

BRITISH ENERGY GROUP PLC
RESULTS FOR THE FIRST QUARTER ENDED 2 JULY 2006 OF THE FINANCIAL YEAR
ENDING 31 MARCH 2007

Key Points

- British Energy has delivered a strong financial performance for the first quarter, continuing to benefit from strong electricity prices, despite nuclear output being below our expectations.

	Quarter ended 2 July 2006	Quarter ended 3 July 2005
Adjusted EBITDA* (£m)	289	118
Operating profit (£m)	215	45
Net profit before NLF Cash Sweep Payment (£m)	75	16

<i>Basic earnings per share</i>	13.2p	2.8p
<i>Adjusted earnings per share after taking account of NLF Cash Sweep economic interest at 64.62%**</i>	9.1p	1.4p

- Results reflect the benefit of strong electricity prices with an operating margin increased to £13.8/MWh for the quarter from £4.0/MWh in the corresponding period last year (the comparable quarter).
- Total output for the quarter was 17.0TWh (nuclear 15.3TWh, coal 1.7TWh), down from 17.4TWh for the comparable quarter (nuclear 15.7TWh, coal 1.7TWh). Losses from unplanned and non-routine events were 3.4TWh (including 0.6TWh outage and refuelling overruns and 0.2TWh planned boiler closure unit inspections), up from 2.3TWh in the comparable quarter.
- Statutory outages completed at Torness and Dungeness B and underway at Hartlepool and Hunterston B. A further two statutory outages planned for financial year 2006/07.
- Sizewell B has recorded 449 days continuous running since last statutory outage.
- Realised price was £35.9/MWh for the quarter, up £11.2/MWh compared to the comparable quarter.
- Operating cash inflow was £195m for the quarter. Net cash increased in the quarter by £172m to a net positive cash position of £390m including collateral of £228m. Cash and cash equivalents and restricted cash were £1,016m as at 2 July 2006 (£844m as at 31 March 2006).
- Investment in plant was £54m for the quarter up from £41m for the comparable quarter.
- Zero/capped collateral trades up from 35.9TWh to 51.2TWh for delivery over the period to April 2011.
- As at 6 August 2006, the Company had fixed price contracts in place for approximately 76% of planned output for the financial year 2006/07 at an average price of approximately £44/MWh excluding 5TWh of capped contracts.
- Total output to 6 August 2006 for the current financial year ending 31 March 2007 was 22.9TWh (nuclear 20.7TWh, coal 2.3TWh) after total unplanned losses for the period to 6 August 2006 of 4.4TWh. Whilst very challenging, we continue to work towards achieving 63TWh for the financial year 2006/07. However we now expect output to be in the range 61TWh to 63TWh assuming no large losses occur.
- Government Energy Review published, confirming the role of nuclear power as part of a balanced portfolio to meet the UK's energy needs.
- NLF actively considering a sale of part of its stake in British Energy via a capital markets transaction. Dividend policy to be updated at the time of announcement of any conversion and sale by the NLF.

The NLF Cash Sweep percentage was 64.62% as at 2 July 2006, down from 64.63% at 31 March 2006 as a result of the exercise of approximately 0.2 million of the Company's Warrants.

No accrual for any potential NLF Cash Sweep Payment in respect of the financial year 2006/07 has been made in these interim financial statements in line with the Group's accounting policy. An accrual will be made at 31 March 2007 for any NLF Cash Sweep Payment in respect of the financial year ended 2006/07.

Bill Coley, Chief Executive of British Energy said:

"I am pleased with our financial results benefiting from strong electricity prices and continuing improvement in many of our key operating metrics. However, I am not pleased with the level of unplanned losses. We are sharply focused on improving losses over the remainder of the year, and continue to work towards our long term objective of world class operational performance."

	Quarter ended 2 July 2006	Quarter ended 3 July 2005
Revenue (£m)	729	521
Operating and energy costs (£m)	(440)	(403)
Adjusted EBITDA * (£m)	289	118
Depreciation and amortisation (£m)	(51)	(44)
Other operating income (£m)	15	3
Unrealised net losses on financial instruments and commodity contracts (£m)	(38)	(32)
Operating profit before NLF Cash Sweep Payment (£m)	215	45
Net profit before NLF Cash Sweep Payment (£m)	75	16
NLF Cash Sweep Payment ** (£m)	-	-
Net profit for the period attributable to shareholders (£m)	75	16

Realised price (£/MWh)	35.9	24.7
Unit operating cost (£/MWh)	22.1	20.7
Operating margin (£/MWh)	13.8	4.0

Adjusted operating profit (excluding certain items)*** (£m)	238	74
Adjusted net profit (excluding certain items)*** (£m)	93	39
Adjusted earnings per share (excluding certain items)*** after taking account of NLF Cash Sweep economic interest at 64.62% **	10.2p	2.8p

Total output (TWh)	17.0	17.4
Nuclear (TWh)	15.3	15.7
Coal (TWh)	1.7	1.7

	As at 2 July 2006	As at 31 March 2006
Restricted cash and cash and cash equivalents (£m)	1,016	844
Debt (£m)	(626)	(626)
Net cash (£m)	390	218
Net cash (excluding restricted cash) (£m)	157	12

**Adjusted EBITDA is defined as profit before financing (charges)/credits, taxation, depreciation, amortisation and other charges, unrealised net gains/(losses) on financial instruments and commodity contracts, NLF Cash Sweep Payment, other exceptional operating expenses and other operating income/(costs). 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 6 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, adjusted for the impact of the NLF Cash Sweep Payment on taxation, divided by the enlarged number of shares that would have been in issue had the NLF fully converted its interest at 2 July 2006. This would result in an adjusted earnings per share of 9.1p for the quarter ended 2 July 2006.

