reactor designs that could be built in the UK and will be carrying out our own internal assessment of these designs.

No decisions to invest will be taken unless the Board is confident that a robust policy framework for new build is in place and that the economic case is proved.

⁽¹⁾ Six nuclear reportable events were originally reported in the comparable period, but due to a change in categorisation, the figure was subsequently revised to four events

⁽²⁾ *"Siting New Nuclear Power Stations: Availability and Options for Government"*. Discussion paper for Department of Trade and Industry 26 April 2007, prepared by Jackson Consulting Limited

FINANCIAL REVIEW

Financial Performance

Summary of Results

The unaudited results for the three months ended 1 July 2007 (the period) and 2 July 2006 (the comparable period) are summarised as follows:

	Three months ended 1 July 2007 £m	Three months ended 2 July 2006 £m
Revenue	668	729
Operating and energy costs	(415)	(440)
Adjusted EBITDA ⁽¹⁾	253	289
Other operating income	1	15
Cash Sweep Payment credit	134	-
Cash Sweep Payment	-	-
Depreciation	(58)	(49)
Amortisation of conversion asset	(15)	-
Other amortisation	(2)	(2)
Unrealised net losses on derivative financial instruments and commodity contracts	(26)	(38)
Operating profit	287	215
Financing (charges)/credits		
Interest payable	(15)	(14)
Interest receivable	20	10
Other finance income/(expenses)	4	(1)
Profit before taxation	296	210
Taxation	(117)	(135)
Net profit for the period attributable to shareholders	179	75

(1) Adjusted EBITDA is defined as profit before financing (charges)/credits, taxation, depreciation, amortisation of conversion asset, other amortisation, unrealised net (losses)/gains on derivative financial instruments and commodity contracts, Cash Sweep Payment, Cash Sweep Payment credit, 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 is as follows:

	Three months ended 1 July 2007 £m	Three months ended 2 July 2006 £m
Revenue		
Wholesale generation sales	313	322
Direct supply sales excluding recovery of energy supply costs and renewable energy purchases recharged to customers	250	289
Revenue from generated electricity	563	611
Energy supply costs recharged to customers	95	103
Renewable energy purchases recharged to customers	8	13
Miscellaneous income	2	2
Total revenue	668	729

Output is analysed as follows:

	Three months ended 1 July 2007 TWh	Three months ended 2 July 2006 TWh
Nuclear power stations	13.0	15.3
Coal-fired power station - Eggborough	0.8	1.7
Total output	13.8	17.0

Wholesale generation sales and direct supply sales, excluding recovery of energy supply costs and renewable energy purchases recharged to customers, have decreased by £9m and £39m respectively from the comparable period. This is principally due to lower output. The Group's output in the period of 13.8TWh was 19% less than the output achieved in the comparable period, due to boiler issues at Hunterston B and Hinkley Point B, planned maintenance work at Eggborough and the impact of tighter dark spreads on output for Eggborough. The impact of the reduced output has been mitigated by a significant increase in realised price from £35.9/MWh in the comparable period to £40.8/MWh in this period. Realised price is calculated as revenue from generated electricity divided by total output.

Operating and Energy Costs Summary

The Group's operating and energy costs are analysed as follows:

	Three months ended 1 July 2007 £m	Three months ended 2 July 2006 £m
Fuel costs – nuclear	72	80
Fuel costs – Eggborough	24	34
Total fuel costs	96	114
Materials and services	122	121
Staff costs	94	89
Operating costs of generated electricity	312	324
Energy supply costs recharged to customers	95	103
Renewable energy purchases recharged to customers	8	13
Total operating and energy costs	415	440

Unit Operating Cost and Operating Margin

Unit operating cost increased to £27.0/MWh for the period from £22.1/MWh in the comparable period, 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 £4.9/MWh is mainly due to reduced output. The reduction in fuel costs reflects the reduced output in the period. For further discussion on each category of costs refer to the sections below.

Deducting unit operating cost from realised price per unit results in an operating margin per unit of £13.8/MWh for the period (2006: £13.8/MWh), in line with the comparable period.

Operating and Energy Costs

Fuel 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 £8m to £72m (2006: £80m) due primarily to the reduction in nuclear output. The nuclear fuel cost per unit has increased from £5.2/MWh to £5.5/MWh largely due to the revaluation of the provision for unburnt fuel at station closure, which is not linked to 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 broadly consistent with the comparable period.