****Results for the quarter ended 2 July 2006 have been adjusted to exclude unrealised net gains/(losses) on financial instruments and commodity contracts, NLF Cash Sweep Payment and other operating income/(costs) and include where appropriate the corresponding adjustments to taxation and revalorisation thereon.*

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 2006 and dial in facilities can be accessed by dialling:

UK dial in: 0845 146 2010
International dial in: +44 (0) 1452 542 304

There will be a replay facility for 5 days:

UK dial in: 0845 245 5205
International dial in: +44 (0) 1452 550 000
PIN (access) no: 3943112#

Management will host a further conference call at 2.00pm (UK time), 16 August 2006. The conference can be accessed by dialling:

UK dial in: 0845 146 2010
International dial in: +44 (0) 1452 542 304

There will be a replay facility for 5 days:

UK dial in: 0845 245 5205
International dial in: +44 (0) 1452 550 000
PIN (access) no: 3943167#

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.

CHIEF EXECUTIVE'S REVIEW

The first quarter of the financial year 2006/07 has demonstrated a continued improvement in financial performance largely due to rising achieved electricity prices, partially offset by nuclear output that was below our expectations. Operating profit rose to £215m for the quarter (£45m for the comparable quarter). Adjusted EBITDA rose to £289m compared to £118m for the comparable quarter, benefiting from a 45% increase in average realised price. Basic earnings per share was 13.2p for the quarter. Adjusted earnings per share, after taking account of the NLF Cash Sweep economic interest at 64.62% and the impact of the NLF Cash Sweep Payment on taxation, was 9.1p for the quarter.

We are not pleased by the level of small losses in the year to date and are continuing to focus on improved reliability. Total losses were 4.4TWh to 6 August 2006, due to human performance issues primarily related to one plant and equipment issues including boiler tube leaks and reactivity constraints affecting a number of plants. Human performance improvement remains a specific area of focus and we encourage our staff to achieve world class performance. Of the losses associated with equipment issues, these largely occurred in areas which have still to receive the benefit of investment. We are undertaking work to repair boiler tubes on one unit at Hunterston B and expect to perform additional boiler tube inspections at the other unit at Hunterston B and the two units at Hinkley Point B in the course of planned outages this financial year and next. We continue to challenge the British Energy team to achieve 63TWh in the financial year 2006/07. However, given the boiler tube issue at Hunterston B and our run rate for losses, we now expect output to be in the range 61TWh to 63TWh assuming no large losses occur.

Notwithstanding the level of losses recorded during the quarter, we have seen continuing improvements in many of our key operating metrics, including unplanned automatic trips, nuclear reportable events and lost time accidents. Safety remains our fundamental priority. In addition, we continue to address our non-outage defect inventory, focusing on rapid resolution of defects identified. Our continuous improvement programme has now transitioned into the routine operation of our business.

We have continued to make good progress with the investment programme bringing total investment in plant to £54m for the quarter, up from £41m for the comparable quarter. Statutory outages have been completed at Torness and Dungeness B and are underway at Hartlepool and Hunterston B. A further two statutory outages are scheduled to be undertaken this financial year at Sizewell B and Hinkley Point B.

The realised price improved in the quarter to £35.9/MWh from £24.7/MWh in the comparable quarter. As at 6 August 2006 we had fixed price contracts in place for around 76% of the planned output for the year ending 31 March 2007 at an average contract price of approximately £44/MWh.

Our focus remains on managing cash and collateral in a volatile electricity market. Further progress has been made to reduce collateral requirements through zero and capped collateral trades. As at 6 August 2006, we have 51.2TWh of zero/capped collateral trades for up to 5 years.

Operating costs have increased in line with previous guidance. Unit operating cost has increased to £22.1/MWh compared to £20.7/MWh in the comparable quarter. Unit operating cost for the financial year ended 31 March 2006 was £22.8/MWh.

We welcome the Government's Energy Review, which confirms the role of nuclear as part of a balanced portfolio to meet the UK's energy needs. While we firmly believe that nuclear generation is essential to the country's energy future, there is further work that must be done to pave the way. Certainty is needed in licensing, planning approval and regulation that will assure new nuclear generation is economic and reliable - and which maximises safety.

The Government/NLF has also announced that it is actively considering a sale of part of its stake in British Energy via a capital markets transaction.

OPERATIONAL REVIEW

Plant Output and Performance

Total output was 17.0TWh for the quarter, marginally lower than output for the comparable quarter, primarily due to losses from unplanned and non-routine events totalling 3.4TWh being incurred. This includes 0.6TWh loss in respect of statutory outage and refuelling overruns, which it may be possible to recover over the remaining statutory outages and refuellings this financial year, and 0.2TWh planned boiler closure unit inspections.

Total output to 6 August 2006 was 22.9TWh of which nuclear output was 20.7TWh. Total losses from unplanned and non-routine events to 6 August 2006 were 4.4TWh (a rate of 9.7TWh per annum, excluding statutory outage and refuelling overruns, compared to a planned loss allowance of around 9TWh) due to human performance issues primarily related to one plant and equipment issues including boiler tube leaks and reactivity constraints affecting a number of plants.

During the statutory outage on one unit at Hunterston B, a boiler inspection has in this last week indicated a level of boiler tube cracking above that expected. We expect that this will involve additional repair work and an extension to the current statutory outage of around one month plus additional work next financial year. On return to service this unit may operate at lower power until the further repair work can be completed. We expect to perform additional boiler tube inspections at the other unit at Hunterston B and the two units at Hinkley Point B in the course of planned outages this financial year and next.

The implications of these boiler tube issues on both units at Hunterston B and both units at Hinkley Point B are a matter of current review both internally and with our Regulator. We expect to give further clarification on this issue in due course.