Eggborough fuel costs totalled £24m for the period (2006: £34m), or £30.0/MWh (2006: £20.0/MWh). Eggborough fuel costs include the cost of coal, oil, biomass and carbon allowances. Excluding carbon allowances, Eggborough fuel costs were £17m (2006: £30m), or £21.3/MWh (2006: £17.6/MWh). The increase in unit costs reflects upward movement in coal prices.

Carbon allowance costs totalled £7m for the period (2006: £4m). Due to the collapse in market prices of Phase I carbon allowances to virtually zero the carbon cost for the period's generation was £nil (2006: £8m). The carbon costs recognised relate to losses on the close out of forward contracts net of a credit from the revaluation of the previous year's unsettled carbon allowance liability. It is anticipated that a further charge of £58m will be recognised in fuel costs during this financial year. This charge relates to unrealised losses on Phase I carbon allowance forward contracts and has been recognised in unrealised net losses on derivative financial instruments and commodity contracts in the year ended 31 March 2007. 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 is the accounting entry that matches the sales recognised in the revenue line of the consolidated income statement.

Materials and Services

Materials and services costs of £122m (2006: £121m) are in line with the comparable period. This category comprises the operating expenses of the power stations and support functions.

Staff Costs

Staff costs totalled £94m in the period (2006: £89m), an increase of £5m from the comparable period. Higher staff numbers, the annual pay rise and additional overtime costs accounted for the increase.

Energy Supply Costs

Energy supply costs were £95m (2006: £103m) and primarily comprise the costs to the Group of the Renewables Obligation Scheme, Transmission and Distribution Use of System costs (TNUoS and DUoS) and Balancing Services Use of System costs (BSUoS), all of which are fully recovered within revenue.

Energy Purchases

The volume of energy purchased from renewable sources was lower in the period at 0.26TWh compared to 0.31TWh in the comparable period. This factor, together with a reduction in the price paid for renewable energy, contributed to the reduction in renewable energy purchases to £8m in the period (2006: £13m).

Other Operating Income

Other operating income of £1m for the period (2006: £15m) relates to the utilisation of the contracts provision, which was established at the Restructuring Effective Date (RED).

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

As part of the Contribution Agreement made at the time of Restructuring, the Company has an obligation to make annual Cash Sweep Payments to the Nuclear Liabilities Fund (NLF) should certain criteria be met. The annual Cash Sweep Payment was initially equal to 65% of the Group's net cash flow, adjusted for certain items outlined in the Contribution Agreement. The NLF has the right to convert some or all of its entitlement to receive Cash Sweep Payments into convertible shares and to sell those shares. On disposal, the convertible shares automatically convert into ordinary shares of the Company. On full conversion, the NLF would hold up to 65% of the enlarged equity share capital of the Company.

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

Following initial recognition, the conversion asset is being amortised over the estimated useful lives of the Group's power stations. For the period from 6 June 2007 to 1 July 2007 the amortisation charge was £15m (2006: £nil).

Under the terms of the original Contribution Agreement, on a conversion by the NLF of part or all of its Cash Sweep Payment right, the NLF was entitled to both a Cash Sweep Payment on the part converted for the period up to conversion and any dividend in respect of the same period on the shares arising from the conversion. The Company obtained agreement from the NLF and the Secretary of State for Trade and Industry to an amendment to the Cash Sweep Payment right and Cash Sweep Payment percentage adjustment formula in relation to the partial conversion so as to ensure the principle of economic parity was maintained and to avoid an unintended dilution of the Company's equity shareholders' interests. As a result, the £305m accrued in the 2007 Annual Report and Accounts for the Cash Sweep Payment due for the year ended 31 March 2007 was reduced by £134m to £171m to reflect the NLF's agreement to waive the proportion of the 2007 obligation due that was extinguished by the partial conversion in June 2007. The £134m reduction has been recognised as a credit in the consolidated income statement for this period; the remaining £171m obligation was paid in July 2007. In the event of further NLF conversions the Company plans to seek similar agreements to maintain economic parity between the NLF and shareholders. Additionally, the new shares issued on conversion were entitled to the base dividend of 13.6p per

ordinary share approved at the Company's AGM on 19 July 2007. The effect of the new shares issued was to increase the amount of dividends paid on 31 July 2007 from the £80m anticipated in the 2007 Annual Report and Accounts to £140m.

Refer to page 19 of the Group's 2007 Annual Report and Accounts for further details of the adverse effect on shareholders as a result of the current Cash Sweep Payment mechanism.

The Cash Sweep Payment percentage was 35.98% as at 1 July 2007, down from 64.04% at 31 March 2007. It reduced by approximately 28% because of the NLF's partial conversion into equity of its Cash Sweep Payment right in June 2007. The remainder of the decrease relates to the exercise of 34,552 of the Company's Warrants.

In accordance with the Group's accounting policy, no accrual has been made for any potential future Cash Sweep Payment that may be payable based on the full year results for the 2008 financial year.

Depreciation and Other Amortisation

Depreciation of £58m (2006: £49m) was £9m higher than the comparable period due to expenditure on power stations and other plant and equipment. Other amortisation of £2m (2006: £2m) relates to amortisation on software in the period.

Unrealised Net Losses on Derivative Financial Instruments and Commodity Contracts

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

The charge to the consolidated income statement in the period of £26m (2006: £38m) represents a credit for the fair value movements in carbon allowance forward contracts of £6m (2006: £42m charge) offset by a charge for the fair value movement of electricity and other forward contracts of £32m (2006: £4m credit).

Financing (Charges)/Credits

Interest payable of £15m (2006: £14m) 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 2007, the interest payable on the Bonds has declined by £1m to £10m.

Interest receivable of £20m (2006: £10m) relates to interest earned on cash deposits. This has increased as a result of higher interest bearing cash deposits and higher interest rates compared with the comparable period.

For details of other finance income of £4m (2006: £1m expense), refer to note 7 in the financial statements.

Taxation

A tax charge of £117m has been recognised in the consolidated income statement for the period; this comprises a deferred tax charge of £19m and a current tax charge of £98m. The tax charge has been computed in accordance with the generally accepted practice which provides that the forecast effective tax rate on the forecast full year profits before tax and IAS 39 adjustments be applied to the actual reported profit before tax and IAS 39 adjustments for the period. The forecast full year effective tax rate on this basis is 38.8% and this has been applied to the period's results. In addition the standard tax rate of 30% is applied to the IAS 39 adjustments in the period. The forecast full year effective tax rate of 38.8% is higher than the standard tax rate of 30% due to the forecast Cash Sweep Payment, accrued only at the year end, and conversion asset amortisation, which are treated as operating costs, being disallowable for tax purposes.

Net Profit and Earnings Per Share

Net profit for the period attributable to shareholders was £179m compared to £75m for the comparable period.

Basic earnings per share for the period was 25.8p (2006: 13.2p). This is based on the net profit for the period divided by the weighted average number of ordinary shares in issue during the period. For this calculation the net profit includes £134m relating to the waiver of the Cash Sweep Payment for the year ended 31 March 2007.

The diluted earnings per share for the period was 25.4p (2006: 12.8p). This is based on the net profit for the period, including the Cash Sweep Payment credit, 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 period was 5.7p (2006: 9.1p). As described in note 9 to the financial statements, the Cash Sweep Payment and the net profit attributable to shareholders 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).

An adjusted earnings per share has therefore been calculated by excluding the following from the net profit for the period attributable to shareholders:

- the Cash Sweep Payment credit relating to the year ended 31 March 2007 and related tax effect;
- the amortisation of the conversion asset for the period; and
- the impact of the Cash Sweep Payment and amortisation of the conversion asset for the year ending 31 March 2008 on the effective tax rate used for the three months' charge.

The weighted average share capital is adjusted by the number of shares that would have been in issue if the NLF had fully converted their remaining interest at the balance sheet date and the impact of the partial conversion had taken place at the start and not during the period.

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:

	Three months ended 1 July 2007 Capital expenditure £m	Three months ended 1 July 2007 Investment in Plant £m	Three months ended 2 July 2006 Capital expenditure £m	Three months ended 2 July 2006 Investment in Plant £m
Capital additions	19	19	22	22
Strategic spares	-	-	5	2
Statutory outage costs	31	-	24	-
Capitalised expenditure	50	19	51	24
Non-recurring repair expenditure projects (NRR)	-	31	-	24
PIP staff costs	-	6	-	6
Total	50	56	51	54

Of the £50m (2006: £51m) of capital expenditure, £48m (2006: £50m) was capitalised within property, plant and equipment, and the remaining £2m (2006: £1m), relating to systems software, was capitalised in intangible assets.