We are not pleased with the level of unplanned losses. We continue to focus on operational improvement with the aim of delivering improved reliability.

Whilst very challenging, we continue to work towards achieving 63TWh of nuclear output in this financial year. However, given the boiler tube issue at Hunterston B and our run rate for losses, we now expect output to be in the range 61TWh to 63TWh assuming no large losses occur.

Sizewell B, our PWR, has operated continuously since successfully completing its statutory outage in May 2005, with no unplanned losses or small losses due to water temperature during the recent warm weather.

Output from our coal-fired power station at Eggborough was 1.7TWh during the quarter, the same as in the comparable quarter.

Continuous Improvement

As part of our aim of achieving world class operational performance, we have restructured our Engineering Division by separating the responsibilities for design authority from Engineering into a new discrete organisation and refocusing the balance of the Engineering Division on improving system health.

Our key non-output performance indicators in the quarter (e.g. Non-Outage Defects, Unplanned Automatic Trips, Nuclear Reportable Events, Lost Time Accidents, Environmental Events) are in line with, or better than expectations.

We have made good progress with the current year's investment programme. Investment in plant, projects and strategic spares, including 'PIP staff costs' in the quarter, was £54m compared with £41m in the comparable quarter.

Significant plant investments include the replacement of the reactor pressure vessel head and upgrade of the intermediate level waste facility at Sizewell B, replacement of the data processing system at Dungeness B, cast iron pipework replacement and boiler tube inspection and repair at Hinkley Point B and Hunterston B, and continuing inspection of the boiler closure units at Hartlepool and Heysham 1.

We continue to expect investment in the current year to be in the range £250m to £300m.

Safety and Environmental Performance

A fundamental priority of the Group is to effectively manage the personal, nuclear, radiological and environmental safety of our operations. Our focus on industrial safety is reinforced through regular consultation with employees and safety representatives, and by active engagement with contract partners at all British Energy locations. We seek and aim to implement best practices throughout the fleet as a means of continually improving our health and

safety performance. During the quarter all safety performance indicators have been in line with, or better than expectations.

Hunterston B received the 2006 RoSPA commendation in the Electricity Industry Sector Award. Hunterston B is the first British Energy site to win an award in this category. Heysham 2 was awarded the RoSPA Order of Distinction, whilst each of our remaining nuclear sites received either the President's Award or Gold Medal Award, recognising consistently high achievement in health and safety at work.

Environmental performance indicators in the quarter are within Company expectations. Environmental performance continues to be a fundamental priority of the Company.

TRADING REVIEW

Market Conditions

The forward price for annual baseload electricity fell during the quarter, from around £59/MWh at the start of April 2006 to around £51/MWh at the end of June 2006, a reduction of around 14%.

Market electricity prices were dominated by developments relating to a fire at the Rough gas storage facility in February 2006. Winter 2006 power hit a high of £71.5/MWh in April 2006 due to concern that the facility would not be full in time for the start of the winter season. Prices subsequently eased as fears of a gas shortage started to recede.

The price of carbon dioxide allowances fell from €30/tonne towards the end of April 2006 to a low of €9/tonne on 12 May 2006, following announcement by a number of member states that they were expecting to report a larger surplus of carbon dioxide allowances than previously envisaged. The price of allowances has subsequently recovered to approximately €16/tonne as at 2 July 2006.

National Allocation Plans (NAPs) for Phase 2 of the EU Emissions Trading Scheme (ETS) have been submitted by a number of member states for consideration by the European Commission.

Fuel costs

The market price of uranium has increased significantly from the level at which we entered our existing fuel agreements, reaching \$46 per pound of 'yellow cake' in July 2006. If uranium prices were to remain at current levels, this would eventually lead to an increase in our nuclear fuel cost of approximately £80m per annum, upon expiry of our existing fuel agreements. The increased fuel costs would begin to be reflected in our income statement from 2009, rising to the full value by 2015.

Trading Performance

Realised price was £35.9/MWh for the quarter, an increase of 45% compared with a realised price of £24.7/MWh for the comparable quarter. The increase is mainly due to higher market prices of electricity.

Our contracted price position continues to include the impact of a number of fixed and capped price contracts entered into at a time when significantly lower market prices prevailed. 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.

We have continued to build the contracted position for 2006/07 and beyond through increased use of structured wholesale contracts which minimise the requirement to provide trading collateral. As at 6 August 2006, we had 51.2TWh of zero/capped collateral, fixed price trades that will deliver over the period to April 2011. As at 6 August 2006, we had extended the weighted average life of our structured contract portfolio to 20 months from 16 as at the beginning of April 2006.

As at 6 August 2006, fixed price contracts were in place for approximately 76% of planned output for the year ending 31 March 2007 at an average contracted price of £44/MWh. This price excludes Balancing Services Use of System (BSUoS) and other electricity market participation charges expected to be around £1/MWh for financial year 2006/07, market costs incurred through output variation and unreliability expected to be around £1/MWh for financial year 2006/07 and the impact of capped price arrangements of approximately 5TWh at around £30/MWh. We intend to progressively close out our exposure to market prices for 2006/07 and, subject to collateral limits, continue to build our fixed price position for 2007/08 and beyond.

Collateral requirements, all of which are supported by cash balances on deposit, were £228m as at 2 July 2006 (£201m as at 31 March 2006).