Financial Position

Analysis of Cash Flows

At 1 July 2007 the Group had cash and cash equivalents of £1,289m compared to £1,101m at 31 March 2007. The increase in cash and cash equivalents is analysed in the following table:

	Three months ended 1 July 2007 £m	Three months ended 2 July 2006 £m
Net cash inflow generated from operations	240	195
Net cash used in investing activities	(50)	(51)
Net cash (used in)/generated from financing activities	(2)	1
Net increase in cash and cash equivalents	188	145
Cash and cash equivalents at the beginning of the period	1,101	638
Cash and cash equivalents at the end of the period	1,289	783

Net cash inflow generated from operations was £240m for the period (2006: £195m) reflecting the operating profit, performance and net working capital movements. The cash utilised in investing activities related to property, plant and equipment and software additions. The £2m utilised in financing activities relates to the purchase of the Company's shares for share incentive schemes.

In addition to the cash and cash equivalents of £1,289m (31 March 2007: £1,101m), there are restricted cash and other financial assets of £134m (31 March 2007: £146m) at 1 July 2007 of which £80m (31 March 2007: £90m) is cash posted as collateral in support of trading activities. The total debt of £573m remains unchanged from the 31 March 2007 position.

Retirement Benefit Assets/(Obligations)

The Group's retirement benefit obligations have reduced from a liability of £65m at 31 March 2007 to an asset of £78m at 1 July 2007. During this period the discount rate used to value the retirement benefit obligations increased from 5.4% to 5.8%; this is the main reason for the significant actuarial gain in the period.

The retirement benefit obligations have been estimated as required by IAS 19 – Employee Benefits on the basis of the full triennial valuation carried out by an independent actuary at 31 March 2004. It is anticipated that the latest triennial valuation as at 31 March 2007 will be finalised towards the end of the financial year ending 31 March 2008. The Group 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 turn this quarter's reported surplus into a deficit.

Other Financial Issues

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.

Following approval at the Company's AGM, the Company paid a base dividend of 13.6p per ordinary share (equivalent to £140m in total) on 31 July 2007. It is anticipated that the annual base dividend will be sustainable for the foreseeable future based on the Group's assessment of forecast electricity prices and output.

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 Group's need to increase financial stability, make appropriate investments, address the pension scheme funding requirements, 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.

Distributable Reserves

The amount the Company is able to distribute lawfully (by way of a dividend or other distribution) is governed, amongst 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.

The NLF partial conversion in June 2007, and any subsequent conversions, could have an impact on the Company's future dividend policy. The impact could arise because the partial conversion significantly increased the carrying value of British Energy Group plc's investments in its subsidiary and intermediate group holding company, British Energy Holdings plc due to the recognition of a conversion asset of £2,340m in its subsidiary British Energy Generation Limited. The increase in carrying value of the investments increases 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 the enlarged shareholder base, following the conversion and sale by the NLF, in accordance with the dividend policy.

The Company is taking steps to implement a Court approved reduction of share premium reserve. At the Company's AGM on 19 July 2007, a resolution was approved by shareholders to initiate the Court process for reduction of the Company's share premium account by £2,295m, which equates to the amount of new share premium created in relation to this partial conversion. A petition to the Court of Session was submitted on 14 August 2007. In the event of such a Court process being unsuccessful, the Company would explore other alternatives to create distributable reserves.

Eggborough Legal Proceedings

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

Post Balance Sheet Event

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. The change in corporation tax rate has been reflected in the interim financial statements in relation to the impact on deferred tax. The phasing out of industrial buildings allowances was not included in the 2007 Finance Bill and so is not considered to be substantively enacted at the balance sheet date. An estimate of the financial effect of this change, calculated at 28%, is that it would increase the net deferred tax liability by £43m.

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.

**CONSOLIDATED INCOME STATEMENT
FOR THE THREE MONTHS ENDED 1 JULY 2007 (UNAUDITED)**

	Notes	Three months ended 1 July 2007 £m	Three months ended 2 July 2006 £m
Revenue	4	668	729
Operating and energy costs	5	(415)	(440)
		253	289
Other operating income		1	15
Cash Sweep Payment credit	6	134	-
Cash Sweep Payment		-	-
Depreciation		(58)	(49)
Amortisation of conversion asset		(15)	-
Other amortisation		(2)	(2)
Unrealised net losses on derivative financial instruments and commodity contracts		(26)	(38)
Operating profit		287	215
Financing (charges)/credits			
Interest payable	7	(15)	(14)
Interest receivable	7	20	10
Other finance income/(expenses)	7	4	(1)
Profit before taxation		296	210
Taxation	8	(117)	(135)
Net profit for the period attributable to shareholders	11	179	75
Earnings per share (pence):			
Basic	9	25.8	13.2
Diluted	9	25.4	12.8

**CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE THREE MONTHS ENDED 1 JULY 2007 (UNAUDITED)**

	Notes	Three months ended 1 July 2007 £m	Three months ended 2 July 2006 £m
Net (losses)/gains on hedged items for the period	11	(7)	24
Actuarial gains and losses on retirement benefit assets/(obligations) for the period	11	132	2
Tax on items taken directly to equity for the period	11	(38)	(8)
Net income recognised directly in equity		87	18
Net profit for the period attributable to shareholders	11	179	75
Total recognised income and expense		266	93

**CONSOLIDATED BALANCE SHEET
AS AT 1 JULY 2007 (UNAUDITED)**

	Notes	As at 1 July 2007 £m	As at 31 March 2007 £m	As at 2 July 2006 £m
Assets				
Non-current assets				
Conversion asset		2,105	-	-
Property, plant and equipment		1,700	1,710	1,694
NLF and nuclear liabilities receivables		5,338	5,274	5,133
Deferred income tax asset		-	-	101
Goodwill and intangible assets		395	390	380
Trade and other receivables		212	168	41
Retirement benefit assets	10	78	-	-
		9,828	7,542	7,349
Current assets				
Conversion asset		220	-	-
Inventories		418	399	363
Nuclear liabilities receivable		199	195	190
Trade and other receivables		375	478	440
Restricted cash and other financial assets		134	146	233
Cash and cash equivalents		1,289	1,101	783
Derivative financial instruments and commodity contracts		60	105	18
		2,695	2,424	2,027
Total assets		12,523	9,966	9,376
Liabilities				
Current liabilities				
Borrowings		(57)	(57)	(53)
Trade and other payables		(608)	(776)	(598)
Current tax liability		(87)	(10)	-
Nuclear liabilities		(199)	(195)	(190)
Provisions for other liabilities and charges		(25)	(25)	(108)
Derivative financial instruments and commodity contracts		(66)	(74)	(59)
		(1,042)	(1,137)	(1,008)
Non-current liabilities				
Borrowings		(516)	(516)	(573)
Retirement benefit obligations	10	-	(65)	(203)
Nuclear liabilities		(5,338)	(5,274)	(5,133)
Deferred income tax liability		(120)	(63)	-
Provisions for other liabilities and charges		(46)	(50)	(55)
NLF liabilities		(192)	(194)	(201)
Deferred income		(5)	(5)	(5)
Derivative financial instruments and commodity contracts		(11)	(15)	(1)
		(6,228)	(6,182)	(6,171)
Total liabilities		(7,270)	(7,319)	(7,179)
Net assets		5,253	2,647	2,197
Equity				
Called up share capital	11	103	58	57
Share premium	11	2,335	40	25
Capital reserve	11	767	767	767
Hedge reserve	11	(4)	1	(14)
Warrant reserve	11	24	24	35
Retained earnings	11	2,028	1,757	1,327
Total shareholders' equity (including non-equity shareholders' interests)	11	5,253	2,647	2,197

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 1 JULY 2007 (UNAUDITED)**

	Three months ended 1 July 2007 £m	Three months ended 2 July 2006 £m
Operating activities		
Operating profit	287	215
Depreciation	58	49
Amortisation of conversion asset	15	-
Other amortisation	2	2
Share-based payments	2	2
Unrealised net losses on derivative financial instruments and commodity contracts	26	38
Movement in provisions for other liabilities and charges	(4)	(24)
Interest paid	(5)	(14)
Interest received	20	10
NLF liabilities payment	(6)	(6)
Difference between pension contributions paid and amounts recognised in consolidated income statement	(3)	(2)
Taxation paid	(21)	-
Increase in inventories	(19)	(21)
Decrease/(increase) in trade and other receivables	59	(27)
Decrease/(increase) in restricted cash and other financial assets	12	(27)
Decrease in trade payables and other payables	(178)	(25)
(Increase)/decrease in intangible assets	(5)	25
Net cash inflow generated from operations	240	195
Cash flows from investing activities		
Purchases of property, plant and equipment	(48)	(50)
Purchases of software	(2)	(1)
Net cash used in investing activities	(50)	(51)
Cash flows from financing activities		
Purchase of own shares for share incentive schemes	(2)	-
Exercise of Warrants	-	1
Net cash (used in)/generated from financing activities	(2)	1
Net increase in cash and cash equivalents	188	145
Cash and cash equivalents at the beginning of the period	1,101	638
Cash and cash equivalents at the end of the period	1,289	783

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation

In preparing the interim financial statements for the three months ended 1 July 2007, the Board of Directors have used the principal accounting policies and methods of computation as set out in the Group's Annual Report and Accounts for the year ended 31 March 2007 and the policy in note 2 below. The interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority and with IAS 34 – Interim Financial Reporting as adopted by the European Union. The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2007, which have been prepared in accordance with IFRS as adopted by the European Union.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses.