FINANCIAL REVIEW

Summary of Results

The unaudited results for the quarter ended 2 July 2006 (the quarter) and the quarter ended 3 July 2005 (the comparable quarter) are summarised as follows:

	Quarter ended 2 July 2006 £m	Quarter ended 3 July 2005 £m
Revenue	729	521
Operating and energy costs	(440)	(403)
Adjusted EBITDA ⁽¹⁾	289	118
Other operating income	15	3
Cash Sweep Payment	-	-
Depreciation	(49)	(43)
Amortisation	(2)	(1)
Unrealised net losses on financial instruments and commodity contracts	(38)	(32)
Operating profit	215	45
Financing (charges)/credits		
Interest payable	(14)	(12)
Interest receivable	10	5
Other finance expenses	(1)	(6)
Profit before taxation	210	32
Taxation	(135)	(16)
Net profit for the period attributable to shareholders	75	16

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

Revenue and Output

Group revenue consists primarily of wholesale generation sales and sales by our direct supply business, British Energy Direct. The analysis of revenue is as follows:

	Quarter ended 2 July 2006 £m	Quarter ended 3 July 2005 £m
Revenue		
Wholesale generation sales	322	226
Direct supply sales net of energy supply costs	289	204
Revenue from generated electricity	611	430
Energy supply costs recharged to customers	103	82
Energy purchases	13	4
Miscellaneous income	2	5
Total revenue	729	521

Wholesale generation sales have increased by £96m compared with the comparable quarter due to higher electricity prices in the quarter compared with the comparable quarter.

Direct supply sales net of energy supply costs have also increased by £85m compared with the comparable quarter, again due to increases in electricity prices.

Output is analysed as follows:

	Quarter ended 2 July 2006 TWh	Quarter ended 3 July 2005 TWh
Nuclear	15.3	15.7
Coal-fired power station - Eggborough	1.7	1.7
Total	17.0	17.4

The realised price for the quarter was £35.9/MWh compared to £24.7/MWh for the comparable quarter, due to increases in revenue as a result of higher achieved electricity prices, while output remained broadly similar to the comparable quarter. 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:

	Quarter ended 2 July 2006 £m	Quarter ended 3 July 2005 £m
Fuel costs – nuclear	80	84
– Eggborough	34	53
Total fuel costs	114	137
Materials and services	121	100
Staff costs	89	80
Operating costs of generated electricity	324	317
Energy purchases	13	4
Energy supply costs	103	82
Total operating and energy costs	440	403

Unit Operating Cost and Operating Margin

Unit operating costs were £22.1/MWh for the quarter, compared to £20.7/MWh for the comparable quarter. The increase of £1.4/MWh is mainly a result of increases in materials and services and staff costs, offset by a decrease in Eggborough fuel costs. For further discussion on each of these, refer to the sections below. Unit operating costs are calculated as operating costs of generated electricity plus depreciation and software amortisation, divided by total output.

Deducting our unit operating cost from our realised price per unit results in an operating margin per unit of £13.8/MWh for the quarter compared to £4.0/MWh for the comparable quarter.

Operating and Energy Costs

Fuel Costs

Total fuel costs amounted to £114m for the quarter compared to £137m for the comparable quarter. Nuclear fuel costs were £80m, or £5.2/MWh of nuclear output after taking into account the required accounting treatment of back end final core costs, for the quarter, compared to £84m, or £5.4/MWh of nuclear output, in the comparable quarter. The decrease of £4m compared to the comparable quarter includes a £5m reduction in costs as a result of lower output in the quarter offset by a reduced credit to the income statement from a back end final core provision movement of £1m. The value of back end final core costs is linked to the amount of fuel that remains unburned in reactors at the period end rather than being directly linked to the output of the period.

Eggborough fuel costs for the quarter were £34m, or £20.0/MWh of Eggborough output, compared to £53m, or £31.2/MWh of Eggborough output, for the comparable quarter. The fuel costs include the costs of coal, oil, biomass plus the costs of purchased carbon allowances. The decrease of £19m from the comparable quarter reflects the fact that carbon prices are lower and that there was a downward trend in carbon prices in the current quarter. The market price of Phase I carbon allowances has decreased in the quarter from approximately €27/tonne at 31 March 2006 to approximately €16/tonne at 2 July 2006.

Materials and Services

Materials and services costs comprise the operating expenses of the power stations and support functions and totalled £121m for the quarter, compared to £100m in the comparable quarter. The increase of £21m from the comparable quarter was mainly due to a rise in repairs, maintenance and safety project expenditure on plant and equipment, which increased from £13m in the comparable quarter to £24m in the quarter, and insurance costs which increased by £3m compared to the comparable quarter.

Staff Costs

Staff costs were £89m for the quarter, compared to £80m for the comparable quarter, and included a charge for the current service cost of the Group's defined benefit pension schemes of £16m in the quarter (Q1 2005/06: £14m). The charge for current service costs has been calculated in accordance with IAS 19 – Employees Benefits. In addition to the increase in pension costs of £2m, the remaining increase in staff costs in the quarter is due to a combination of annual pay increases, increases in staff numbers and an increased charge in respect of share-based payments.

Energy Purchases

The volume of energy purchased from renewable sources was higher in the quarter compared to the comparable quarter, increasing from 0.1TWh to 0.3TWh, and is reflected by an increase in costs of energy purchases of £13m for the quarter, up by £9m compared to costs of £4m for the comparable quarter. Energy purchases reflect the cost of electricity purchased from renewable sources (net of the value of ROCs and LECs attached to that electricity) to satisfy certain direct supply ROC and LEC obligations. The volume of sales that are available to be covered by renewable energy has increased compared with the comparable quarter.

Energy Supply Costs

Energy supply costs recharged to customers were £103m for the quarter, compared to costs of £82m for the comparable quarter. The increase of £21m is due to an increase in Balancing Use of System costs in the quarter, combined with an increase in Renewable Obligation costs.

Energy supply costs include costs associated with the Renewable Obligation Scheme which requires electricity suppliers to ensure that a proportion of the sales to customers is derived from renewable sources. These costs totalled £16m for the quarter (Q1 2005/06: £12m).

Other Operating Income

Other operating income of £15m for the quarter and £3m for the comparable quarter relates to the utilisation of the contracts provision, which was established at the Restructuring Effective Date (RED) and which unwinds over the lives of the contracts in place at RED.

Cash Sweep Payment

As a consequence of the Restructuring the Company has an obligation to make payments to the Nuclear Liabilities Fund (NLF) should certain criteria be met. In accordance with the Group's accounting policy, no accrual has been made for any potential future NLF Cash Sweep Payment that may be payable based on the full year results. In accordance with the Government Contribution Agreement, an accrual will be made for the weighted average NLF Cash Sweep percentage payment applied to adjusted net cash flow as at 31 March 2007 to the extent adjusted net cash flow arising from operations during the year is above £290m plus posted collateral (subject to a £200m minimum) at 31 March 2007.

The Cash Sweep percentage was 64.62% as at 2 July 2006, down from 64.63% at 31 March 2006 as a result of the exercise of 230,404 of the Company's Warrants.

Financing (Charges)/Credits

Interest payable was £14m for the quarter, compared to £12m in the comparable quarter. Interest payable relates primarily to interest on the Group's Bonds, which decreased by £1m compared to the comparable quarter as a result of the annual repayment of the Bond principal in March 2006, together with finance fees in respect of certain of our structured trading contracts for the quarter of £3m (Q1 2005/06: £nil).

Interest receivable was £10m for the quarter, compared to £5m in the comparable quarter. Interest receivable relates to interest earned on cash deposits and increased in the quarter largely as a result of higher interest bearing cash and cash equivalent balances compared to the comparable quarter.

Other finance expenses of £1m (Q1 2005/06: £6m) comprises a net revalorisation charge of £9m (Q1 2005/06: £8m), less a net credit in respect of retirement benefit obligations of £8m (Q1 2005/06: £2m).

Following the Quinquennial Review the estimated values attributed to uncontracted nuclear liabilities and decommissioning costs at RED were increased by £956m to £5,265m, on a discounted basis. The corresponding value of the related NLF receivable balance was also increased by an equal amount. Therefore, there was no economic exposure to the Group from this increase in nuclear decommissioning costs. This has resulted in the revalorisation on these balances being restated for the comparable quarter.

The net revalorisation charge of £9m includes a revalorisation charge for nuclear liabilities of £134m for the quarter (Q1 2005/06: £85m), exactly offset by a £134m revalorisation credit (Q1 2005/06: £85m) for the NLF and nuclear liabilities receivables. The revalorisation charge and credit has increased by £49m compared to the comparable quarter as a result of a larger rise in RPI in the quarter compared to the comparable quarter, as well as revalorisation being calculated on a higher opening balance this quarter compared to the comparable quarter.

In addition to revalorisation of nuclear liabilities and the NLF and nuclear liabilities receivables, there was a revalorisation charge of £2m (Q1 2005/06: £4m) in respect of the contracts provision established at RED and a £7m charge (Q1 2005/06: £4m) in respect of the NLF liabilities, relating to fixed decommissioning payments.

The net credit of £8m (Q1 2005/06: £2m) for the quarter in respect of the retirement benefit obligation comprises a credit of £41m (Q1 2005/06: £34m) relating to the expected return on plan assets and a charge of £33m (Q1 2005/06: £32m) for the expected unwind of discount interest on the retirement benefit obligation.

Unrealised Net Losses on Financial Instruments and Commodity Contracts

Unrealised net losses on financial instruments and commodity contracts arise as a result of a fair value movement in our commodity contracts which fall within the scope of IAS 39 – Financial Instruments: Recognition and Measurement (IAS 39). Of those contracts which fall within IAS 39, certain are accounted for as cash flow hedges, with the movements in fair value being accounted for directly in equity in the hedge reserve. The fair value movements of all other contracts within the scope of IAS 39 are presented in the unrealised net losses on financial instruments and commodity contracts line of the income statement. An analysis of the movements in financial instruments and commodity contracts is as follows:

	Financial instruments and commodity contracts £m
As at 31 March 2006	(28)
Charge to the income statement	(38)
Increase in hedge reserve through the statement of recognised income and expense	24
As at 2 July 2006	(42)

The charge to the income statement of £38m in the quarter (Q1 2005/06: £32m) largely relates to the fair value movement in forward contracts to purchase carbon allowances, reflecting the significant fall in carbon prices in the quarter. The remaining movement in the income statement and the movement in the hedge reserve represent the delivery of volumes over the quarter together with the impact of the trend in future market prices of electricity.

Taxation

A tax charge of £135m has been recognised in the income statement for the period; this comprises entirely of a deferred tax charge. There is no current tax charge for the period as taxable profits are fully sheltered by tax losses brought forward. The tax charge for the quarter results 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 quarter. The forecast full year effective tax rate on this basis is 58.9% and this has been applied to the quarter's results. In addition the standard tax rate of 30% is applied to the IAS 39 adjustments in the quarter. The forecast full year effective tax rate of 58.9% is significantly higher than the standard tax rate of 30% due to the forecast Cash Sweep Payment, which is treated as an operating cost and accrued only at the year end date, being disallowable for tax purposes.

Tax losses carried forward for the Group as at 31 March 2006 were £869m, of which approximately £500m are expected to be utilised in the financial year ending 31 March 2007 to offset against taxable profits.

We expect to become liable to make corporation tax payments during the current financial year.

Net Profit and Earnings Per Share

Net profit for the period attributable to shareholders was £75m (Q1 2005/06: £16m).

Basic earnings per share was 13.2p for the quarter compared to 2.8p for the comparable quarter, based on net profit for the period, divided by the weighted average number of ordinary shares in issue during the period.