The information shown for the year ended 31 March 2007 does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 and has been extracted from the statutory accounts for the year ended on that date, which have been filed with the Registrar of Companies. The report of the auditors on the statutory accounts for the year ended 31 March 2007 was unqualified and did not contain a statement under Section 237 of the Companies Act 1985.

References to 'British Energy' or the 'Company' are to British Energy Group plc. References to the 'Group' are to the Company and its subsidiaries.

The interim financial statements for the three months ended 1 July 2007 are unaudited but have been reviewed by the auditors and their report to the Company is set out below.

These interim financial statements were approved by the Board of Directors on 16 August 2007.

2. Accounting Policies

In addition to the accounting policies set out in the Group's Annual Report and Accounts for the year ended 31 March 2007, the Group has adopted the following policy in relation to the conversion asset.

Conversion Asset

The conversion asset represents the asset which arose following exercise of the NLF's conversion right.

The NLF conversion has been accounted for under IFRS 2 - Share-based Payment. The issue of new shares by British Energy Group plc, gave rise to the recording of ordinary share capital, together with share premium representing the excess of the conversion share price over the nominal value of shares issued. The conversion also gave rise to a conversion asset which represents the fair value of the obligation which is derecognised as a result of the exercise of the conversion right. The conversion asset is allocated between current and non-current assets as appropriate on the consolidated balance sheet.

The fair value of the conversion asset recorded as a result of the exercise of the conversion right has been deemed to be the fair value of the new equity issued at the conversion date. Following initial recognition, the conversion asset is measured at cost less amortisation and any accumulated impairment losses.

The charge for amortisation is calculated so as to write the conversion asset off on a straight line basis over the estimated useful lives of the nuclear power stations.

If at the balance sheet date an indication exists that the conversion asset may have suffered an impairment loss, the recoverable amount of the conversion asset is estimated to determine the extent of any impairment loss.

The application of this new accounting policy following the NLF conversion at a conversion share price of £5.20 resulted in shareholders' funds at 1 July 2007 being increased by £2,325m and the profit for the three months ended 1 July 2007 being reduced by £15m.

3. Seasonality of Operations

Electricity demand in the UK is seasonal, in that demand and prices are generally lower in the summer than in the winter. As a result, British Energy schedules a significant proportion of planned outages for the summer months. This seasonality in both prices and output has a direct effect on financial performance and cash flows.

4. Output, Revenue and Segmental Information

	Three months ended 1 July 2007 TWh	Three months ended 2 July 2006 TWh
Output		
Nuclear power stations	13.0	15.3
Coal-fired power station - Eggborough	0.8	1.7
Total output	13.8	17.0

	Three months ended 1 July 2007 £m	Three months ended 2 July 2006 £m
Revenue		
Wholesale generation sales	313	322
Direct supply sales excluding recovery of energy supply costs and renewable energy purchases recharged to customers	250	289
Revenue from generated electricity	563	611
Energy supply costs recharged to customers	95	103
Renewable energy purchases recharged to customers	8	13
Miscellaneous income	2	2
Total revenue	668	729

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.

5. Operating and Energy Costs

	Three months ended 1 July 2007 £m	Three months ended 2 July 2006 £m
Fuel costs – nuclear	72	80
Fuel costs – Eggborough	24	34
Total fuel costs	96	114
Materials and services	122	121
Staff costs	94	89
Operating costs of generated electricity	312	324
Energy supply costs recharged to customers	95	103
Renewable energy purchases recharged to customers	8	13
Total operating and energy costs	415	440