The diluted earnings per share was 12.8p for the quarter compared to 2.8p for the comparable quarter. This is based on the net profit for the period 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 was 9.1p for the quarter compared to 1.4p for the comparable quarter. As described in note 6 to the financial statements, 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.

Therefore, an adjusted earnings per share has been calculated by excluding the impact of the Cash Sweep Payment for the year ending 31 March 2007 on the effective tax rate used for the quarterly charge 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.

Analysis of Cash Flows

Net cash inflow generated from operations was £195m for the quarter, compared to £59m for the comparable quarter. After taking into account capital expenditure in relation to property, plant and equipment of £50m (Q1 2005/06: £42m), capital expenditure on software of £1m (Q1 2005/06: £2m) and proceeds from the exercise of Warrants of £1m (Q1 2005/06: £5m), there was an increase in cash of £145m in the quarter (Q1 2005/06: £20m). Cash and cash equivalents have increased from £638m at 31 March 2006 to £783m at 2 July 2006.

Cash and cash equivalents include £18m to be repaid in respect of balances relating to capped contracts, as at 2 July 2006. We expect the total amount repayable under capped contracts to be approximately £110m by 31 March 2007. These amounts are expected to be settled by 31 March 2007.

Investment Programme

As part of a continuing programme of investment in our business we incurred costs of £54m for the quarter of which £24m was capitalised, being £21m in respect of performance improvement projects, £2m on acquisition of strategic spares and £1m on systems software. A further £24m relates to specific repair, maintenance and safety projects and was included in our materials and services operating costs; the balance of £6m represents 'PIP staff costs' included in our staff costs. The investment programme will continue to address our plant reliability issues and we expect investment in the current year to be in the range £250m to £300m.

In addition to the £21m in respect of investment capitalised and the £2m on acquisition of strategic spares, we have capitalised £24m on the statutory outages that we completed during the quarter and £3m on additional strategic spares: this expenditure is capitalised in property, plant and equipment. £1m was capitalised in relation to systems software and is included in intangible assets.

Dividend Policy

The Board recognises the improved cash flow and financial prospects of the Company compared to the time of the Prospectus. In light of the Government/NLF's recent announcement that it will actively consider the conversion and sale of part of its interest in British Energy, the Board intends to consider an update of the Company's dividend policy to provide further guidance as to timing and amount of distributions to shareholders upon the announcement of any such conversion and sale by the NLF.

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.

NON-GAAP FINANCIAL MEASURES

Realised Price

Realised price is calculated by dividing revenue from generated electricity by total output for the period.

Unit Operating Costs

Unit operating costs are calculated by dividing the operating costs of generated electricity plus depreciation and software amortisation by total output for the period. This represents a change from the comparable quarter, in which the calculation of total operating unit costs included other operating income/(costs). The Directors believe that the revised measure provides a better indication of the underlying financial performance of the Group.

Adjusted EBITDA

Adjusted EBITDA is profit before financing (charges)/credits, taxation, depreciation, amortisation and other charges, unrealised net gains/(losses) on financial instruments and commodity contracts, Cash Sweep Payment,

other exceptional operating expenses and other operating income/(costs). The Group has included information concerning adjusted EBITDA because it believes that it is used by certain investors as one measure of the Group's financial performance. Adjusted EBITDA is not a measure of financial performance under IFRS and is not necessarily comparable to similarly titled measures used by other companies. Adjusted EBITDA should not be construed as an alternative to operating profit or to cash flows generated from operations (as determined in accordance with IFRS) as a measure of liquidity.

**CONSOLIDATED INCOME STATEMENT
FOR THE QUARTER ENDED 2 JULY 2006 (UNAUDITED)**

	Notes	Quarter ended 2 July 2006 £m	Quarter ended 3 July 2005 £m
Revenue	2	729	521
Operating and energy costs	3	(440)	(403)
		289	118
Other operating income		15	3
Cash Sweep Payment		-	-
Depreciation		(49)	(43)
Amortisation		(2)	(1)
Unrealised net losses on financial instruments and commodity contracts		(38)	(32)
Operating profit		215	45
Financing (charges)/credits			
Interest payable	4	(14)	(12)
Interest receivable	4	10	5
Other finance expenses	4	(1)	(6)
Profit before taxation		210	32
Taxation	5	(135)	(16)
Net profit for the period attributable to shareholders	7	75	16
Earnings per share (pence):			
Basic	6	13.2	2.8
Diluted	6	12.8	2.8

**CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE QUARTER ENDED 2 JULY 2006 (UNAUDITED)**

	Notes	Quarter ended 2 July 2006 £m	Quarter ended 3 July 2005 £m
Net gains/(losses) on hedged items for the period	7	24	(52)
Actuarial gains and losses on retirement benefit obligations for the period	7	2	(172)
Tax on items taken directly to equity for the period	7	(8)	67
Net income and expense recognised directly in equity		18	(157)
Profit for the period	7	75	16
Total recognised income and expense		93	(141)
Adjustment for the implementation of IAS 39 after taxation at 1 April 2005		-	(15)
		93	(156)