6. Cash Sweep Payment Credit

As part of the Contribution Agreement made at the time of Restructuring, the Company has an obligation to make annual Cash Sweep Payments to the Nuclear Liabilities Fund (NLF) should certain criteria be met. Under the terms of the original Contribution Agreement, on a conversion by the NLF of part or all of its Cash Sweep Payment right, the NLF was entitled to both a Cash Sweep Payment on the part converted for the period up to conversion and any dividend in respect of the same period on the shares arising from the conversion. The Company obtained agreement from the NLF and the Secretary of State for Trade and Industry to an amendment to the Cash Sweep Payment right and Cash Sweep Payment percentage adjustment formula in relation to the partial conversion, which took place in the period, so as to ensure the principle of economic parity was maintained and to avoid an unintended dilution of the Company's equity shareholders' interests. As a result, the £305m accrued in the 2007 Annual Report and Accounts for the Cash Sweep Payment due for the year ended 31 March 2007 was reduced by £134m to £171m to reflect the NLF's agreement to waive the proportion of the 2007 obligation due that was extinguished by the partial conversion in June 2007. The £134m reduction has been recognised as a credit in the consolidated income statement for this period; the remaining £171m obligation was paid in July 2007.

7. Other Finance (Charges)/Credits

	Three months ended 1 July 2007 £m	Three months ended 2 July 2006 £m
Interest payable:		
Interest payable on bonds	10	11
Other interest payable	5	3
Total interest payable	15	14
	Three months ended 1 July 2007 £m	Three months ended 2 July 2006 £m
Interest receivable:		
Interest receivable	(20)	(10)
Total interest receivable	(20)	(10)
	Three months ended 1 July 2007 £m	Three months ended 2 July 2006 £m
Other finance (income)/expenses:		
Revalorisation of nuclear liabilities	118	134
Revalorisation of nuclear liabilities receivable	(48)	(58)
Revalorisation of NLF receivable	(70)	(76)
Revalorisation of contracts provision	-	2
Revalorisation of NLF liabilities	4	7
Net revalorisation charges	4	9
Net credit to finance charges for retirement benefit assets/(obligations)	(8)	(8)
Total other finance (income)/expenses	(4)	1

8. Taxation

	Three months ended 1 July 2007 £m	Three months ended 2 July 2006 £m
Current tax :		
UK corporation tax	98	-
	98	-
Deferred tax :		
Temporary differences	19	135
	19	135
Tax charged to the consolidated income statement	117	135

The tax charge for the three months ended 1 July 2007 has been computed in accordance with the generally accepted practice which provides that the forecast effective tax rate on the forecast full year profits before tax and IAS 39 adjustments be applied to the actual reported profit before tax and IAS 39 adjustments for the period. The forecast full year effective tax rate on this basis is 38.8% and this has been applied to the period's results. In addition the standard tax rate of 30% is applied to the IAS 39 adjustments in the period. The forecast full year effective tax rate of 38.8% is higher than the standard tax rate of 30% due to the forecast Cash Sweep Payment, accrued only at the year end, and conversion asset amortisation, which are treated as operating costs, being disallowable for tax purposes.

9. Earnings per Share

	Three months ended 1 July 2007	Three months ended 2 July 2006
Basic earnings per share		
Net profit for the period attributable to shareholders (£m)	179	75
Weighted average share capital (number of shares, million)	695	570
Earnings per share (pence)	25.8	13.2
Diluted earnings per share		
Net profit for the period attributable to shareholders (£m)	179	75
Diluted weighted average share capital (number of shares, million)	706	587
Diluted earnings per share (pence)	25.4	12.8
Adjusted earnings per share		
Net profit for the period attributable to shareholders (£m)	179	75
Adjustment in respect of Cash Sweep Payment credit (£m)	(134)	-
Adjustment in respect of conversion asset amortisation (£m)	15	-
Adjustments in respect of taxation (£m)	31	71
Adjusted net profit for the period attributable to shareholders (£m)	91	146
Basic weighted average share capital (number of shares, million)	695	570
Adjustment to weighted average share capital for timing of conversion share issue (number of shares, million)	330	-
Maximum Cash Sweep conversion at balance sheet date (number of shares, million)	577	1,042
Adjusted weighted average share capital (number of shares, million)	1,602	1,612
Adjusted earnings per share (pence)	5.7	9.1

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

The diluted earnings per share calculation is based on the weighted average of 695 million (comparable period: 570 million) ordinary shares in issue together with the dilutive weighted average of potential ordinary shares of 11 million (comparable period: 17 million ordinary shares) in respect of Warrants.

The Directors consider that the adjusted earnings per share calculation is a more appropriate earnings measure because the Cash Sweep Payment and the net profit attributable to shareholders 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.

The adjusted earnings per share has been calculated by excluding the following from the net profit for the period attributable to shareholders:

- the Cash Sweep Payment credit relating to the year ended 31 March 2007 and related tax effect;
- the amortisation of the conversion asset for the period; and
- the impact of the Cash Sweep Payment and amortisation of the conversion asset for the year ending 31 March 2008 on the effective tax rate used for the three months' charge.

The weighted average share capital is adjusted by the number of shares that would have been in issue if the NLF had fully converted their remaining interest at the balance sheet date and the impact of the partial conversion had taken place at the start and not during the period.

10. Retirement Benefit Assets/(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.

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 the financial year 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) Amounts Recognised in the Consolidated Balance Sheet

The changes in the retirement benefit assets/(obligations) recognised in the consolidated balance sheet are as follows:

	As at 1 July 2007 £m	As at 2 July 2006 £m
Opening retirement benefit obligations	(65)	(215)
Current service cost	(17)	(16)
Past service cost	(1)	(7)
Other finance income	8	8
Contributions by employer	21	25
Net actuarial gains	132	2
Closing retirement benefit assets/(obligations)	78	(203)

During the period ended 1 July 2007 the discount rate used to value the retirement benefit assets/(obligations) increased from 5.4% at 31 March 2007 to 5.8% at 1 July 2007.

11. 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
Balance as at 1 April 2007	58	40	767	1	24	1,757	2,647
Net profit for the period attributable to shareholders	-	-	-	-	-	179	179
Net (expense)/income recognised directly in equity	-	-	-	(7)	-	132	125
Deferred tax on items recognised directly in equity	-	-	-	2	-	(40)	(38)
Total income for the period	-	-	-	(5)	-	271	266
Shares issued	45	2,295	-	-	-	-	2,340
Share-based payments	-	-	-	-	-	2	2
Purchase of own shares for share incentive schemes	-	-	-	-	-	(2)	(2)
Balance as at 1 July 2007	103	2,335	767	(4)	24	2,028	5,253

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

	Called up equity share capital £m	Share premium £m	Capital reserve £m	Hedge reserve £m	Warrant reserve £m	Retained earnings £m	Total equity £m
Balance as at 1 April 2006	57	24	767	(31)	35	1,249	2,101
Net profit for the period attributable to shareholders	-	-	-	-	-	75	75
Net income/(expense) recognised directly in equity	-	-	-	24	-	2	26
Deferred tax on items recognised directly in equity	-	-	-	(7)	-	(1)	(8)
Total income for the period	-	-	-	17	-	76	93
Share-based payments	-	-	-	-	-	2	2
Exercise of Warrants	-	1	-	-	-	-	1
Balance as at 2 July 2006	57	25	767	(14)	35	1,327	2,197

12. Contingent Assets

The Group had 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, up to a further C\$100m was payable to British Energy contingent upon the restart of two of the Bruce A units. 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 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. British Energy commenced arbitration proceedings against the Ontario Provincial Government (the Province) in December 2004 seeking the payment of additional consideration on the basis that Bruce A Units 3 and 4 restarted earlier than the dates claimed by the Province. On 31 July 2007, British Energy and the Province agreed to settle the arbitration proceedings. British Energy received a further payment of C\$15m as additional consideration in respect of the restart of Bruce A Units 3 and 4.

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.

13. Contingent Liabilities

There have been no significant changes to the Group's contingent liabilities as disclosed in the Group's Annual Report and Accounts for the year ended 31 March 2007.

14. Post Balance Sheet Events

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. The change in corporation tax rate has been reflected in the interim financial statements in relation to the impact on deferred tax. The phasing out of industrial buildings allowances was not included in the 2007 Finance Bill and so is not considered to be substantively enacted at the balance sheet date. An estimate of the financial effect of this change, calculated at 28%, is that it would increase the net deferred tax liability by £43m.

Independent review report to British Energy Group plc

Introduction

We have been instructed by the Company to review the financial information for the three months ended 1 July 2007 which comprises the consolidated balance sheet as at 1 July 2007, the related consolidated income statement, the consolidated statement of recognised income and expense, the consolidated statement of cash flows and the related condensed notes.

We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report is the responsibility of, and has been approved by the Directors. The Directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of British Energy Group plc are prepared in accordance with IFRSs as adopted by the European Union. The financial information included in this interim financial report has been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting as adopted by the European Union.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the three months ended 1 July 2007.

PricewaterhouseCoopers LLP

Chartered Accountants

Edinburgh

16 August 2007

Notes:

- (a) The maintenance and integrity of the British Energy Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

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.

EU ETS

European 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)

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.

Materiel 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 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 (ROCs)

Eligible renewable generators receive 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 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.