**CONSOLIDATED BALANCE SHEET
AS AT 2 JULY 2006 (UNAUDITED)**

	Notes	As at 2 July 2006 £m	As at 31 March 2006 £m	As at 3 July 2005 (restated) £m
Assets				
Non-current assets				
Property, plant and equipment		1,694	1,693	1,684
NLF and nuclear liabilities receivables		5,133	5,051	5,002
Deferred income tax asset		101	244	487
Goodwill and intangible assets		380	406	377
Receivables due after more than one year		-	-	3
		7,308	7,394	7,553
Current assets				
Inventories		363	342	335
Nuclear liabilities receivable		190	186	185
Trade and other receivables		481	455	315
Restricted cash		233	206	255
Cash and cash equivalents		783	638	255
Financial instruments and commodity contracts		18	29	20
		2,068	1,856	1,365
Total assets		9,376	9,250	8,918
Liabilities				
Current liabilities				
Borrowings		(53)	(53)	(50)
Trade and other payables		(598)	(623)	(388)
Nuclear liabilities		(190)	(186)	(185)
Provisions for other liabilities and charges		(108)	(127)	(166)
Financial instruments and commodity contracts		(59)	(57)	(118)
		(1,008)	(1,046)	(907)
Non-current liabilities				
Borrowings		(573)	(573)	(626)
Retirement benefit obligations		(203)	(215)	(548)
Nuclear liabilities		(5,133)	(5,051)	(5,002)
Provisions for other liabilities and charges		(55)	(59)	(130)
NLF liabilities		(201)	(200)	(209)
Financial instruments and commodity contracts		(1)	-	(20)
Deferred income		(5)	(5)	(5)
		(6,171)	(6,103)	(6,540)
Total liabilities		(7,179)	(7,149)	(7,447)
Net assets		2,197	2,101	1,471
Equity				
Called up share capital	7	57	57	57
Share premium	7	25	24	13
Capital reserve	7	767	767	767
Hedge reserve	7	(14)	(31)	(57)
Warrant reserve	7	35	35	42
Retained earnings	7	1,327	1,249	649
Total shareholders' equity (including non-equity shareholders' interests)	7	2,197	2,101	1,471

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 2 JULY 2006 (UNAUDITED)**

	Quarter ended 2 July 2006 £m	Quarter ended 3 July 2005 £m
Operating activities		
Operating profit	215	45
Depreciation	49	43
Amortisation	2	1
Share-based payments	2	1
Loss on disposal of property, plant and equipment	-	1
Unrealised net loss on financial instruments and commodity contracts	38	47
Movement in provisions for other liabilities and charges	(24)	-
Interest paid	(14)	(12)
Interest received	10	6
NLF liabilities payment	(6)	(12)
Difference between pension contributions paid and amounts recognised in consolidated income statement	(2)	(3)
Increase in inventories	(21)	(4)
(Increase)/decrease in trade and other receivables	(27)	12
Increase in restricted cash	(27)	(34)
Decrease in trade payables and other payables	(25)	(32)
Decrease in intangible assets	25	-
Net cash inflow generated from operations	195	59
Cash flows from investing activities		
Purchases of property, plant and equipment	(50)	(42)
Purchases of software	(1)	(2)
Net cash used in investing activities	(51)	(44)
Cash flows from financing activities		
Exercise of Warrants	1	5
Net cash used in financing activities	1	5
Net increase in cash and cash equivalents	145	20
Cash and cash equivalents at the beginning of the period	638	235
Cash and cash equivalents at the end of the period	783	255

Notes to the financial statements

1. Basis of Preparation

In preparing the interim financial statements for the quarter ended 2 July 2006, the Board of Directors have used the principal accounting policies as set out in the Group's Annual Report and Accounts for the year ended 31 March 2006. The Group has chosen not to adopt IAS 34 – Interim Financial Statements, in preparing these interim financial statements, and therefore this information is not wholly compliant with International Financial Reporting Standards. 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.

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

Following the Quinquennial Review (see note 8) the estimated values attributed to uncontracted nuclear liabilities and decommissioning costs at RED were increased on a discounted basis. The corresponding value of the related NLF receivable balance was also increased by an equal amount. Consequently, nuclear liabilities and NLF and nuclear liabilities receivables, together with the revalorisation on these balances, have been restated in the comparable period.

The interim financial statements for the quarter ended 2 July 2006 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 2006.

2. Output, revenue and segmental information

	Quarter ended 2 July 2006 TWh	Quarter ended 3 July 2005 TWh
Output		
Nuclear power stations	15.3	15.7
Coal-fired power station	1.7	1.7
Total output	17.0	17.4

	Quarter ended 2 July 2006 £m	Quarter ended 3 July 2005 £m
Revenue		
Wholesale generation sales	322	226
Direct supply sales net of energy supply costs	289	204
Revenue from generated electricity	611	430
Energy supply costs recharged to customers	103	82
Energy purchases	13	4
Miscellaneous income	2	5
Total revenue	729	521

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.

3. Operating and energy costs

	Quarter ended 2 July 2006 £m	Quarter ended 3 July 2005 £m
Fuel costs – nuclear	80	84
– Eggborough	34	53
Total fuel costs	114	137
Materials and services	121	100
Staff costs	89	80
Operating costs of generated electricity	324	317
Energy purchases	13	4
Energy supply costs	103	82
Total operating and energy costs	440	403

4. Other finance (charges)/credits

	Quarter ended 2 July 2006 £m	Quarter ended 3 July 2005 £m
Interest payable		
Interest payable on bonds	11	12
Other interest payable	3	-
Total interest payable	14	12

	Quarter ended 2 July 2006 £m	Quarter ended 3 July 2005 £m
Interest receivable		
Interest receivable	(10)	(5)
Total interest receivable	(10)	(5)

	Quarter ended 2 July 2006 £m	Quarter ended 3 July 2005 (restated) £m
Other finance expenses		
Revalorisation of nuclear liabilities		
– changes in price levels	95	46
– discharge of discount for period	39	39
Revalorisation of nuclear liabilities receivable	(58)	(38)
Revalorisation of NLF receivable	(76)	(47)
Revalorisation of contracts provision	(2)	(4)
Revalorisation of NLF liabilities	(7)	(4)
Net revalorisation charges	(9)	(8)
Net credit to finance charges for retirement benefit obligations	8	2
Total other finance expenses	(1)	(6)

Following the Quinquennial Review the estimated values at RED attributed to uncontracted nuclear liabilities and decommissioning costs were increased by £956m, on a discounted basis. The corresponding value of the related NLF receivable balance was also increased by an equal amount. The revalorisation on these balances has been restated.

5. Taxation

A tax charge of £135m has been recognised in the income statement for the period; this comprises entirely of a deferred tax charge. There is no current tax charge for the period as taxable profits are fully sheltered by tax losses brought forward. The tax charge for the quarter results 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 quarter. The forecast full year effective tax rate on this basis is 58.9% and this has been applied to the quarter's results. In addition the standard tax rate of 30% is applied to the IAS 39 adjustments in the quarter. The forecast full year effective tax rate of 58.9% is significantly higher than the standard tax rate of 30% due to the forecast Cash Sweep Payment, which is treated as an operating cost and accrued only at the year end date, being disallowable for tax purposes.

6. Earnings per share

	Quarter ended 2 July 2006	Quarter ended 3 July 2005
Basic earnings per share		
Net profit for the period attributable to shareholders (£m)	75	16
Weighted average share capital (number of shares, million)	570	564
Earnings per share (pence)	13.2	2.8

Diluted earnings per share		
Net profit for the period attributable to shareholders (£m)	75	16
Diluted weighted average share capital (number of shares, million)	587	581
Diluted earnings per share (pence)	12.8	2.8

	Quarter ended 2 July 2006	Quarter ended 3 July 2005
Adjusted earnings per share		
Net profit for the period attributable to shareholders (£m)	75	16
Adjustment in respect of taxation (£m)	71	6
Adjusted net profit for the period attributable to shareholders (£m)	146	22
Basic weighted average share capital (number of shares, million)	570	564
Maximum Cash Sweep conversion at balance sheet date (number of shares, million)	1,042	1,042
Adjusted weighted average share capital (number of shares, million)	1,612	1,606
Adjusted earnings per share (pence)	9.1	1.4

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 570 million (Q1 2005/06: 564 million) ordinary shares in issue together with the dilutive weighted average of potential ordinary shares of 17 million (Q1 2005/06: 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 impact of the Cash Sweep Payment for the year ending 31 March 2007 on the effective tax rate used for the quarterly charge 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.

7. 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 2006	57	24	767	(31)	35	1,249	2,101
Profit for the period	-	-	-	-	-	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

8. Acquisition of British Energy plc

On 14 January 2005 British Energy Group plc acquired British Energy plc, which was provisionally valued and stated in the 31 March 2005 financial statements. In accordance with IFRS 3 – Business Combinations, an adjustment has been made for amendments to those provisional fair values as at 14 January 2005, as stated in the 31 March 2005 financial statements, following the completion of the Quinquennial Review. The provisional and amended values of the net assets acquired are as follows:

	Provisional fair values £m	Adjustments £m	Amended fair values £m
Assets			
Non-current assets	6,331	956	7,287
Current assets	1,382	-	1,382
Total assets	7,713	956	8,669
Liabilities			
Current liabilities	(893)	-	(893)
Non-current liabilities	(5,629)	(956)	(6,585)
Total liabilities	(6,522)	(956)	(7,478)
Net assets acquired	1,191	-	1,191
Goodwill arising on acquisition	345	-	345
Consideration paid	1,536	-	1,536

The adjustments in the table arose following the Quinquennial Review, which is subject to final agreement with the NDA and the other regulators (Nuclear Installations Inspectorate, the Environment Agency and the Scottish Environment Protection Agency). The level of the estimated nuclear liabilities has increased by £956m, on a discounted basis, resulting in the total liability at RED being restated at £5,265m. As part of the Restructuring arrangements, the Group is indemnified by the Government for any future shortfall on NLF funding of qualifying nuclear liabilities and decommissioning costs. Therefore the increase in liabilities was fully offset by a corresponding increase in the indemnity from the Government at that date.

9. 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 2 July 2006 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.

10. 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. 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.

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 commenced legal proceedings against Ontario Power Generation (OPG) alleging negligence and/or breach of contract by OPG in the performance by OPG of consultancy services provided by OPG to British Energy Limited relating to the steam generators in the period prior to the acquisition of Bruce Power by British Energy Limited. On 10 February 2006, British Energy Limited and British Energy International Holdings Limited filed a Notice of Action against 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.

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.

Independent review report to British Energy Group plc

Introduction

We have been instructed by the Company to review the financial information contained in the interim report for the three months ended 2 July 2006 which comprises the consolidated balance sheet as at 2 July 2006, the consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of cash flows for the three months then ended and related 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, including the financial information contained therein, is the responsibility of, and has been approved by the directors. That responsibility includes applying accounting policies and presentation to the interim figures that are consistent with those applied in preparing the preceding Annual Accounts except where any changes, and the reasons for them, are disclosed.

This interim report has been prepared in accordance with the basis set out in note 1.

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 purposes of managing its affairs 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 2 July 2006.

PricewaterhouseCoopers LLP

Chartered Accountants

Edinburgh

16 August 2006

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.

Bruce

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

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.

Emission Limit Values (ELV)

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

Energy Supply Costs

These 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.

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.

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.

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.

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 Backlog

Total of outstanding plant defects which are work requests that have been partially accessed by maintenance, or are still awaiting action after screening by the station Work Review Groups, based on a priority weighting set by the Nuclear Performance Review Committee.

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 Certificate (ROCs) for each MWh of electricity generated. These certificates can then be sold to suppliers, in order to fulfil their renewables obligation.

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.

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

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.

UKLA

United Kingdom Listing Authority.

Warrants

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